Better health. Within reach. Every day.

Annual Report 2020

Welcome to our 2020 Annual Report

Hikma puts 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 our communities.

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Executive Chairman's statement

We are delivering results and investing in the future to drive sustainable long-term growth and create value for stakeholders.

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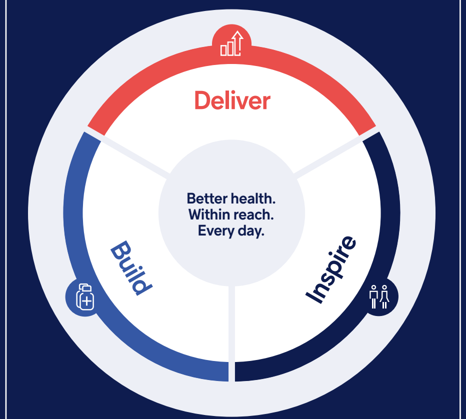
Chief Executive Officer's statement

The resilience and commitment of our people in a challenging year enabled us to maintain supply of vital medicines for patients.



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Our purpose is to make healthcare more accessible by delivering on our three strategic priorities.

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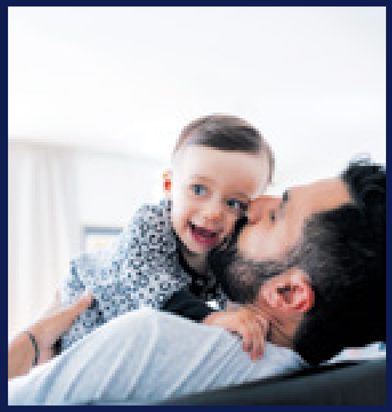
Business and financial review

Achieved strong organic growth over our three business segments.



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We have a duty of care towards patients, communities, our people and the environment.

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The Board has continued to deliver strong governance and strategic oversight in a challenging environment.

Our performance

Revenue ($m)
$2,341m
+6%

Operating profit ($m)
$579m
+17%

Core[1] operating profit ($m)
$566m
+11%

EBITDA[2] ($m)
$670m
+13%

Profit to shareholders ($m)
$431m
(11)%

Basic earnings per share (cents)
182.6c
(9)%

Core basic earnings per share[3] (cents)
172.9c
+15%

Dividend per share (cents)
50c
+14%

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 in the Notes to the consolidated financial statements. A reconciliation from core to reported operating profit is included within the Consolidated income statement in the Financial statements
2. EBITDA is earnings before interest, tax, depreciation, amortisation and impairment charges. EBITDA is a non-IFRS measure, see page 36 for a reconciliation to reported IFRS results
3. Core basic earnings per share is reconciled to basic earnings per share in Note 15 in the Notes to the consolidated financial statements

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

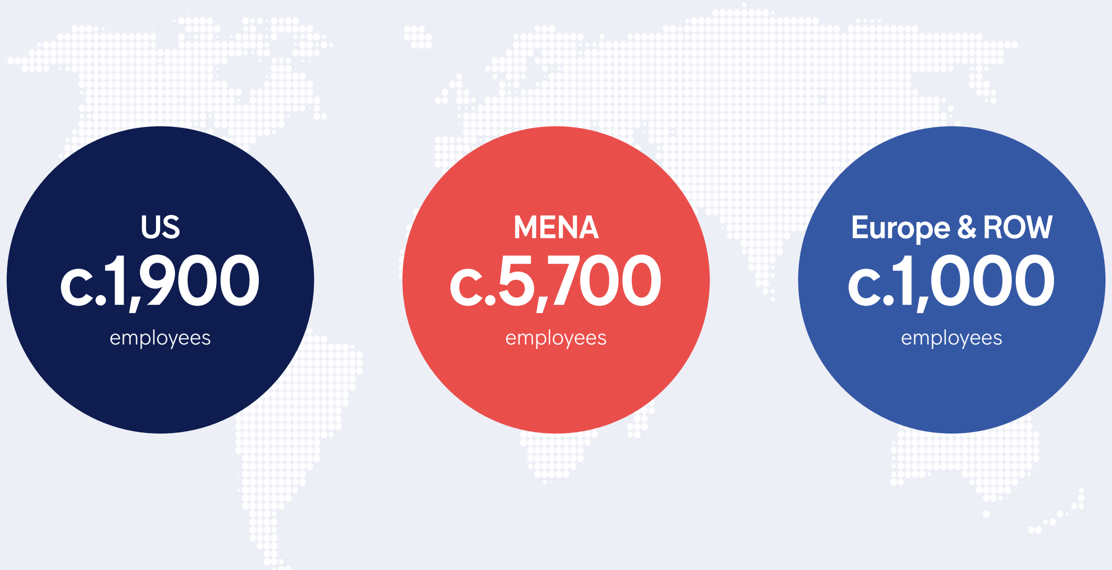
c.8,600 employees

31 manufacturing plants in 11 countries

7 R&D centres

780+ products

Our markets



US

Our large manufacturing facilities in the United States (US) – 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

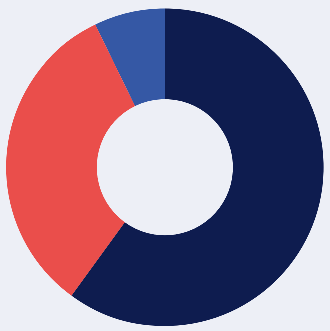
We sell branded generics and in-licensed patented products across the Middle East and North Africa (MENA). We have manufacturing facilities in seven countries, including US FDA-inspected plants in Jordan and Saudi Arabia. Around 2,000 sales representatives and support staff market our brands to healthcare professionals across 18 markets.

Europe and the rest of the world (ROW)

We have injectable manufacturing facilities in Portugal, Germany and Italy, 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.

% Group core revenue

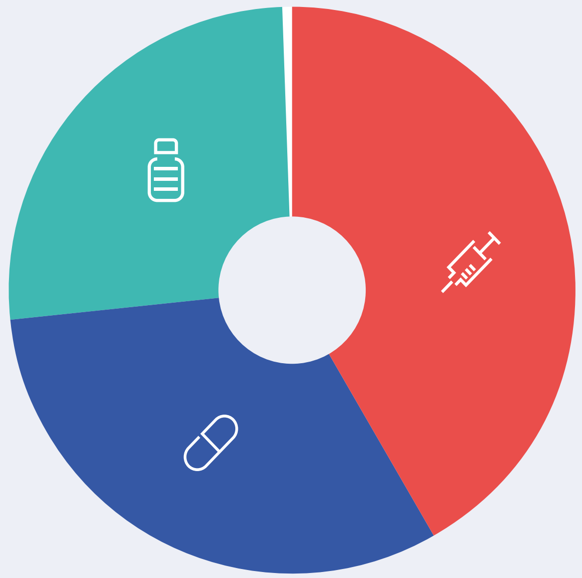
- **US 60%** (2019: 61%)
- **MENA 33%** (2019: 33%)
- **Europe & ROW 7%** (2019: 6%)



Our business segments

Segmental core revenue

- **Injectables $977m** (2019: $890m)
- **Generics $744m** (2019: $719m)
- **Branded $613m** (2019: $583m)
- **Other $7m** (2019: $11m)



Injectables

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

Generics

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

Branded

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

At Hikma we focus on quality and reliability in everything we do.

Said Darwazah
Executive Chairman

Importance of our purpose

Hikma's purpose to put better health within reach, every day drives us to bring important, quality and affordable medicines to people who need them. In 2020, the COVID-19 pandemic truly galvanised this mission. I am proud of the role we have played, along with many others in the pharmaceutical industry, in coming together to help healthcare professionals and healthcare systems manage the disease.

Throughout this challenging year, we prioritised the health and safety of our employees and I would like to thank them all for their continued hard work and dedication during these challenging times. Our employees are driven by our purpose, meaning they have continued to make an important and meaningful impact not only in the fight against COVID-19, but in continuing to provide a reliable supply of the important medicines needed by all our customers and patients around the world.

Quality and reliability

A founding principle of Hikma is the importance we place on quality and reliability. Our customers trust us to deliver high-quality and affordable medicines when they need them. In recent years we have invested significantly to ensure we maintain this quality and reliability as we grow. One example of this investment is our new high-containment facility in Portugal, which proved vital in fulfilling demand for our Injectables products this year.

We responded quickly at the outset of the pandemic, adapting our ways of working to adopt social distancing at our facilities. All of our plants were operating at the highest capacity possible under the circumstances as our people worked overtime to meet the surge in demand. Through these efforts, we ensured that as many of our geographies went into lockdown, Hikma's high-quality products continued to reach customers and patients around the world.

Communities and our responsibility to give back

Fulfilling our purpose of putting better health within reach every day is not only about providing medicines. We have a strong legacy of supporting the communities in which we live and work, and in 2020 these efforts were particularly important.

In the US, our teams worked together to make food donations, tackling the issue of food security brought about by the pandemic. Together we helped provide more than 600,000 meals through our food bank partnerships in Ohio and New Jersey, where our key operational centres are located.

In Beirut, following the terrible explosion in August, we were on the ground immediately, delivering medicines, which we donated to hospital groups in the region. We also worked with the charity Anera in Lebanon to help provide specialised medicine to nearly 100 children suffering from sickle cell disease.

You can read more about our community outreach and stakeholder considerations on pages 23 and 39-43 of this report.

Our culture and our people

In 2020 we introduced our new corporate culture programme anchored on the twin pillars of progress and belonging, and powered by three core values: innovation, collaboration and caring. These values guide our behaviours and help foster an environment where everyone is appreciated and can do their best work.

We conducted a company-wide employee survey, for which we had a 90% response rate. The results show our engagement scores improving, highlighting the pride that employees have in working for Hikma.

We value diversity in our workforce, and we are implementing policies and programmes, to ensure that we are the inclusive and inspiring place to work that our founder set out to establish.

We have established the Diversity Equity and Belonging (DEB) Task Force, a sub-committee of the Executive Committee, to oversee the adoption of a more inclusive approach to employee recruitment, retention and promotion. In the US we have established the Black Employees Advisory Board, an employee-led initiative to enhance our diversity, equity and belonging goals.

Corporate governance

Our CEO, Siggi Olafsson, has been in the role for three years now and I am delighted with the progress we have made since he joined. Siggi has energised the business, helped us build on our strong foundations, and not lost sight of the important qualities and principles upon which Hikma was founded.

This year we have seen continued evolution of the Board, with the appointment in May of Douglas Hurt, who has taken on the role of Chair of the Audit Committee, and the departure in June of Dr Jochen Gann, who made a valuable contribution to Hikma during his tenure. More recently Robert Pickering, who joined the Board in 2011 and served as Senior Independent Director from 2014, stepped down. Robert has been a tremendous asset to Hikma and provided invaluable counsel over the past ten years, for which I am deeply grateful.

Further detail on the activities of the Board and its Committees are set out in the Corporate governance section of this report on pages 62-108.

Financial performance and shareholder returns

Hikma performed well in 2020 with good revenue growth and an improvement in core profitability.

The business has cemented its strength in the debt capital markets, with the raising of a new $500 million Eurobond in July, following the repayment of our previous bond in April. Furthermore, during the year we achieved investment grade status from two ratings agencies – an accomplishment which reflects the quality of the business.

In June, Boehringer Ingelheim (BI) exited entirely from its strategic stake in Hikma, and we took this unique opportunity to utilise our balance sheet strength and repurchase a portion of BI's holding. The purchase highlights the Board's conviction in the continued success of Hikma and its long-term growth prospects. Our strong balance sheet enabled us to comfortably undertake this transaction whilst maintaining continued financial flexibility.

We remain committed to paying a dividend to our shareholders. Acknowledging the strong financial performance in 2020, as well as our robust balance sheet, the Board has recommended a final dividend of 34 cents per share. Combined with the interim divided of 16 cents per share, this represents a 14% increase in the total dividend for the full year in 2020, to 50 cents per share (approximately 36 pence per share), up from 44 cents per share (approximately 34 pence per share) in 2019.

Future prospects

The strategy we set out when Siggi joined Hikma in 2018 is delivering results. A focus on the foundation has helped deliver a strong performance this year, and our pipeline is expanding as we continue to invest in R&D to drive future growth.

Our people and culture are vital to our success and we continue to focus on the importance of a diverse and energised workforce. I would like to thank all of our employees, as well as our customers, suppliers, shareholders and other stakeholders as we look forward to continued success in 2021.

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Our values

To foster a culture of progress and belonging, we have three core values:

Innovation
We keep learning, inspire others and find a better way

Collaboration
We keep it simple, deliver together and take ownership

Caring
We make a difference, do the right thing and respect others

Find out more about **our values** on page 25.

Our aim is to be a trusted and reliable partner, putting better health within reach, every day.

Siggi Olafsson
Chief Executive Officer

We faced a year of challenges and opportunities in 2020. I am enormously proud of how adaptive and resilient our employees were in the face of a global pandemic and am grateful for their unwavering commitment to maintaining the supply of vital medicines for patients across our markets.

I would like to thank every one of our employees for their hard work during this challenging time.

Operating in challenging times

When the impact of the pandemic began to be felt around the world, we reacted quickly, taking early measures not only to safeguard our employees, but also to ensure consistency of supply of critical medicines. We set up response teams at group, regional and local levels, to ensure consistent communication. Those of our employees who could work from home did so. Our operations teams adjusted our shift schedules and introduced social distancing protocols that enabled us to keep our plants operational. Meanwhile, our procurement team worked tirelessly with our suppliers to manage and prevent any potential issues in our ability to deliver finished products.

As a result of our early actions, we were able to supply our customers with vital medicines, ensuring that we delivered on our purpose of putting better health within reach, every day.

Whilst we saw strong demand for certain products used in the treatment of COVID-19 patients, we also remained focused on our broader portfolio, continuing to make high-quality and affordable medicines accessible, to enable people with other conditions to live their lives.

> Our Injectables business played a key role in the early response to the pandemic.

Executing on our strategy

Our strategy is focused on three pillars:

- **Deliver more from a strong foundation**
- **Build a portfolio that anticipates future health needs**
- **Inspire and enable our people**

Building on our strong foundation

When we set out our strategy in 2018, we highlighted the importance of Hikma's strong foundation and it is through our focus on this that we have been able to meet the challenges presented in 2020.

Our Injectables business played a key role in the early response to the pandemic. In the US, many of our established respiratory, pain, anaesthetic and sedative products were in high demand in intensive care wards, as hospitals managed a significant number of ventilated COVID-19 patients.
In Europe, we further expanded our manufacturing facilities and won important contract manufacturing business, including for the manufacture of remdesivir, one of the key drugs to be used to treat patients with COVID-19. In MENA our injectable biosimilar products continued to perform well as we launched into new markets.

Our Generics business now has a core operating margin percentage in the low twenties. We have expanded our profitability significantly in recent years, from 4% in 2017, and I have the team to thank for this achievement. We ensured we were in constant touch with our customers as we focused on reinforcing these relationships through an emphasis on maintaining high service levels. We have also continued to leverage our manufacturing flexibility, enabling us to adjust production to meet demand, whilst also limiting backorders.

Our Branded business has once again delivered good revenue growth in constant currency and stable margin despite some COVID-19 pandemic-related disruptions. We benefited from our strategic focus on our Tier 1 markets, with good performances in Algeria, Egypt and Saudi Arabia. I am thankful to the team for navigating the market environment, adapting our ways of working and ensuring that our strong presence in the MENA region is maintained.

Expanding the portfolio

During 2020, we continued to launch new products and grow our pipeline. Our Generics business had six launches in the year, including generic Zortress®, where we launched as the only available generic. We also accelerated our launch of icosapent ethyl capsules, following receipt of US FDA approval and a favourable court ruling in the year. We launched with limited quantities and expect to increase our supply over the course of 2021. We were pleased to receive approval for generic Advair Diskus® at the end of the year. We have temporarily paused the launch of this product while the FDA reviews an amendment to the application. For more information on generic Advair Diskus® please see page 31 of this report.

Our Injectables and Branded business have also strengthened and delivered on their pipelines. The Injectables team added 77 products to our global portfolio and signed new licensing deals. In the US we launched propofol during the year, an important product in the treatment of COVID-19 patients. In MENA we agreed to licence and distribute Sun Pharma's ILUMYA™, an innovative biologic injectable product for the treatment of psoriasis, strengthening our biotechnology and dermatology portfolio. Meanwhile the Branded team has continued to launch new products, including Reagila® (cariprazine), a medicine licensed from Gedeon Richter, used in the treatment of schizophrenia and other mental illnesses. Several of our launches were carried out virtually, with much of our promotional activity moving away from in-person interaction during the period due to social distancing measures.

Championing our people

Our talented and dedicated employees are the lifeblood of Hikma, and critical to our strategy is the recruitment and retention of the best talent. I firmly believe that having a culture which engages and energises our people results in a stronger business.

As set out in the Chairman's statement, we have worked on our culture and values during 2020. This has been an important project for Hikma and I am excited by the evolution that has taken place. We are committed to building a culture of progress and belonging, where everyone at Hikma can do their best work.

In 2020 we refreshed Hikma's values, and now have the twin pillars of progress and belonging at the heart of our culture.

Delivering a strong financial performance

By executing our strategy, in 2020 core Group revenue grew 6% to $2.3 billion and core Group operating profit grew 11% to $566 million. This strength was also reflected in our cash flow, with a net operating cash flow of $464 million.

As a result of this good cash performance, and accounting for our capital investments made during the year, as well as the share buyback, we exited the year with a robust balance sheet, and gearing of 0.9x net debt to core EBITDA.

Operating responsibly

Hikma is committed to providing better health, supporting education and helping people in need.

We have several charitable partnerships across our markets, including with Save the Children and the Prince's Trust, through which we support the education of young people in need.

We are undertaking a review of our impacts around Environmental, Social and Governance (ESG) issues in 2021. As a part of this, we are working to understand better our impact on the environment, and to align our environmental disclosure and internal processes with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This will ensure effective management of climate-related issues within our business as we work to both adapt to a changing environment and limit our negative environmental impact where we can.

You can read more about the initiatives in place in the Sustainability section of this report, on pages 38-51.

Positioned well for the future

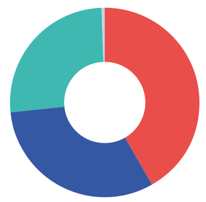
The Group performed well in 2020 and we have started 2021 in a strong position. I am excited about the opportunities ahead for each of our three businesses. The Branded business has demonstrated its resilience and adaptability, which we will leverage in 2021 as we introduce new products to the market. Our Injectables business is an established top three player in the US, and continues to show significant growth in Europe and MENA. For Generics, we have a strong pipeline of opportunities ahead and look forward to building on the strong 2020 performance.

I am profoundly aware of the important impact Hikma has in improving the lives of millions of people around the world, and the communities in which we operate. I would like to thank all of our stakeholders, including employees, customers, partners and shareholders, who collectively enable us to put better health within reach, every day.

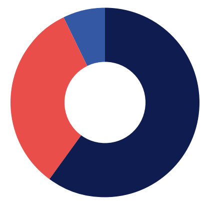
We have a track record of creating value for our stakeholders. By focusing on our strategic priorities and leveraging our strengths, we can build upon our success.

Unique and diversified business model

Our business is uniquely positioned, with three main business segments. We have a broad and diversified product portfolio and a growing pipeline of new medicines, that are sold in the retail and hospital markets.



Revenue by segment
- **Injectables** $977m
- **Generics** $744m
- **Branded** $613m
- **Other** $7 million



Revenue by region
- **US** $1,406m
- **MENA** $770m
- **Europe & ROW** $165m

Strong market position

We are the third largest generic injectable manufacturer and a top ten generic company in the US. In MENA, we are one of the largest pharmaceutical companies with very strong brand awareness.

Top 10 generic company in the US

#3 largest generic injectable manufacturer

#5 largest pharmaceutical company in MENA

Commitment to quality

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

30+ US FDA inspections of Hikma facilities over the last five years. We have a strong quality record

+1 added new high containment plant in Portugal following successful FDA inspection

Large and growing pipeline

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

500+ products in our pipeline

30 US products under development or submitted are classified as complex

Strong balance sheet and cash generation

We consistently generate 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.

$464m operating cash flow

52% free cash flow/ core operating profit[1]

0.9x net debt/ core EBITDA

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

As the COVID-19 pandemic continues to impact people and communities around the world, the health and safety of our people and the millions who count on our medicines remains our top priority.

Business response to COVID-19

We are fully committed to providing our customers and their patients the medicines they need. Since the onset of the pandemic in early 2020 we have prioritised the manufacture of medicines that have been in highest demand, such as respiratory, pain, anaesthetics and sedatives. We have been operating at the highest capacity possible under the circumstances to meet the increased demand.

Our manufacturing sites operate to a high standard of hygiene and, in some cases where required, under sterile conditions. In addition, we have implemented measures recommended by health authorities to minimise risk including additional levels of cleaning, enhanced ventilation and installation of protective barriers.

We are always proactively managing our inventory and stock levels, transportation options and the availability of raw materials and component parts. Through 2020 we worked closely with our supplier networks to ensure business continuity and maintained higher inventory levels to ensure continuity of supply.

We did see some impact on our sales and marketing teams in MENA, where our operations were impacted by social distancing measures. In response, we moved to virtual detailing of doctors, and hosted well-attended webinars.

We have also seen a reduction in demand for products used in elective surgeries as these procedures have been put on hold while the treatment of COVID-19 is prioritised. In the MENA region, our anti-infectives products have seen lower demand this year as social distancing measures have reduced the prevalence of illness in communities.

While we did see some COVID-19 pandemic-related challenges, the business performed well in the year and we did not put any employees on furlough or make redundancies as a result of the pandemic, nor did we receive any government support.

Our long-standing commitment to our local communities remains strong and we have been providing funding, medicine donations, food and other essentials, with examples provided here, and later in this report.

Protecting our employees

We are committed to the health and safety of our employees. When the World Health Organization declared the COVID-19 outbreak a public health emergency of international concern in January, we established a Group Incident Response Team to keep our employees well informed.

During the various containment and closure measures put in place around the world, our staff who were able to work from home did so. Our IT teams worked hard to ensure all remote-working employees were enabled to do so. We also put in place workshops and courses to help employees with managing worry, anxiety and stress related to the pandemic.

For those in our plants, recognised as essential workers, we increased cleaning and changed work practices to maximise social distancing. Local response teams addressed suspected and confirmed cases among our employees and took action to identify close contacts and coordinate actions to protect the remaining site population. To demonstrate our appreciation for the extraordinary hard work and dedication of our essential workers, we provided increases in monthly pay during some of the most challenging months of the pandemic.

Find out more about our protection of employees in the sustainability section on page 46 and in the risk report on page 54

84%

of employees surveyed thought Hikma responded effectively to the COVID-19 pandemic

Hikma has a legacy of supporting the communities in which we live and work

600,000

Hikma and its employees donated more than 600,000 meals to our communities through several initiatives including our US matching donation campaign

Supporting food security

Hikma and its employees made food donations in our communities through several initiatives including our US matching donation campaign, distributing meal vouchers in Morocco, and shipping meals to those in need in Jordan and Portugal.

Ensuring food security has become more essential during the pandemic, and we remain passionate about assisting those in need in our communities.

Find out more about **our food donation activities** on page 43

Generic medicines: a hidden hero in the fight against COVID-19

The generics sector this year has been a vital, if often less visible, partner in the fight against COVID-19. Our people have worked tirelessly throughout the year to continue to supply hospitals and healthcare professionals with the priority medicines needed for treating seriously ill patients.

The treatment of COVID-19 can involve the administration of a wide range of medicines supplied by the generics sector. Our reliable supply of products such as respiratory medicines, anaesthetics, sedatives and anti-infectives has been crucial in ensuring patients can be intubated, ventilated and medicated when treating the most severe aspects of this illness.

Hikma has also been able to leverage its flexible manufacturing facilities to partner with other companies in producing vital drugs, such as remdesivir.

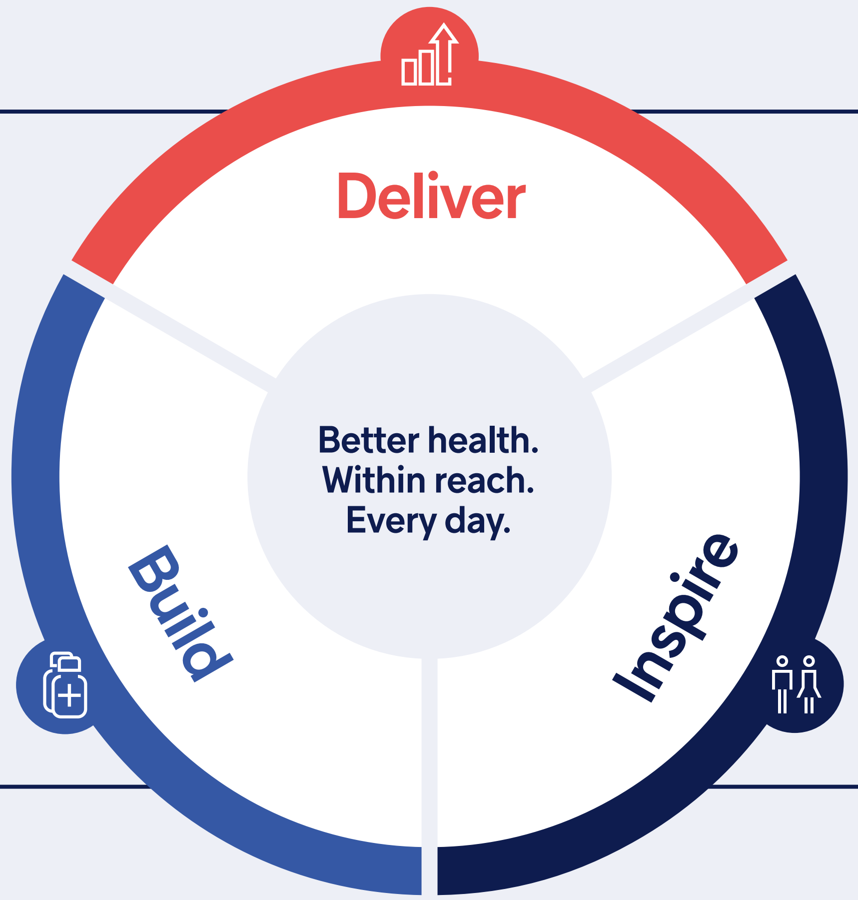
We are proud of the role generics have played in responding to this global health crisis.

Hikma responds to COVID-19 shortage with launch of propofol injectable emulsion

May 2020

Our strategy is to make better health more accessible by delivering more from our strong foundation, building our portfolio and inspiring and enabling our people.

Our strategy



Deliver more from a strong foundation	Build a portfolio that anticipates future health needs	Inspire and enable our people

Strategic review
Management conducts a review of our strategy on an annual basis in partnership with the Board. The comprehensive approach assesses 'our progress', 'our markets' and 'our business model' to identify and analyse strategic risks and opportunities over the short and long term.

We have a unique business model, a differentiated footprint and a strong commitment to quality. We are building and enhancing these assets to drive sustainable growth.	**Our focus is on:** – Growing our existing business – Controlling costs and improving processes – Building customer relationships – Enhancing our operations – Ensuring full quality compliance	**Our KPIs:** – Core revenue – Core operating profit – Return on invested capital
Today's pipeline is tomorrow's product. We are investing in our pipeline to meet the future needs of patients and increase access to high-quality medicines.	**Our focus is on:** – Building portfolio momentum – Investing in specialised products and technologies – Improving speed to market of pipeline – Partnering to bring innovative products to market	**Our KPIs:** – Core revenue from new products launched
Our people are delivering our strategy. Our strong brand and clear purpose support a culture that enables us to achieve our goals.	**Our focus is on:** – Developing behavioural competencies and talent – Building a strong culture of progress and belonging – Embedding our values of innovation, collaboration and caring – Promoting diversity, equity and belonging	**Our KPIs:** – Employee enablement – Employee engagement

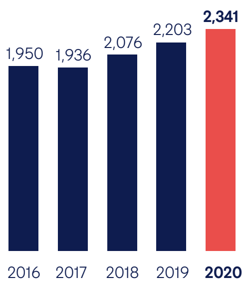
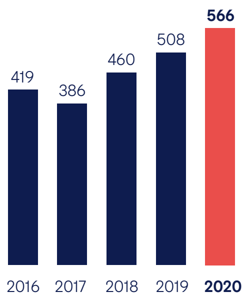
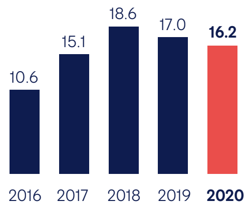
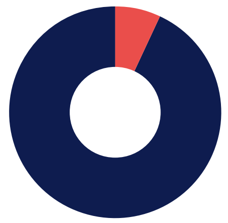
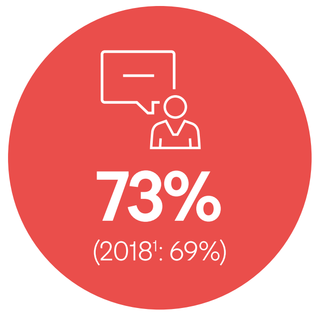
Find out more about our **key performance indicators** see page 14

We are delivering on our strategy and measuring our performance with key performance indicators (KPIs).

Find out more about our **strategy** on page 12

Find out more about how we are **managing risk** on page 52

Find out more about our **remuneration** on page 90

Strategic priority	Deliver more from a strong foundation				Build a portfolio that anticipates future needs	Inspire and enable our people	
KPI	**Core revenue** ($m) **$2,341m** 	**Core operating profit** ($m) **$566m** 	**Return on invested capital[2]** (%) **16.2%** 		**Core revenue from new product launches** (%) **7%** 	**Employee enablement** (%) 	**Employee engagement** (%) 
Description	Total annual core revenue generated across all businesses	Core operating profit	Core operating profit after tax divided by invested capital (calculated as total equity plus net debt)		Percentage of core revenue contribution from products launched in 2020 and the second half of 2019	Global employee enablement score	Global employee engagement score
Why is it a KPI?	This measures our ability to maximise value from our current product portfolio across our global markets and generate revenue from new launches	This measures our ability to grow revenue and maintain quality while delivering efficiencies and ensuring cost control	This measures our efficiency in allocating capital to businesses and projects		This measures our ability to extract value from our global product pipeline	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
2020 performance	Group core revenue increased by 6% reflecting good demand for our in-market products and new product launches	The increase in core operating profit was driven by good revenue growth across all three business segments and growth in profit of our Generics and Injectables businesses	Return on invested capital remained strong at 16.2%. This was slightly lower than 2019, reflecting the adverse impact of foreign exchange on core operating profit		In 2020, revenue from new product launches was 7% of Group core revenue, up from 4% in 2019. This reflects the better than expected contribution from new launches in Generics and good contribution from Injectable launches	Our employee enablement score decreased by 1%, compared to our 2018 survey. We are working to improve employee enablement across our organisation. In 2020 we introduced our new culture framework and refreshed our values. We are implementing new initiatives to promote our values and enable employees to do their best work	Employee engagement improved by 4 percentage points since 2018. This reflects increased communication and collaboration across the Group, particularly around addressing employee concerns in relation to COVID-19
Link to remuneration	R	R[1]	R				

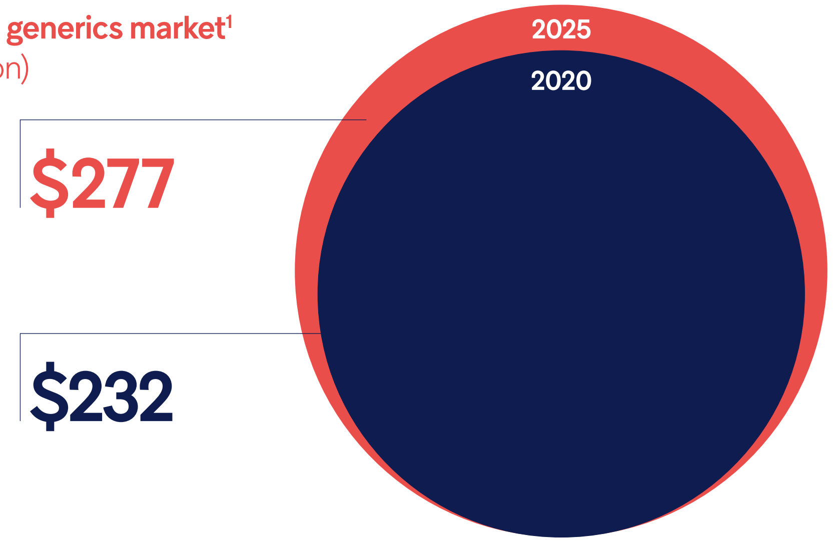
1. As one of the performance criteria for determining the Executive Directors' remuneration, core operating profit is measured before R&D costs
2. See reconciliation on page 36

1. In 2019, we conducted an all-employee global culture survey, which produced qualitative results. We did not carry out our usual data driven all-employee survey, and therefore we do not have the enablement and engagement percentages for reporting purposes for 2019

Evolving demographic and market trends continue to drive growth.

The global pharmaceutical market has been shaped by key trends in recent years, including demographic shifts, evolving competitive and market dynamics and increased pressure on healthcare budgets. Our strategic priorities and business model allow us to capture opportunities and overcome challenges in a rapidly changing industry.

Global generics market[1]
($ billion)



Global context

The COVID-19 pandemic has impacted the lives of billions of people and their communities around the world. As countries went into lockdown, people were faced with new challenges and economies saw a slowdown in growth. At the same time, the industry continues to adjust to changing demographics, evolving supply chains and shifting market and competitive dynamics.

The global pharmaceutical market continues to grow and access to affordable healthcare has never been more important. The market share of generic medicines is expected to grow at a CAGR between 3.5% and 4% over the next five years[1].

1. IQVIA Forecast Link, 2020
2. United Nations, world population ageing highlights, 2020
3. United Nations, world population prospects, 2019
4. WHO, global health and ageing
5. CPhI Annual Report 2020: postulating the post COVID pharma paradigm
6. Fitch Solutions, trends shaping the post-COVID-19 pharmaceuticals & healthcare market, 2020
7. Association for Accessible Medicines, 2020 generic drug & biosimilars, access & savings in the US report
8. FDA, generic competition and drug prices available at https://www.fda.gov/about-fda/center-drug-evaluation-and-research-cder/generic-competition-and-drug-prices
9. Amazon launches online pharmacy in challenge to traditional retailers, available at https://www.ft.com
10. IQVIA, biosimilars in the United States 2020-2024, October 2020
11. IQVIA, complex generics: charting a new path

Key trend
Changing demographics

The world's population continues to grow and is ageing rapidly. It is expected to increase by 2 billion people by 2050. The number of people aged 65 and older is expected to double over this period and to make up 16% of the population[2,3]. This ageing population, as well as a change in lifestyles, is leading to an increase in chronic non-communicable diseases, such as heart disease, cancer and diabetes[4].

Strategic response

We are committed to improving patients' access to high-quality, affordable medicines. Our teams meet with healthcare professionals regularly to better understand their needs. We invest around 6% to 7% of our Group revenue in R&D to develop a pipeline and portfolio of products that meet the healthcare needs of our patients.

Key trend
Changing supply chain

The pharmaceutical supply chain is a global and integrated network developed over many decades. The COVID-19 pandemic has raised questions about the resilience and vulnerability of supply chains. As a result, onshoring, which seeks to strengthen domestic capabilities, is becoming an increasingly common theme as governments look to de-risk their supply chains. In the pharmaceutical sector, both Europe and the US are looking to increase focus on domestic manufacturing of critical active pharmaceutical ingredients (APIs) and certain finished products.

As a result, shifts in the global pharmaceutical supply chain are beginning to take place, with an increasing need to have multiple sources of supply across different geographies to mitigate shortages. This is still at a very nascent stage, however, and dependence on imported raw materials will remain high for the foreseeable future in order to maintain affordable pricing and reliable supply[5].

Strategic response

We have global manufacturing and distribution sites. Over the past 10 years, Hikma has made significant investments in building its US and EU manufacturing capabilities. We currently operate state-of-the-art manufacturing facilities in Cherry Hill (NJ), Columbus (OH), and Portugal which produce the majority of the injectable and generic medicines.

In 2020, through stocking strategies and supply chain modelling, we maintained continuity of API supply. We are constantly evaluating opportunities to qualify alternate sources to mitigate supply risk.

Find out more about our **suppliers** on page 24.

Key trend
Pricing and access

In recent years, higher demand for healthcare, primarily driven by an ageing population and chronic illnesses, led to increased pressures on budgets. In addition, COVID-19 has caused a global economic downturn, accelerating the need for governments to put in place cost containment measures to maintain sustainable healthcare budgets[6].

The need for more affordable healthcare solutions will result in higher utilisation of generic medicines. In the US, 90% of prescriptions filled are for generic medicines, accounting for only 20% of prescription drug spending[7]. In 2020, generics played an important role in the fight against COVID-19. Generic substitution is increasingly encouraged as a solution.

Strategic response

Generic medicines are part of the solution to rising healthcare costs. At Hikma, we are committed to increasing patients' access to more affordable healthcare. As a member of the Association for Accessible Medicines in the US, we are active in advocating for policy solutions that will further increase the utilisation of generic medicines at the state and federal levels.

In 2020, we launched 154 new products across our markets. When there are two generics on the market, the average price of a product will drop by around 50%[8], accelerating as more generics enter the market.

Find out more about **how we respond to patients** on page 21.

Key trend
Evolving competitive environment

The generic industry is highly competitive. This, coupled with portfolio rationalisation and quality issues, can cause occasional shortages of critical medicines.

New organisations and distribution channels with refreshed business models have started to emerge, in part to help alleviate drug shortages and increase patients' access to medicine. These include Civica Rx, a not-for-profit organisation with the purpose of reducing drug shortages in the US by creating a consistent and reliable supply of medicines. More recently, Amazon has launched an online delivery service for prescription medicines[9].

Strategic response

Our teams continuously monitor the competitive environment and its evolving dynamics. We have a broad product portfolio, high-quality operations and a steady stream of new product launches across our markets, which help us to be resilient to the changing landscape.

We work closely with all of our customers to better understand their needs and build strong relationships. Hikma is increasingly recognised as a reliable partner to customers. In 2019, we formed a partnership with Civica Rx and are supplying them with essential injectable products, in line with our mission to make high-quality healthcare available to those who need it.

Key trend
Biosimilars and complex generics

Despite being available in Europe and other parts of the world for some time, the development and approval of biosimilars has been slower in the US. However, this is beginning to shift and we have seen a steady acceleration of physician acceptance in the past two years. Biosimilar products launched in 2019 are achieving a higher uptake in their first year compared to those launched in previous years, with market share expected to reach around 50% to 60% in the second year[10]. These trends are tracking closely to what is seen in Europe. The biosimilar market in the US is growing and presents a number of opportunities – sales are expected to reach $80 billion over the next five years[10].

Complex generics are also becoming an area of focus. As the market becomes saturated with commodity generics, companies are looking to differentiate their portfolios and deliver more value to patients by developing complex generics. This requires significant development expertise and regulatory pathways are still unclear[11].

Strategic response

Through our partnership with Celltrion, we have launched three biosimilar products in MENA – Remsima®, Truxima® and Herzuma®. Our strong commercial capabilities and breadth of reach in the region has enabled us to enhance patient access to these important treatments. As the US biosimilar market evolves, we are evaluating the market opportunity and potential entry points.

One of Hikma's key strategic priorities is to build a portfolio of products that meets the future needs of healthcare professionals and their patients. We do this through investment in internal R&D, which is increasingly focused on complex products – 30 products under development or submitted in the US are classified as complex. We also look for opportunities to add complex products through licensing agreements.

Our diversified business model allows us to respond to the many opportunities and risks we face, while delivering value for our stakeholders.

Better health. Within reach. Every day.

Our business segments

See our **business and financial review** on page 26

Our resources

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

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

Values
Our refreshed values promote a culture that is innovative, collaborative and caring, ensuring the sustainability of our business.

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 commercial, manufacturing and distribution operations across our markets focused on quality and efficiency.

What we do

Offer a broad product portfolio
We offer a broad and differentiated portfolio of more than 780 products. It includes high-quality generic and branded generic medicines and a growing number of in-licensed products.

780+
Products

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

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

Develop and innovate
We are building a pipeline of products to meet the evolving needs of patients and healthcare professionals through investments in internal R&D, partnerships and strategic acquisitions.

6%
Group revenue invested in core R&D
(2019: 6%)

Manufacture and maintain quality
Our extensive and high-quality manufacturing capabilities are at the heart of what we do. We have 31 plants across the Group that supply our global markets with a broad range of injectable and non-injectable products, including 12 US FDA-inspected plants and 12 EMA-inspected plants.

31
manufacturing plants

12
US FDA-inspected plants

12
EMA-inspected plants

The value we create

Patient benefits
We provide patients across our markets with high-quality and affordable medicines.

780+
Products

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

73%
Employee engagement score

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

257%
Total shareholder return over last ten years

Sustainable business
By acting responsibly and with integrity, we are benefiting the communities in which we operate.

- Founding member of the Partnering Against Corruption Initiative
- Member of the United Nations Global Compact and FTSE4Good

Find out more about our **key performance indicators** on page 14

Find out more about how we are **managing risk** on page 52

Engaging our stakeholder groups and considering their needs is a top priority.

In a year that posed many challenges due to the COVID-19 pandemic, we remained focused on our relationships with our stakeholders. Our teams have worked harder than ever to ensure customers, healthcare professionals and the patients they care for get the medicines and support they need, while at the same time focusing on our strong and diverse network of partners, who enable us to maintain a consistent supply of essential medicines. Continuous engagement with all our stakeholders is key to driving the long-term sustainable growth of our business. It allows us to better understand their needs and informs our day-to-day commercial and operational decisions, as well as our long-term investments in our business and our people.

Stakeholders and the Board

The Board of Hikma considers its duties to shareholders and the wider community at each Board and Committee meeting and is particularly aware of its duty to promote the success of the Company for the benefit of all its stakeholders. Over the next few pages we discuss the way that we engage with our key stakeholders and build consideration of stakeholder issues into our decision making, in accordance with Section 172 of the Companies Act 2006.

The Board is responsible for the entire Annual Report and, therefore, directs readers to the following pages in relation to the stakeholder and non-stakeholder elements of its duty to promote the success of the Company:

- likely consequences of any decision in the long term – the strategic overview on pages 4 to 8
- the impact of the Company's operations on the environment – the sustainability report on pages 38 to 51
- the desirability of the company maintaining a reputation for high standards of business conduct – the sections of the strategic report related to product quality and safety on page 58 and the compliance, responsibility and ethics committee report on pages 81 to 82
- the need to act fairly as between members of the Company – the corporate governance report on pages 62 to 71

Find out more about **Stakeholder engagement** and our approach to S172.

Patients and healthcare professionals

Supporting healthcare professionals and patients

It is important that we ensure healthcare professionals (HCPs) have the support they need to care for their patients, particularly during challenging times. In MENA, we have a large sales, marketing and support team that dedicate their time to meet with doctors, clinicians and pharmacists. In 2020, our teams were able to respond quickly to the challenges posed by social distancing restrictions and were able to find new ways to reach healthcare providers across the region.

We hosted over 50 well attended webinars with both international and local speakers, which reached doctors and healthcare professionals across the entire MENA region. These were aimed at increasing knowledge about COVID-19 and sharing experiences and information about dealing with different therapeutic areas during this time. In addition, our teams helped facilitate access between HCPs and their patients by rolling out disinfectant campaigns and safety kits.

Who is this stakeholder group?

Our purpose is to put better health within reach, every day for healthcare professionals and their patients. We engage with doctors, clinicians and pharmacists to better understand their needs, helping them treat the patients they serve.

Why is it important to engage with this group and what do they expect from us?

Patients and healthcare professionals need us to:
- consistently provide a broad portfolio of products
- improve access to high-quality, affordable medicines

It is essential that we align our commercial activities, operations and R&D efforts to the changing needs of patients and HCPs.

How we engage across the Company

- Our commercial teams meet regularly with doctors and hospital clinicians to better understand their needs and keep them informed about our product offering and latest clinical data
- In MENA, we run regular forums bringing together key opinion leaders, doctors and global research institutes to share knowledge and raise awareness of healthcare trends and disease management
- We meet with patient advocacy groups for diseases such as multiple sclerosis, cardiovascular and diabetes

How we engage at Board level

- The Board receives regular reports from the Chief Executive Officer which include feedback from patients and healthcare professionals and an in-depth review of our manufacturing quality programme
- The Compliance, Responsibility and Ethics Committee is responsible for direct oversight of the Company's approach to ethical issues associated with HCPs

Outcomes and actions

- We worked closely with HCPs throughout the COVID-19 pandemic, prioritising the manufacture of medicines in highest demand including respiratory, pain, anaesthetics, sedatives and other support medications
- In 2020, we conducted COVID-19 awareness campaigns to assist patients, doctors and pharmacists in MENA to understand risks and public health guidance

Customers

Who is this stakeholder group?

Our customers are our business partners and we are committed to providing them with a consistent and reliable supply of high-quality medicines. We work closely with Group Purchasing Organisations (GPOs), hospitals, healthcare professionals, retailers, wholesalers and others to build strong relationships and enhance service levels.

Why is it important to engage with this group and what do they expect from us?

Customers need us to:
- offer a broad product portfolio
- have a consistent and reliable supply of medicines
- maintain service levels

Our commercial teams work closely with our different customers to understand their needs, reduce drug shortages and ensure we invest in the products, manufacturing capacity and capabilities to meet their requirements.

How we engage across the Company

- We have commercial and sales and marketing teams dedicated to our varied customer groups in the US, MENA, and Europe
- Our customer discussions inform our pipeline decisions, in an effort to bring them the products most in need

How we engage at Board level

- As part of its strategic review process, the Board reviews information on the generic pharmaceutical customer landscape
- The Board periodically receives industry updates from leading external professional groups

Outcomes and actions

- We worked closely with our customers to understand their needs during the height of the pandemic and focused on maintaining continuity of supply of our broad product portfolio
- In the US, we shifted manufacturing schedules and ramped up production of fentanyl 50ml vials, the dosage strength needed by hospitals to prepare infusion bags for ventilator patients, and dexamethasone tablets to meet increased demand
- We launched 154 products across our markets in 2020, some of which are used for COVID-19 patients
- In 2020, we saw an improvement in providing customers the products they need with faster turnaround times, by working together and improving processes

Employees

Who is this stakeholder group?

Our employees have always been at the heart of everything we do. As the driving force behind Hikma's growth and success, our people are our most valuable asset.

Why is it important to engage with this group and what do they expect from us?

Our employees expect us to:
- support them and provide development and growth opportunities
- protect their health and safety
- foster a diverse and inclusive culture

The passion and commitment of our people to our purpose and values is key to delivering our brand promise and supports our growth plans. One of our key strategic priorities is to build a culture that inspires and enables our people, one in which our colleagues are empowered to drive innovation and are committed to caring for customers, patients and communities around the world.

How we engage across the Company

- We offer continuous learning and development opportunities for our people. Hikma Academy serves as a training hub through which we can coordinate and optimise learning and development activities
- Our Group-wide principles for ensuring employee health and safety are outlined in our OHSEE Policy statement. We also have local policies and procedures in place
- We conduct regular employee surveys and use this feedback to address opportunities and improve performance and culture
- We have an active internal communications programme to keep employees engaged and informed on Company strategy, progress and development

How we engage at Board level

- Nina Henderson leads the Board's response to employee engagement requirements. Nina reports on employee issues in each Board meeting and as required during Board or Committee business. A report on her activities is included on page 63
- The Board receives regular reports on communications activities with employees, the annual employee engagement survey and events or feedback that are reported by the Chief Executive

Outcomes and actions

- We launched an online learning initiative, iLearn, providing employees with access to a wide range of learning materials in different languages to further their professional and personal development
- We established a Black Employees Advisory Board in the US, an employee-led initiative to enhance diversity, equity and belonging
- In 2020, we hosted a virtual global leadership conference for the top 160 Hikma leaders
- We increased dialogue with employees through frequent live calls hosted by the CEO and members of management
- We are implementing initiatives to promote diversity, equity and belonging
- We improved employee engagement by four points overall; 82% of employees felt our communications and response to employee concerns in relation to COVID-19 were very effective

Communities

Who is this stakeholder group?

Our vision is to create a healthier world that enriches all our communities by developing high-quality medicines and making them accessible to those who need them. We invest in our communities through three focus areas:
- providing better health
- supporting education
- helping people in need

Why is it important to engage with this group and what do they expect from us?

Our communities value our efforts to:
- improve healthcare quality and access through donations and support
- strengthen educational infrastructures
- support local communities and people in need

Since its inception, Hikma has been dedicated to transforming people's lives by providing the medicines they need and supporting the communities where we live and work. Making positive contributions to the communities where we operate, and providing assistance to those in most need, supports our long-term, sustainable growth, while positively impacting society.

We also strive to minimise our environmental impacts in the communities where we operate and are committed to making our operations more energy efficient.

How we engage across the Company

- We have developed collaborative partnerships and programmes to promote positive change and address the needs of our communities. These initiatives include increasing access to medicine through donations, supporting education and assisting refugees and low-income groups

How we engage at Board level

- The Compliance, Responsibility and Ethics Committee is responsible for direct oversight of the Company's sustainability and corporate social responsibility (CSR) programme. The Committee receives bi-annual reports on the Company's activities and reviews the Company's sustainability strategy on an annual basis. The Committee reports its activities to the Board, which also receives regular updates, including on sustainability matters, from the Chief Executive

Outcomes and actions

- In 2020, we increased our in-kind medicine donations to people in need
- We provided more than 600,000 meals to people in need in the US through a matching donation campaign to support local food banks
- We contributed to the Lebanon appeal for the immediate needs of children and families in the aftermath of the explosion in Beirut

Government & regulators

Who is this stakeholder group?

Our business is highly-regulated and we must operate in accordance with a wide range of industry and government policies and regulations including those of the US Food and Drug Administration (FDA), the European Medicines Agency (EMA) and the regulatory bodies in each of our markets.

Why is it important to engage with this group and what do they expect from us?

Our regulators expect us to:
- adhere to regulatory requirements
- maintain high-quality manufacturing facilities
- provide safe and effective medicines

Quality is in everything we do and has been since our inception. We need to ensure that our quality systems operate in full compliance with the requirements of international agencies as well as domestic regulatory bodies.

How we engage across the Company

- We have strong internal regulatory and quality teams who ensure our quality systems operate in full compliance with the regulatory requirements of the FDA, the EMA, and the regulatory bodies of our other markets
- We work closely with local government and regulatory bodies to ensure current and proposed regulations and policies support patients' needs and our operations

How we engage at Board level

- The Board receives regular reports on relations with regulators, particularly from a manufacturing quality and product approval perspective, and receives an update on legal matters at each meeting
- The Board oversees the Group's risk programme and receives reports on relevant issues, which include specific principal risks covering product pipeline, product quality and safety and legal, regulatory and intellectual property

Outcomes and actions

- We regularly engage with the different regulatory bodies and have a strong quality track record. Due to COVID-19, the FDA conducted a paper-based inspection of our new high containment facility in Portugal, which resulted in no observations and the plant was approved
- The FDA approved our facilities in Portugal and Germany based on local authority cGMP inspections and the mutual recognition agreement between the FDA and EMA
- In 2020, we hosted 25 new FDA investigators at our Columbus facility for training purposes

Suppliers

Who is this stakeholder group?

We have an extensive global network of suppliers who provide us with the products needed for us to deliver our medicines. We actively engage with our suppliers to ensure our principles of human rights and high-quality standards are upheld.

Why is it important to engage with this group and what do they expect from us?

Our suppliers want us to:
- uphold high ethical standards
- operate in a responsible and sustainable manner
- work collaboratively to build strong relationships

Our suppliers are critical to our business, and their products and expertise support us in the delivery of high-quality medicines to patients around the world. Working together and building strong relationships not only enables us to deliver on our brand promise but it also ensures we have a sustainable and resilient supply chain.

Operating responsibly and ethically is vital to our long-term success, and we work with our suppliers to ensure the social and ethical standards we require are upheld.

How we engage across the Company

- We conduct quality audits prior to on-boarding any new API supplier and on a regular basis for our current supplier base
- We ask our suppliers to commit to upholding the principles of our Code of Conduct, including our standards on human rights and modern slavery
- We conduct initial and periodic due diligence to assess third party risks and to reinforce adherence to our principles

How we engage at Board level

- The Board receives updates on supplier issues as part of its review of operational matters, such as consideration of API supply restrictions resulting from COVID-19 related disruption
- The Board oversees the Group's risk programme and receives reports on relevant issues, which includes a specific principal risk for API and third party risk management
- The Compliance, Responsibility and Ethics Committee is responsible for direct oversight of the Company's approach to ethical issues associated with suppliers

Outcomes and actions

- We build long-term relationships with our suppliers. This has allowed us to ensure continuity of supply to our customers during the COVID-19 pandemic
- We implemented online quality audits to protect our employees during the pandemic in their work to qualify new API sources and audit our existing suppliers
- We rolled out new third-party due diligence process in the US and will expand the roll out to MENA and other geographies in 2021 to reinforce our supplier qualification process and reduce our risk exposure

Investors

Who is this stakeholder group?

We maintain regular contact with investors to ensure they have a strong understanding of our business. Our investors are largely global institutions and include both equity and debt holders.

Why is it important to engage with this group and what do they expect from us?

Our investors expect us to:
- deliver sustainable long-term value
- effectively communicate our long-term strategy, financial and operational performance and growth drivers
- meet industry and global standards for good environmental, social and governance (ESG) practices

We ensure our investors have an in-depth understanding of our operations, financial performance, growth drivers and ESG efforts. The Board receives regular updates and feedback on these activities. This helps ensure that the views of our investors are considered in the Board's decision-making.

How we engage across the Company

- We maintain regular contact with our shareholders through a comprehensive investor relations (IR) programme of conferences, roadshows and meetings
- We maintain regular dialogue with our debt holders and rating agencies
- We communicate our strategy and financial performance through regular financial reporting and investor events, such as the Annual General Meeting
- A targeted external communications programme ensures we are informing key audiences on our strategic progress and impact on our communities

How we engage at Board level

- The Board receives regular updates on the IR programme, including investor feedback from the AGM, IR meetings and investor perception studies
- The Executive Directors are informed of investor engagement activities on a regular basis
- The Non-Executive Directors make themselves available to meet with investors as required in the conduct of their responsibilities (eg as Chair of a committee) and are available to shareholders at the AGM to answer related questions

Outcomes and actions

- We maintained regular contact with our analysts and investors to give business updates. We attended 13 conferences and met with 158 investors in 2020
- Since March, all of our investor interaction has been virtual and we are now integrating virtual engagement into our longer term IR programme
- In June 2020, Boehringer Ingelheim, one of Hikma's large shareholders, sold its entire holding in the Group. We took the opportunity to invest in our business and bought back 12.8 million shares, which are held in treasury. We reached out to our investor base, both current and potential investors, to ensure they understood the strategic rationale

Ensuring continuity of supply

The impact we have on people's lives is far-reaching and it is important we ensure reliable supply of our medicines to our customers. At Hikma, our teams have shown tremendous commitment and contribution to ensure that both patients and communities have access to the medicines they depend on. In 2020, our procurement team maintained direct contact with our suppliers to understand the disruptions on their operations as a result of the COVID-19 pandemic. We have put in place inventory strategies and worked closely with our suppliers to maintain the necessary levels of inventory needed for the production of important medicines. In addition, our team implemented online solutions for auditing and monitoring API sources, until onsite audits can be performed again, to mitigate exposure to risk and maintain the safety of our auditing teams.

Building a strong culture

Having the right culture, one that supports our vision and enables our strategy is critical to achieving long-term success. It is key for our employees to feel empowered and enabled and we are doing more to promote collaboration and communication across the organisation.

Over the last two years, through surveys, conferences and direct employee engagement, we listened and collected feedback from employees to understand what we do well and how we need to evolve. In 2020, we were able to bring together our top 160 leaders virtually for the third annual Global Leadership Conference and introduced our new culture framework and refreshed values. We also introduced monthly Group-wide calls hosted by the CEO and members of management to ensure we maintain employee engagement and celebrate successes.

Our ambition at Hikma is to create a culture of progress and belonging, where everyone feels they can do their best work. To support this, we are implementing new initiatives to promote our values of innovation, collaboration and caring.

Business and financial review

Strong financial performance

- Core Group revenue up 6%, reflecting growth in all three businesses
- Core operating profit up 11%, driven by strong growth in profit of Generics and Injectables
- Strong cashflow from operating activities of $464 million, whilst maintaining higher inventory levels to ensure continuity of supply during the COVID-19 pandemic
- Continued investment in R&D of 6% of revenue, with growing pipeline of complex products
- Healthy balance sheet, with net debt[1] of $605 million and low leverage at 0.9x net debt to core EBITDA[2]
- Full year dividend of 50 cents per share, up from 44 cents per share in 2019

Ongoing strategic progress

- Leveraged our strong foundation to meet increased demand for essential medicines used in the treatment of COVID-19, whilst continuing to maintain supply across our broader portfolio
- Continued to expand our portfolio of differentiated products – launched 154 new products across our markets, including icosapent ethyl capsules
- Received US FDA approval for generic Advair Diskus® and expect to resume launch as soon as the US FDA completes their priority review of the outstanding Prior Approval Supplement (PAS)
- Focused on building a culture of progress and belonging that engages and enables our employees

Continued momentum, with growth in all three businesses

- Injectables: Achieved double digit core operating profit growth reflecting the breadth of our product portfolio and the quality and flexibility of our manufacturing facilities
- Generics: Delivered significant improvement in core operating margin, driven by the strength of new launches, a good performance from in-market products, process efficiencies and our enhanced focus on customer service levels
- Branded: Achieved good growth in revenue, with a strong recovery in Algeria, while core operating profit declined due to the negative impact of foreign exchange

Summary financial results

Core results[3] (underlying)	2020 $ million	2019 $ million	Change	Constant currency[4] change
Core revenue	**2,341**	2,203	6%	6%
Core operating profit	**566**	508	11%	17%
Core profit attributable to shareholders	**408**	364	12%	20%
Core basic earnings per share (cents)[5]	**172.9**	150.4	15%	23%

Reported results (statutory)	2020 $ million	2019 $ million	Change	Constant currency[4] change
Revenue	**2,341**	2,207	6%	6%
Operating profit	**579**	493	17%	23%
Profit attributable to shareholders	**431**	486	(11)%	(5)%
Cashflow from operating activities	**464**	472	(2)%	–
Basic earnings per share (cents)[5]	**182.6**	200.8	(9)%	(3)%
Total dividend per share (cents)[5]	**50.0**	44.0	14%	–

1. Group net debt is calculated as Group total debt less Group total cash, including restricted cash. Group net debt is a non-IFRS measure. See page 36 for a reconciliation of Group net debt to reported IFRS figures
2. Core EBITDA is earnings before interest, tax, depreciation, amortisation and impairment charges/reversals. EBITDA is a non-IFRS measure, see page 36 for a reconciliation to reported IFRS results
3. Core results throughout the document are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in Note 6 of the Group consolidated financial statements. Core results are a non-IFRS measure and a reconciliation to reported IFRS measures is provided on page 35
4. Constant currency numbers in 2020 represent reported 2020 numbers translated using 2019 exchange rates, excluding price increases in the business resulting from the devaluation of currencies and excluding the impact from hyperinflation accounting. In 2020 Lebanon and Sudan were considered hyperinflationary economies, therefore the spot exchange rate as at 31 December 2020 was used to translate the results of these operations into US dollars
5. In June 2020, Hikma purchased 12.8 million ordinary shares from Boehringer Ingelheim, which are being held in treasury. Earnings per share is calculated using the weighted average number of shares outstanding during the period. Dividend per share is calculated using the number of shares in issue at 31 December 2020

We performed well in 2020 and I am pleased with the growth in each of our businesses. The broad portfolio has played an important role, and our pipeline is delivering growth.

Khalid Nabilsi
Chief Financial Officer

Group revenue was $2,341 million in 2020. Group core revenue grew 6% to $2,341 million (2019: $2,203 million), reflecting growth in each of our three businesses. Group core gross profit[1] grew 11% to $1,213 million (2019: $1,095 million), as a result of the growth in revenue across all business segments and particularly the strong performance in Generics and Injectables. Group core gross margin was 51.8% (2019: 49.7%).

Group operating expenses were $622 million (2019: $595 million). Excluding adjustments related to the amortisation of intangible assets (other than software) of $42 million (2019: $34 million) and net income from exceptional items of $67 million (2019: $26 million), Group core operating expenses were $647 million (2019: $587 million).

Selling, general and administrative (SG&A) expenses were $509 million (2019: $494 million). Excluding the amortisation of intangible assets (other than software) and exceptional items, core SG&A expenses were $464 million (2019: $453 million), up 2%. The increase was primarily due to higher employee benefits. The impact of COVID-19 on SG&A expenses was broadly neutral with related increases in employee benefits offset by lower marketing and travel costs.

Research and development (R&D) expenses were $137 million (2019: $150 million). Excluding exceptional items, core R&D expenses were $137 million (2019: $126 million). This reflects increased investment in our Injectables R&D programme, as we build our pipeline of complex products. Core R&D was 6% of Group core revenue.

Other net operating income[1] was $26 million (2019: $49 million income). Excluding exceptional items[2], core other net operating expenses were $44 million (2019: $8 million expense), primarily due to foreign exchange losses of $30 million as a result of significant foreign exchange movements in Sudan in the second half of the year, and $10 million of IT-related impairments.

The Group reported operating profit of $579 million (2019: $493 million). Excluding the impact of amortisation (other than software) and exceptional items, core operating profit increased by 11% to $566 million (2019: $508 million) and core operating margin was 24.2% (2019: 23.1%).

1. Beginning in 2020, inventory related provisions are reported under the cost of sales line item for both 2020 and 2019 comparatives. In the 2019 audited financial statements, inventory related provisions were included in other operating income/(expenses). The reason for reclassification is to be in line with industry practice. The effect of the adjustment on the operating profit is shown in Note 2 of the Group consolidated financial statements
2. In 2020, exceptional items comprised a $62 million net impairment reversal of product related intangibles related to the Generics business, proceeds from an insurance claim related to a warehouse fire at one of our facilities in Jordan of $11 million and $3 million related to PPE impairment on our generic Advair Diskus®. Refer to Note 6 of the Group consolidated financial statements for further information

Injectables

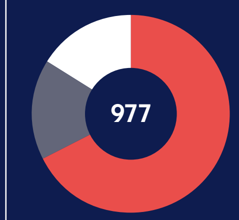
Our Injectables business develops and manufactures generic injectable products, which are sold globally and primarily used in hospitals.

Core revenue ($m)

Core operating margin (%)

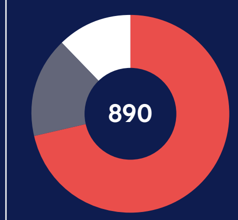
Injectables core revenue by region ($m)

2020



US	662 (67.7%)
MENA	160 (16.4%)
Europe and ROW	155 (15.9%)

2019



US	636 (71.4%)
MENA	146 (16.4%)
Europe and ROW	108 (12.2%)

Outlook for 2021
We expect Injectables revenue grow in the mid-single digits. We expect core operating margin to be in the range of 37% to 38%.

While we saw considerable variability in demand for our injectable products over the course of 2020 due to the COVID-19 pandemic, we were able to leverage our broad product portfolio, new launches and the flexibility of our manufacturing operations to meet changing customer needs and drive growth in Injectables revenue and profitability.

Injectables core revenue increased by 10% to $977 million (2019: $890 million). In constant currency, Injectables core revenue grew by 9%.

US Injectables core revenue grew 4% to $662 million (2019: $636 million), reflecting good demand for certain products used in the treatment of COVID-19, which, along with the strength of the broader portfolio and new product launches, more than offset the impact of a decline in elective surgeries.

MENA Injectables core revenue was $160 million, up 10% on both a reported and constant currency basis (2019: $146 million). This growth reflects an increase in demand for COVID-19 related products and continued growth of our biosimilar products as we increase our market share and continue to launch into new markets.

European Injectables core revenue was $155 million, up 44% (2019: $108 million). In constant currency, European Injectables revenue increased by 41%. This reflects a strong performance from our broad portfolio and new launches, particularly in Italy and Germany, as well as good demand for contract manufacturing, including our supply agreement with Gilead to manufacture remdesivir for injection.

Injectables core gross profit increased by 11% to $563 million (2019: $505 million) and core gross margin increased to 57.6% (2019: 56.7%), primarily reflecting revenue growth across all regions and an improvement in product mix in Europe and MENA.

Injectables core operating profit, which excludes the amortisation of intangible assets (other than software)[1] was $377 million (2019: $338 million). Core operating margin was 38.6% (2019: 38.0%), reflecting the improvement in gross profit, slightly offset by an increase in R&D investment and the impact of adverse foreign exchange movements of around $9 million, primarily related to the Sudanese pound. In constant currency, Injectables core operating profit grew 14%, and core operating margin expanded by 1.6 percentage points.

During the year, the Injectables business launched 10 products in the US, 34 in MENA and 33 in Europe. We submitted 230 filings to regulatory authorities across all markets. This primarily reflects our efforts to expand our European portfolio and register products in new European markets. We also signed new licensing deals, including an agreement with Sun Pharmaceuticals for ILUMYA™ and with Sesen Bio for Vicineum™.

In 2021, we expect Injectables revenue to grow in the mid-single digits, reflecting continued demand for COVID-19 related products, particularly in the first half, and a gradual return of elective surgeries over the course of the year. We expect core operating margin to be in the range of 37% to 38%.

Financial highlights

$ million	2020	2019	Change	Constant currency change
Revenue	**977**	894	9%	9%
Core revenue	**977**	890	10%	9%
Gross profit	**563**	509	11%	10%
Core gross profit	**563**	505	11%	11%
Core gross margin	***57.6%***	*56.7%*	*0.9pp*	*1.1pp*
Operating profit	**354**	320	11%	13%
Core operating profit	**377**	338	12%	14%
Core operating margin	***38.6%***	*38.0%*	*0.6pp*	*1.6 pp*

1. Amortisation of intangible assets (other than software) was $23 million. Refer to Note 6 of the Group consolidated financial statements for further information

Revenue
$977m
+9%

Generics

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

Core revenue ($m)

Core operating margin (%)

Outlook for 2021
We expect Generics revenue to be in the range of $770 million to $810 million and core operating margin to be around 20%.

Our Generics business grew revenue and expanded profitability in 2020, supported by a strong contribution from new launches and good demand for our differentiated portfolio. We saw a slight increase in demand during the first half and then again towards the end of the year for certain COVID-19 related products. Throughout the year, our teams worked hard to ensure we maintained a high level of service for our customers.

Generics revenue grew 3% to $744 million (2019: $719 million). A better than expected contribution from new launches, as well as the strength of our differentiated portfolio more than offset an acceleration of price erosion in the second half of the year.

Generics core gross profit grew 14% to $341 million (2019: $300 million) and core gross margin increased to 45.8% (2019: 41.7%). This primarily reflected an improvement in the product mix as a result of both good demand for certain in-market products as well as the performance from new launches.

Generics core operating profit, which excludes the amortisation of intangible assets (other than software) and exceptional items[1], increased by 30% to $161 million (2019: $124 million). Core operating margin increased to 21.6% (2019: 17.2%). This significant improvement in profitability reflects the increase in core gross profit combined with process efficiencies.

In 2020, the Generics business launched six products and submitted six files to regulatory authorities. Launches included rufinamide, generic Afinitor® and generic Zortress®, for which we remain the sole generic in the market. During the year, we demonstrated our ability to challenge patents and obtain approvals for complex products. We received US FDA approval for icosapent ethyl capsules in May and following a successful court ruling, we launched the product in November. Our ability to supply the market with this product is constrained at the moment due to limited availability of the active pharmaceutical ingredient and we are working hard to improve supply quantities over the course of 2021.

In December, we received US FDA approval for our generic Advair Diskus® and initiated launch. In January 2021, we temporarily paused the launch of this product in order to process an amendment to our Abbreviated New Drug Application (ANDA). This is classified as a Prior Approval Supplement (PAS) and needs to be reviewed by the FDA before we can introduce our product to the market. The PAS reflects enhanced packaging controls to meet new industry standards adopted since the initial submission of the ANDA application and does not affect the approved status of our ANDA. The FDA has granted this supplement priority status.

In 2021, we expect Generics revenue to be in the range of $770 million to $810 million. We expect core operating margin to be around 20%, reflecting increasing sales and marketing espenses, as we build our branded portfolio, and higher R&D costs.

Financial highlights

$ million	2020	2019	Change
Revenue	**744**	719	3%
Gross profit	**329**	295	12%
Core gross profit	**341**	300	14%
Core gross margin	***45.8%***	*41.7%*	*4.1pp*
Operating profit	**203**	151	34%
Core operating profit	**161**	124	30%
Core operating margin	***21.6%***	*17.2%*	*4.4pp*

1. Exceptional items comprised a $62 million net impairment reversal of product related intangibles related to the Generics business, $15 million related to inventory related provision write down and PPE impairment for generic Advair Diskus® and $4 million related to proceeds from an insurance claim related to a warehouse fire at one of our facilities in Jordan. Amortisation of intangible assets (other than software) was $9 million. Refer to Note 6 of the Group consolidated financial statements for further information

Revenue
$744m
+3%

Branded

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

Core revenue ($m)

Core operating margin (%)

Outlook for 2021

We expect Branded revenue to grow in the mid-single digits in constant currency in 2021.

Our Branded business had another good year. We overcame challenges posed by COVID-19, quickly switching our sales and marketing teams onto virtual platforms and ensuring that our plants across the region could continue to operate safely. Our approach of tiering our markets continued to deliver success, with our Tier 1 countries – Algeria, Saudi Arabia and Egypt – all performing well, especially Algeria, which recovered strongly following a more challenging 2019. We saw a reduction in demand for certain products, including anti-infectives, resulting from the pandemic, which was more than offset by a growth in sales in our broader portfolio.

Branded revenue was $613 million (2019: $583 million), up 5% on both a reported and constant currency basis.

Branded core gross profit was $307 million, up 7% (2019: $287 million) and core gross margin was 50.1% (2019: 49.2%). In constant currency, core gross profit increased by 6%. The improvement in gross margin reflects an improvement in the product mix.

Core operating profit, which excludes the amortisation of intangibles (other than software) and exceptional items[1], was $126 million, down 2% (2019: $129 million), and core operating margin was 20.6% (2019: 22.1%). The decline reflects an increased expense of $22 million resulting from significant foreign exchange movements, primarily in Sudan. In constant currency, core operating profit grew 11% and core operating margin expanded by 1.2 percentage points. The significant margin expansion in constant currency primarily reflects the improvement in gross profit and good control of costs.

During the year, the Branded business launched 71 products and submitted 141 filings to regulatory authorities. Revenue from in-licensed products represented 37% of Branded revenue (2019: 37%).

We expect Branded revenue to grow in the mid-single digits in constant currency in 2021.

Financial highlights

$ million	2020	2019	Change	Constant currency change
Revenue	**613**	583	5%	5%
Gross profit	**307**	281	9%	8%
Core gross profit	**307**	287	7%	6%
Core gross margin	***50.1%***	*49.2%*	*0.9pp*	*0.1pp*
Operating profit	**120**	105	14%	30%
Core operating profit	**126**	129	(2)%	11%
Core operating margin	***20.6%***	*22.1%*	*(1.5)pp*	*1.2pp*

1. In 2020, exceptional items comprised proceeds from an insurance claim related to a warehouse fire at one of our facilities in Jordan of $7 million and $3 million of severance and restructuring costs. Amortisation of intangible assets (other than software) was $10 million. Refer to Note 6 of the Group consolidated financial statements for further information

Revenue
$613m
+5%

Other businesses

Other businesses, which primarily comprises Arab Medical Containers (AMC), a manufacturer of plastic specialised medicinal sterile containers and International Pharmaceuticals Research Centre (IPRC), which conducts bio-equivalency studies, contributed revenue of $7 million in 2020 (2019: $11 million) with an operating profit of zero (2019: zero). This reduction in revenue is due to disruptions at IPRC in the first half of the year as a result of the COVID-19 pandemic.

Research and development

Our investment in R&D and business development enables us to continue expanding the Group's product portfolio. During 2020, we had 154 new launches and received 201 approvals.

To ensure the continuous development of our product pipeline, we submitted 377 regulatory filings.

	2020 submissions[1]	2020 approvals[1]	2020 launches[1]
Injectables			
US	15	16	10
MENA	55	41	34
Europe	160	25	33
Generics	6	8	6
Branded	141	111	71
Total	**377**	**201**	**154**

1. New products submitted, approved and launched by country in 2020

Net finance expense

Core net finance expense was $45 million (2019: $45 million). On a reported basis, net finance expense was $22 million (2019: zero), which reflects non-cash net income of $23 million resulting from the remeasurement of the contingent consideration related to the Generics business.

We expect core net finance expense to be around $50 million in 2021.

Profit before tax

Core profit before tax was $522 million (2019: $465 million), up 12%, reflecting the strong performance of our three business segments. Reported profit before tax was $558 million (2019: $491 million).

Tax

The Group incurred a reported tax expense of $128 million (2019: $4 million) and an effective tax rate of 22.9% (2019: 0.8%). This follows the utilisation in 2019 of previously unrecognised tax losses and deferred tax benefits recognised upon the internal reorganisation of intangible assets. Excluding exceptional items, Group core tax expense was $115 million (2019: $100 million). The core effective tax rate increased slightly to 22.0% (2019: 21.5%), primarily due to a change in the earnings mix.

We expect the Group core effective tax rate to be in the range of 22% to 23% in 2021.

Profit attributable to shareholders

Profit attributable to shareholders was $431 million (2019: $486 million). The decline reflects the utilisation in 2019 of previously unrecognised tax losses and deferred tax benefits. Core profit attributable to shareholders increased by 12% to $408 million (2019: $364 million).

Earnings per share

Basic earnings per share was 182.6 cents (2019: 200.8 cents). Core basic earnings per share increased by 15% to 172.9 cents (2019: 150.4 cents) and core diluted earnings per share increased by 14% to 171.4 cents (2019: 149.8 cents).

Dividend

The Board is recommending a final dividend of 34 cents per share (approximately 24 pence per share) (2019: 30 cents per share) bringing the total dividend for the full year to 50 cents per share (approximately 36 pence per share) (2019: 44 cents per share). The proposed dividend will be paid on 26 April 2021 to eligible shareholders on the register at the close of business on 19 March 2021, subject to approval at the Annual General Meeting on 23 April 2021.

Net cash flow, working capital and net debt

The Group generated strong operating cash flow of $464 million (2019: $472 million). The slight decline versus 2019 reflects higher Group working capital days – up 62 days to 264 days – as a result of a strategic decision to maintain higher inventory levels to ensure continuity of supply for customers during the pandemic.

Capital expenditure was $172 million (2019: $119 million), ahead of expectations. As the market outlook improved through the second half of the year, we proceeded with several projects to expand and enhance our capabilities. In the US, $89 million was spent upgrading equipment and adding new technologies for our Generics and Injectables businesses. In MENA, $67 million was spent on strengthening and expanding manufacturing capabilities. In Europe, we spent $16 million on strengthening our capabilities, including finalising our new high containment facility. We expect Group capital expenditure to be in the range of $140 million to $160 million in 2021.

The Group's total debt increased to $932 million at 31 December 2020 (31 December 2019: $685 million). This increase primarily reflects the full utilisation of the Group's $150 million 2017 International Finance Corporation (IFC) facility. During the year, the Group signed a new $200 million IFC loan facility which, along with the Group's revolving credit facility, was undrawn at year end.

The Group cemented its strength in the debt capital markets, with the raising of a new 3.25% coupon $500 million Eurobond in July, following the repayment of our previous bond in April. During the year, we also achieved investment grade status, an accomplishment which demonstrates the quality of the business.

The Group's cash balance at 31 December 2020 was $327 million (2019: $443 million). This decrease is primarily related to the purchase of 12.8 million ordinary shares from Boehringer Ingelheim (BI) for $375 million, in connection with BI's disposal of its 16% stake in Hikma, which was settled through a combination of cash and existing facilities.

The Group's net debt (excluding co-development agreements and contingent liabilities) was $605 million at 31 December 2020 (31 December 2019: $242 million). This increase primarily reflects the purchase of shares from BI, as outlined above. We have maintained a comfortable level of leverage with a net debt to core EBITDA ratio of 0.9x.

Balance sheet

Net assets at 31 December 2020 were $2,148 million (31 December 2019: $2,129 million). Net current assets were $894 million (31 December 2019: $377 million) primarily due to a change in the debt maturity profile as a result of the repayment of the Eurobond during the period and an increase in inventory levels.

Legal proceedings

In October 2020, Hikma received a voluntary request for information from the US Federal Trade Commission requesting information related to its investigation into whether Amarin Pharma, Inc. has engaged in, or is engaging in, anticompetitive practices or unfair methods of competition relating to the drug Vascepa®. Hikma has also received a subpoena duces tecum from the State of New York, Office of the Attorney General, seeking information relevant and material to an investigation related to Amarin Pharma, Inc. We are cooperating with all such demands.

Definitions

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

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

Core results

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

Group operating profit $ million	2020	2019
Core operating profit	**566**	**508**
R&D costs	–	(24)
Jordan warehouse fire incident	11	(13)
Proceeds from legal claim	–	32
Contingent consideration adjustment	–	7
MENA severance and restructuring costs	(3)	(7)
Integration costs	–	4
Net impairment reversal of product related intangibles	62	20
Intangible assets amortisation other than software	(42)	(34)
Assets write off	(15)	–
Reported operating profit	**579**	**493**

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 2020 represent reported 2020 numbers translated using 2019 exchange rates, excluding price increases in the business resulting from the devaluation of currencies and excluding the impact from hyperinflation accounting. In 2020 Lebanon and Sudan were considered hyperinflationary economies, therefore the spot exchange rate as at 31 December 2020 was used to translate the results of these operations into US dollars.

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

EBITDA $ million	2020	2019
Reported operating profit	**579**	**493**
Depreciation, amortisation and impairment charges/reversals	91	99
Reported EBITDA	**670**	**592**
Exceptional items:		
R&D costs	–	24
Jordan warehouse fire incident	(11)	13
Assets write off	12	–
Proceeds from legal claim	–	(32)
Contingent consideration adjustment	–	(7)
MENA severance and restructuring costs	3	7
Integration costs	–	(4)
Core EBITDA	**674**	**593**

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

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

Group net debt $ million	Dec-20	Dec-19
Short-term financial debts	(158)	(569)
Short-term leases liabilities	(10)	(9)
Long-term financial debts	(692)	(48)
Long-term leases liabilities	(72)	(59)
Total debt	**(932)**	**(685)**
Cash, cash equivalents and restricted cash	327	443
Net debt	**(605)**	**(242)**

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

ROIC $ million	2020	2019
Core operating profit	566	508
Tax	(121)	(104)
Core NOPAT	**445**	**404**
Net debt	605	242
Equity	2,148	2,129
Invested capital	**2,753**	**2,371**
ROIC	**16.2%**	**17.0%**

Outlook for 2021

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

Injectables
We expect Injectables revenue to grow in the mid-single digits. We expect core operating margin to be in the range of 37% to 38%.

Generics
We expect Generics revenue to be in the range of $770 million to $810 million and core operating margin to be around 20%.

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

Net finance expense, tax and capital expenditure
We expect Group net finance expense to be around $50 million and the core effective tax rate to be in the range of 22% to 23%. We expect Group capital expenditure to be in the range of $140 million to $160 million.

Sustainability

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

In this section

Supporting patients and communities

The challenges that arose in 2020, particularly as a result of the COVID-19 pandemic, made our support for patients and communities more important than ever.

We work across three focus areas to address socio-economic hardships and to provide relief to those most in need.

Our community engagement focus areas:

Providing better health

Working to address unmet healthcare needs through community outreach and medicine donations

Find out more on page 40

Supporting education

Enabling students to realise their full potential by addressing learning needs and developing infrastructure

Find out more on page 42

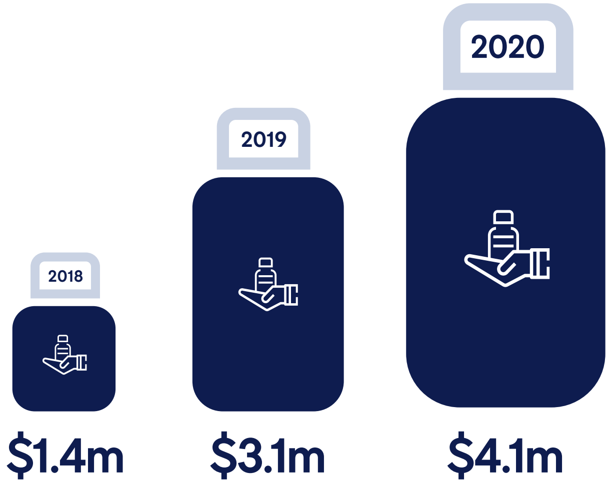
Helping people in need

Extending support to those in our communities that need it most

Find out more on page 43

Providing better health

We provide essential medicines and support to underserved people and to those facing crisis situations



Addressing unmet healthcare needs through our medicine donation programme

Through our medicine donation programme, we direct support to those that need it most; including low-income groups, displaced persons, children with life-threatening illness, and patients without sufficient medical coverage.

During 2020, we strengthened our existing relationships with our partners including Direct Relief, Dispensary of Hope, Americares, and the National Children's Cancer Society. We also established new partnerships with Save the Children and others to ensure our donations of essential medicines continue into the future.

Responding to the medical emergency following the Beirut explosion

The explosion that tore through Beirut on August 4 resulted in the tragic loss of hundreds of lives and widespread devastation of homes and public infrastructure.

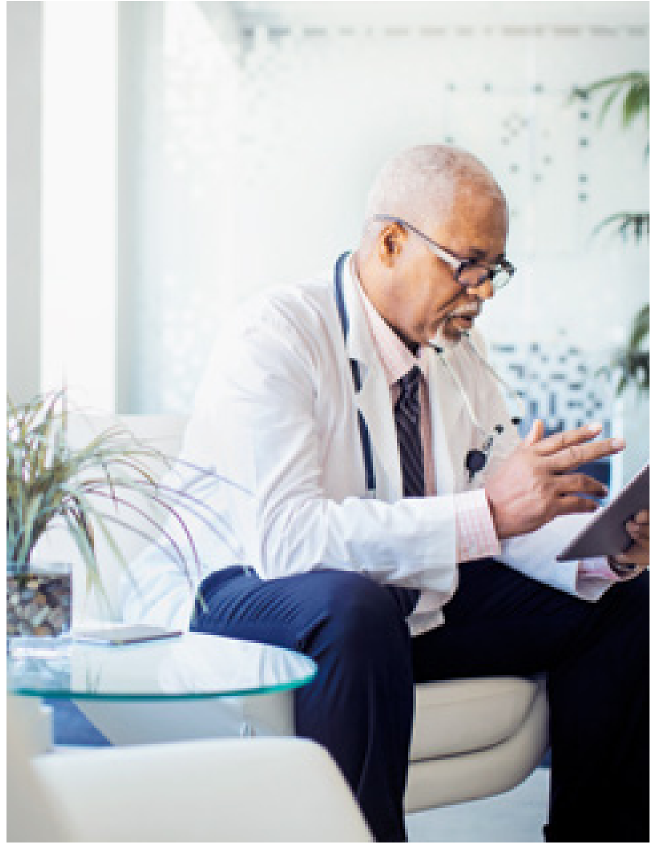
We responded immediately and worked alongside our partners to provide critical medicines and basic necessities to those most affected.

$2.3m in medicine and healthcare resources donated to hospitals and the Lebanese government

2,129 essential shelter kits distributed by Save the Children supported by Hikma donations

6,000 treatments of hydroxyurea donated through Anera to support treatments for chronic conditions

Photo: Tom Nicholson/Save the Children



Facilitating medical consultations for more than 180,000 people in Jordan

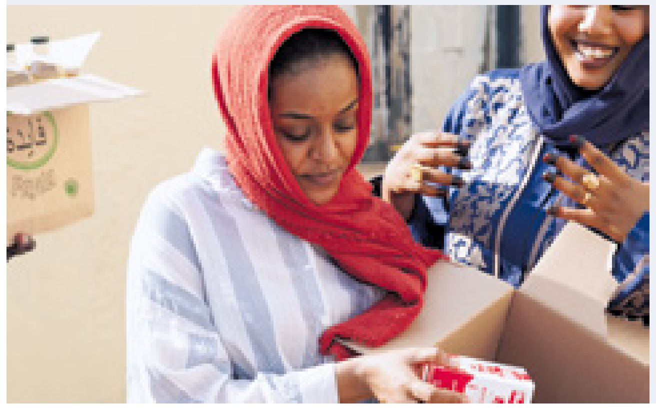
In response to the COVID-19 pandemic and the need to ensure patients are well informed, we supported the Jordanian Ministry of Health and digital health company Altibbi in the development of a National Coronavirus Hotline, enabling 330 participating doctors to provide medical consultations to more than 180,000 patients.

330 participating doctors provided medical consultations to more than 180,000 patients

Responding to medical needs resulting from the floods in Sudan

We took urgent action to assist those in need following the extreme floods that took place in Sudan in September.

The flooding affected more than 800,000 people and was amongst the most severe to be recorded in the region. In response, we donated essential medicines, funded provision of meals for people in need, and provided insecticides.



Our response:

26,000 people impacted by donations of essential medicine

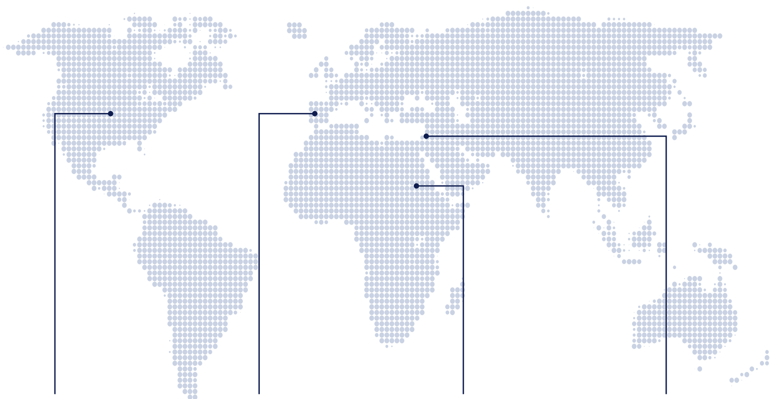
330 families provided with essential meals

5,200 families provided with insecticides to protect against the spread of mosquito-borne diseases

Supporting education

Our aim is to improve learning conditions and provide support to students and teachers

Supporting back to school activities



Provided 5,700 students with career advice through our partnership with Careervillage.org

Delivered essential school supplies to 350 students in Portugal

Completed infrastructure projects in two Sudanese schools, impacting 1,500 students

Extended computer coding courses to 300 young people in Jordan through the local NGO, Hello World Kids

We are thrilled about our new partnership with Hikma. They are strengthening a ground-breaking programme that provides crucial assistance to teachers in Jordan and the refugee children they teach.

Kevin Watkins
Save the Children CEO

Supporting the Transforming Refugee Education towards Excellence (TREE) programme

TREE is a teacher training and development programme that aims to improve the quality of education for Syrian refugees in Jordan. The programme enables educators to more effectively address the trauma and unique learning needs of displaced children by incorporating psychosocial support and emotional learning approaches for students.

The aim is to provide training and support for 1,350 educators who in turn will help more than 745,000 students through the programme.

TREE is an initiative of Save the Children and the MIT Abdul Latif Jameel World Education Lab (J-WEL), in cooperation with the Jordanian Ministry of Education, Community Jameel and Dubai Cares.

TREE helps teachers address the trauma and unique learning needs of Syrian refugee students in Jordan

$100,000
provided to support TREE in 2020

126
educators received training and support for dealing with student trauma

60
training sessions provided to educators

Helping people in need

We organise efforts to support low-income groups, displaced persons and other marginalised communities

The economic impacts of the pandemic placed immense strain on the most vulnerable segments of our societies. In response, we have focused much of our outreach towards providing basic necessities to those most affected.

To help address the extreme food shortages caused by overstretched support systems, we organised extensive meal donation activities in several locations.

USA
600,000 meals
Distributed more than 600,000 meals to food banks and pantries

Egypt
3,700 people
Collaborated with the Egyptian Food Bank to provide meals to 3,700 people

Portugal
380 families
Organised an employee donation campaign to support 380 low-income families

Jordan
2,900 people
Worked alongside Taalof Alkhair to donate food to 2,900 people

Operating responsibly and ethically

Hikma is committed to upholding the highest ethical standards in the conduct of its global business operations, which is grounded in our values of caring, innovation, and collaboration.

Our values serve as the foundation for a strong governance framework that is fundamental to our long-term organisational success. Our Code of Conduct sets out behaviours we expect from our employees as we conduct our business, and provides an overview of our legal, regulatory, and ethical requirements. Our Code provides guidance to our employees and partners on the ethics of Hikma's business activities through the identification and discussion of various risks associated with our business. In addition to our Code, we have also developed policies and procedures designed to help employees and third parties put these behaviours into practice. Hikma employees, officers and directors are trained on the Code of Conduct as part of their induction and are provided refresher training on a periodic basis.

Through our global compliance programme we have adopted internal controls and management processes to ensure the responsible and ethical conduct of our business. This includes compliance with all relevant global and local laws, codes and regulations wherever we operate.

We believe in transparency and promote a culture that encourages employees to raise any concerns about potential violation of laws and regulations, or any other behaviours or incidents that do not comply with our Code of Conduct. In addition, our speak up line provides both internal and external stakeholders a resource to use to raise concerns about suspected misconduct confidentially. All cases received are reviewed by our Legal and Compliance teams, and investigated, as appropriate, by Legal and Compliance personnel. Substantiated violations of our Code of Conduct, or other policies and procedures are addressed through our disciplinary procedures.

Our Compliance, Responsibility and Ethics Committee provides oversight of our global compliance programme and the management of associated risks, including bribery and corruption. We have a zero-tolerance policy for bribery and corruption at Hikma. As a publicly listed company on the London Stock Exchange (LSE), we are subject to the regulations of the UK Listing Authority. We also comply with the UK Bribery Act 2010 and the US Foreign Corrupt Practices Act, as well as global anti-corruption standards and local anti-bribery and corruption laws.

Founding member of the Partnering Against Corruption Initiative (PACI)

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

Maintaining our membership of the FTSE4Good Index

For the sixth consecutive year, we maintained our membership of the FTSE4Good Index Series – an index of LSE-listed companies that demonstrate strong Environmental, Social and Governance (ESG) practices as measured against globally recognised standards. The FTSE4Good evaluates companies' effectiveness in addressing issues such as human rights, anti-corruption, environmental performance, health and safety, and community engagement. Their assessments are used by a wide variety of market participants to develop responsible investment funds and other products.

This year, our score increased from 3.0 to 3.5, which improved our ranking as compared to other member companies from the 57th to the 78th percentile. We continue to score above the averages for both healthcare and pharmaceuticals sectors in all three ESG categories. Our aim is to continue improving our management of ESG issues, with a focus on strengthening our environmental performance and disclosure in 2021.

This year, our FTSE4Good Index score increased from

3.0 to 3.5

which improved our ranking as compared to other member companies from the 57th to the 78th percentile

Enabling our people

Our people are our most valuable asset. We adapted health and safety measures to address the unprecedented challenges of the COVID-19 pandemic and continued expanding our global learning and development programme by providing more readily accessible digital resources to all employees.

Ensuring health and safety

In response to the pandemic, it was essential for us to take measures that protect the safety of our employees while maintaining continuity of our manufacturing operations and supply of medicines.

Some of the actions taken to effectively manage employee safety include:

- Maintained multiple channels of communication for employees to receive timely information, updates and advice regarding health and safety issues.
- Adapted work schedules to reduce interaction and strengthen social distancing between departments and shifts, and instituted restrictions on travel and in-person meetings in line with public health authority guidelines.
- Distributed personal protective equipment to all employees and implemented screening measures including daily health checks and temperature monitoring.
- As part of the We Are Hikma campaign, we established webinars and online resources for employees on themes related to mental wellbeing, stress management and general awareness.

Learning and development

Our digital learning platforms empower all our employees to pursue personalised learning objectives. These platforms have also been fundamental in ensuring accessibility to continued learning as we adapted to new work from home guidelines.

+40,000
digital learning assets available to employees

Online video courses taught by experts in business, technology and digital skills

31% Employee usage rate

17k Number of employee learning hours

41k Number of courses viewed by employees

Online books, audio books and technical skills training

22% Employee usage rate

3.8k Number of employee learning hours

47k Number of pages viewed by employees

Our objectives going forward:

- improve the adoption rate of online resources
- develop Arabic language content
- introduce blended learning programmes that combine online materials with instructor-led learning activities

Breast cancer awareness

Our annual campaign engages employees and raises awareness about the value of early detection and treatment.

As part of our campaign, we offered employees self-screening training, educational lectures and facilitated appointments with doctors. We also distributed educational materials, and donated encouragement cards and kits of hope to hundreds of breast cancer patients worldwide.

45 patients received support kits through our partnership with the US National Breast Cancer Foundation

80 women received self-screening training in Portugal

520 employees in MENA attended virtual awareness sessions

Diversity, equity and belonging

Hikma celebrates diversity and prides itself on a culture of inclusion. We uphold the sixth principle of the United Nations Global Compact on the elimination of discrimination in the workplace. We hire on merit and are committed to employing and engaging talented people irrespective of their race, gender, religion, sexual orientation, age, marital status, national origin, present or past history of mental or physical disability and any other factors not related to a person's ability to perform a role.

During the year, we conducted focus groups and peer-to-peer discussions to evaluate opportunities to strengthen our culture of belonging. We established an employee-led initiative – the Black Employees Advisory Board in the US – and a Diversity, Equity and Belonging Task Force to direct a more inclusive approach to employee recruitment, retention and promotion.

Monitoring and minimising our environmental impact

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

We continue to achieve progress with our environmental performance. We are improving the way we monitor our impacts, pursuing projects that reduce our footprint and aligning with the recommendations of the Task Force for Climate-Related Disclosures (TCFD). More information on our environmental performance and disclosure is available in the sustainability section of hikma.com.

We measure our environmental impacts through several metrics which we continue to refine and expand, including:

- direct fuel usage (Scope 1)
- electricity consumption (Scope 2)
- renewable energy generation and usage
- water consumption

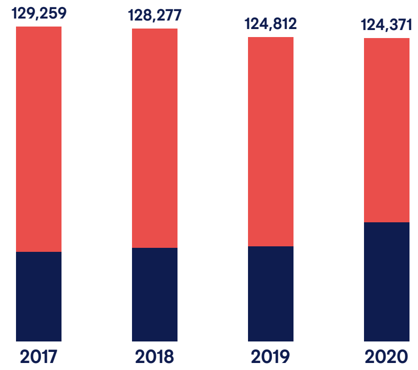
This statement has been prepared in accordance with our regulatory obligation to report greenhouse gas (GHG) emissions pursuant to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, which implement the UK government's policy on Streamlined Energy and Carbon Reporting. Our emissions have been verified to a reasonable level of assurance by an external third party according to the ISO 14064-3 standard.

Our performance

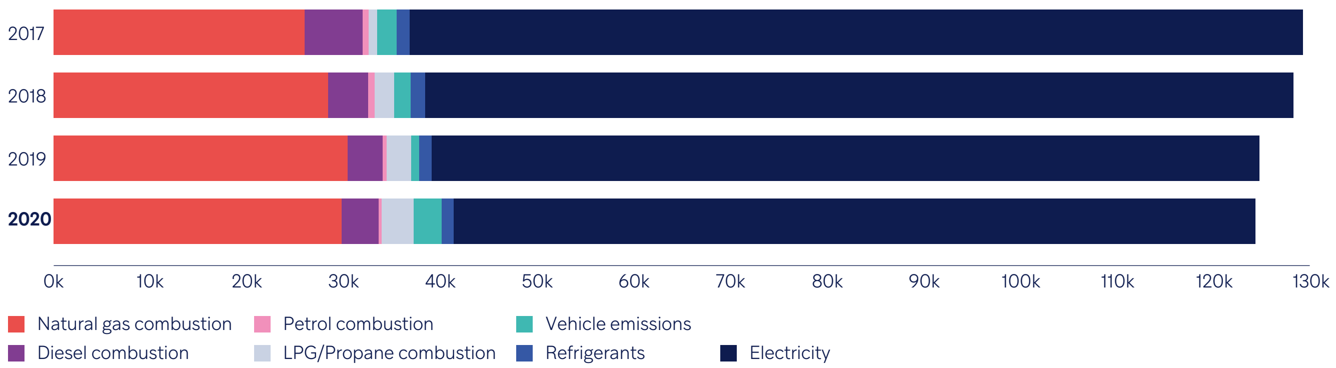
Overall, our GHG emissions for scope 1 and 2 decreased by 0.4% year-on-year. We continue to invest in energy efficiency projects and renewable energy systems at multiple sites, and are adopting hybrid and electric vehicles where feasible. Since 2017, our reported GHG emissions of direct fuel usage and electricity consumption have decreased by 4%.

Greenhouse gas emissions, tonnes of carbon dioxide equivalent (tCO_2e): 2017-2020

	2017	2018	2019	**2020**
Scope 1 – direct combustion of fuel and operation of facilities	36,839	38,404	39,089	**41,397**
Scope 2 – electricity consumption	92,421	89,873	85,723	**82,974**
Total scope 1 and 2 emissions (location-based)	129,259	128,277	124,812	**124,371**



Year-on-year change by emission source



Verification statement: Reasonable assurance

Carbon Credentials Energy Services Ltd has been contracted by Hikma Pharmaceuticals PLC for the independent third-party verification of direct and indirect carbon dioxide equivalent emissions (CO_2e) as provided in the 2020 Company Annual Report and Accounts to a reasonable level of assurance. Verified emissions by scope include:

Scope 1 Emissions
- combustion of gaseous fuels (natural gas, diesel, petrol and LPG)
- fugitive refrigerant gases

Scope 2 Emissions
- purchased electricity consumption (location and market-based)

Carbon Intelligence concludes with reasonable assurance that the GHG assertion is materially correct, is a fair representation of the GHG emissions data and information and is prepared in accordance with the relevant criteria.

Data notes:
- We quantify and report our organisational GHG emissions in alignment with the World Resources Institute's Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and in alignment with the Scope 2 Guidance. We consolidate our organisational boundary according to the operational control approach, which includes all our facilities. We have adopted a materiality threshold of 10% for GHG reporting purposes. Non-manufacturing facilities with less than 150 staff, including our UK office are not included as they fall below our materiality threshold. Joint ventures with less than 50% holding are not included as we do not have operational control. Emissions are reported from sites which represent 87% of total employees. Estimates of the emissions generated by offices that are below our materiality threshold are available in the sustainability section of hikma.com.
- Emissions from the consumption of electricity are reported in tCO_2e. However, since the International Energy Agency emission factors for electricity currently account for carbon dioxide emissions only, part of these emissions are in tonnes of carbon dioxide (tCO_2).
- Reported data from previous years are revised as we continue to improve the quality of our data collection and analysis.
- More details about our environmental performance metrics, including market-based scope 2 emissions, are available in the sustainability section of hikma.com.

Our renewable energy capacity

We continue to invest in renewable energy infrastructure to reduce our footprint and long-term overhead costs. We currently have solar photovoltaic systems in four locations – three in Jordan and one in Portugal. We also purchase electricity generated by renewables in Portugal and Sudan. This is reflected in our market-based emissions available in the sustainability section of hikma.com.

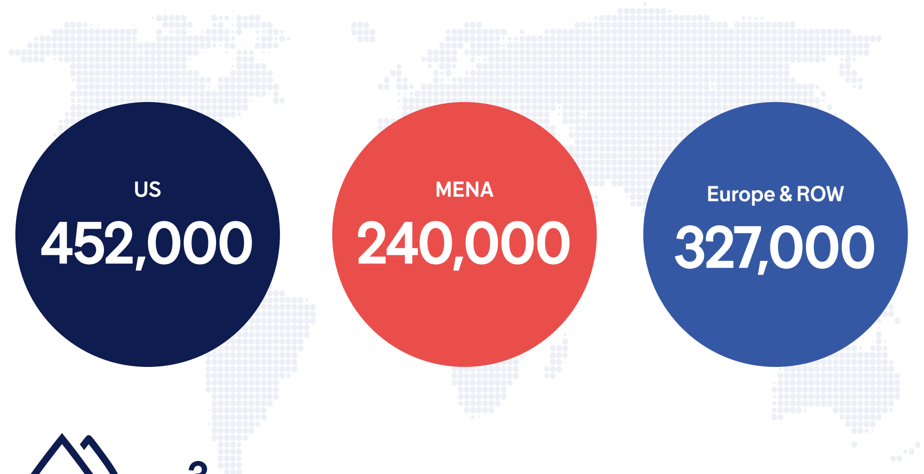
9%

of our electricity consumption is derived from renewable sources

Water consumption

Measuring water consumption enables us to more effectively manage our environmental impacts. The figures below indicate our cubic metre consumption by region. Information about water treatment, waste management and indirect emissions can be found in the sustainability section of hikma.com.

Water consumption by region, cubic metres (m^3): 2020



m^3

Improving energy efficiency

Tunisia
The installation of a co-generation heat and power system for our sites in Tunisia improves the efficiency of steam use, enabling a 30% decrease in electricity consumption.

Portugal
The installation of a heat thermal recovery system in Portugal saves approximately 480,000 kilowatt-hours (kWh) of energy per year.

LED lighting
We continued our roll-out of more efficient light emitting diode (LED) fixtures, improving efficiency across eight sites with annual energy savings of over 300,000 kWh.

Columbus
At our site in Columbus, USA, we upgraded steam boiler burners, saving an estimated 466,000 kWh of electricity in 2020.

Our TCFD disclosures

We are aligning our internal processes and public disclosures with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. We have summarised our progress to date in this section.

Governance

To ensure that sustainability topics are considered at the highest level of decision making, they have been placed under the remit of our Compliance Responsibility and Ethics Committee (CREC). This includes reviewing and guiding our sustainability strategy and tracking our progress towards sustainability-related goals, including climate change.

Strategy

Hikma aims to manage its impact on the environment in a responsible manner, to adapt our organisation to climate change and to avoid adverse impacts.

In order to achieve this, we are assessing our impact on the environment and the potential impact of climate change scenarios on our organisation. In 2020 a cross-functional team that included employees from across regions and disciplines worked together to assess our climate-related risks and developed the scenario models that were used in our longer-term viability assessments (see page 59).

In 2021, further work is planned to refine our environmental priorities and incorporate TCFD recommendations into our business operations.

Risk management

We assess climate-related risks through our emerging risk management process. The process involves engaging with external experts, scenario modelling and connecting to existing interrelated risk mitigation programmes. The approach helps to ensure appropriate management attention is provided to this developing area.

Further information on our principal risks, enterprise risk management framework and emerging risk process can be found on pages 52 to 59.

Metrics and targets

We are developing metrics and targets to measure our climate impact and assess climate-related risks and opportunities. These metrics will enable us to analyse current and historical periods.

Details of our energy usage, water consumption and carbon emissions can be found on pages 48 to 50.

Climate impact identification and materiality assessment

We are undertaking a full assessment of the material climate-related risks and opportunities that have the potential to impact our business. We are using the industry standard risk and opportunities framework published by CDP (formerly the Carbon Disclosure Project) as a foundation for the assessment.

Risk management

In 2020, our risk management framework provided structure and stability in an environment challenged by the COVID-19 pandemic

In this section

Risk management framework

Risk context

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

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

Find out more about the internal and external context for risk management for the Group in 'Our strategy' (pages 12 and 13), 'Our markets' (pages 16 and 17) and 'Our business model' (pages 18 and 19).

Risk strategy

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

Risk appetite

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

Risk governance

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

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

Internal audit provides independent assurance of the Group's internal control environment. For more details on our internal audit approach see pages 77 and 78.

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

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

The CEO and Executive Committee have direct ownership of risk management for the Group. Risk management accountability is fully embedded within their executive responsibilities and includes assessments of strategic opportunities and risks.

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

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

1. Full committee terms of reference are available on **www.hikma.com**

Risk management responsibilities

Board of Directors	Internal audit	ERM office	Global risk owners
– Determine principal risks – Define and communicate the Group risk appetite – Ensure overall effectiveness of the risk management framework – Review risk management key outcomes – Evaluate strategic risks and opportunities	– Provides independent assurance of the Group's internal control environment	– Enable and drive effective risk management practices – Partner with global risk owners in risk assessment and reporting – Coordinate emerging risk assessments	– Implement effective risk management practices to assess and manage risks across the organisation – Report on risk exposure and risk management status
Audit Committee	**CEO and Executive Committee**	**Compliance and control functions**	**Management teams**
– Review the effectiveness of internal controls and risk management systems – Review risk and assurance reports from executive management, internal audit and external audit – Consider risks highlighted by the CREC	– Review regular risk and assurance reports to ensure Group operates within risk appetite – Take enterprise view of risk exposure, consider inter-relation of risks and evaluate emerging risks – Make decisions on prioritisation for risk response – Assess strategic opportunities and risks	– Develop, implement and monitor compliance to Group and functional policies and procedures – Identify and analyse emerging risks	– Manage risks and risk mitigation activities – Implement and monitor Group and functional policies and procedures, and other internal controls – Identify and analyse emerging risks

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 to review management of existing risks, and to identify new and emerging risks (see below). These assessments are consolidated through a process coordinated by the ERM office and reported to the Executive Committee by the global risk owners. Summarised reports and key outcomes are reviewed by the Audit Committee and Board. In addition to the core reporting processes described, a range of key risk management activities occurred during the year.

Emerging risks

Emerging risks are those that are new and may develop into a significant risk, those that are known but are rapidly changing, or those that are developing over the long term and may have significant impact on our ability to achieve our objectives. Emerging risks are often driven by forces outside our control.

Although emerging risks may be mitigated by existing control frameworks, they need to be assessed to determine if any aspects fall outside current processes or if the controls in place may become inadequate as the risk develops.

Our approach involves establishing cross-functional teams to assess strategic, tactical, operational and compliance risks and opportunities recognising these risks may develop over an extended timeframe.

The risk assessment methods deployed vary and may involve engaging with external experts, scenario modelling, engagement with existing risk mitigation programmes, and development of risk mitigation and control strategies that will be sustainable over the longer term.

Priorities for 2021

In addition to core activities, in 2021 we will continue to roll out our upgraded crisis response and business continuity management processes to strengthen our organisational resilience.

We will continue to develop partnerships between compliance and control functions to bring greater assurance for the Group.

We will further develop our emerging risk assessment processes, including a focus on emerging climate-related risks alongside our alignment with the recommendations from the Taskforce on Climate-related Financial Disclosures. See page 51 for more details.

Key risk management activities in 2020

Reviewed the risk management framework, risk appetite, and principal risks

Developed scenario modelling approach for stress testing and sensitivity analysis of significant risk events based on principal risks (see longer-term viability assessment on page 59)

Monitored enterprise-wide key risk indicators aligned to risk appetite to assess risk exposure

Enhanced elements of insurance programme through integrated assessment of risk exposures and control environment

Established crisis and continuity management programme to embed organisational resilience framework

Brexit

With the withdrawal of the UK from the European Union's single market and customs union on 31 December 2020, we are monitoring for any implications arising for our business as the new arrangements under the EU-UK Trade and Cooperation Agreement come in to force.

Our cross-functional reviews continue to assess that the exposure for the Group is low and manageable. We have a small footprint in the UK and limited dependence on movement of people, goods, services and capital between the UK and Europe.

Risk management in practice

COVID-19 brought unprecedented public health, crisis management and business continuity challenges to the world and our organisation. As the pandemic developed during the year, our risk management capabilities were brought to the fore.

Our response involved rapid stand up of cross-functional incident management teams at group, region, country and site levels, connected to the Executive Committee and the Board. These teams shared common principles of putting the health and safety of our employees and patients first, open and transparent communication, and values and evidence-based decision making aligned to requirements from authorities.

As a result of our efforts Hikma established effective safety measures for our employees, maintained operations to deliver essential medicines, and continued to meet the needs and expectations of our stakeholders.

Our risk management processes brought structure, alignment and consistency to our response. With our continuous improvement mindset, we have enhanced our organisational resilience through various initiatives, including general training.

To find out more see 'Our response to COVID-19' on pages 10 and 11.

c.8,000

Employees trained on crisis management principles

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 has performed a robust assessment of the principal risks for the Group considering our risk context and with input from executive management. Effectively managing these risks is directly linked to the performance of our strategic KPIs and the delivery of the strategic priorities outlined on pages 12–15. 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 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, and the management actions described do not include all actions taken.

Industry dynamics

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.	– Continuous improvement in annual strategic reviews, business planning, budgeting and forecasting processes to enable and drive efficient and effective execution of strategy – 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 – Leveraging the quality, reliability and flexibility of our manufacturing facilities for partnerships (such as contract manufacturing) – Working with a broad range of customers and expanding our relationships to cover new customers and purchasing models, eg Civica Rx in the US

Product pipeline

What does the risk cover?	Management actions
Selecting, developing and registering new products that meet market needs and are aligned with Hikma's strategy to provide a continuous source of future growth.	– Selection process for new pipeline products with commercial teams established and operating effectively – Optimised and standardised management of pipeline development cycle – Continuous improvement of strategic oversight of pipeline delivery through dedicated global project management office – Bolstered pipeline through business development deals – Developed strategic planning tool to manage the pipeline projects aligning commercial, finance, regulatory, legal, and R&D – Established strategic partnerships to introduce new technologies in our regions to expand the pipeline – Recruited new talent and developed internal capabilities – Developed programme to improve utilisation of R&D sites to optimise internal network capabilities – Established R&D procurement function to improve management of sourcing, quality and reliability for R&D projects

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.	– Strengthened teams with key talent appointed to fill strategic regional and global positions – Implemented a new grading structure and initiated standardisation of job descriptions across the organisation – Drove standardisation of HR processes through Group-wide human capital management system and establishment of shared services hubs – Established flexible working approaches to support and enable employees as a result of disruption from the COVID-19 pandemic – Deployed variety of enhanced learning materials to support employees through the organisation-wide learning management system

Principal risks and uncertainties continued

Reputation

What does the risk cover?	Management actions
Building and maintaining trusted and successful partnerships with our stakeholders relies on developing and sustaining our reputation as one of our most valuable assets.	– Coordinated COVID-19 pandemic communication programme to enable delivery of key messages to employees and external stakeholders using different channels and platforms – Internal and external monitoring and management of issues that may impact reputation (including complex business and stakeholder environment related to drug pricing, and the manufacture, sale and distribution of opioid products) – Established and developed strategic industry and community partnerships – Deployed internal communication programmes to support employee engagement

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 policies and procedures, as well as all applicable legislation.	– Board-level oversight from the Compliance, Responsibility and Ethics Committee (see page 81) – Code of Conduct approved by the Board and delivered to all employees – Automated third-party due diligence and oversight programme implemented – Policies and procedures developed to ensure compliance with new laws and regulations, including US pharmaceutical pricing transparency, California Consumer Privacy Act – Active participation in international anti-corruption initiatives – Updated compliance programmes eg to adapt to COVID-19 pandemic related restrictions on salesforce access to healthcare professionals, data privacy, and other areas

Information and cyber security, technology and infrastructure

What does the risk cover?	Management actions
Ensuring the integrity, confidentiality, availability and resilience of data, securing information stored and/or processed internally or externally from cyber and non-cyber threats, maintaining and developing technology systems that enable business processes, and ensuring infrastructure supports the organisation effectively.	– Industry-standard information security solutions and best practice processes adopted and adapted for local and Group requirements – Tailored Group-wide information security framework continuously enhanced to account for increase and changes in cyber risk – Cyber security metrics defined to monitor the evolving threats and update controls – Employee communication initiatives increased with greater emphasis on general and targeted risk areas (eg phishing awareness) – Group-wide programme established to coordinate strategic remediation of cyber audit findings – Board conducted a deep dive review of the information security programme (see page 75) – New Chief Information Officer appointed – Continued roll-out of enterprise-wide standardisation initiative incorporating data management and access control

Legal, regulatory and intellectual property

What does the risk cover?	Management actions
Complying with laws and regulations, and their application. Managing litigation, governmental investigations, sanctions, contractual terms and conditions and adapting to their changes while preserving shareholder value, business integrity and reputation.	– Continuous assessment of developments in legal and regulatory frameworks and impact on the organisation – Developed and updated policies and procedures in response to changes in the risks facing the Group – Internal communication and training to raise awareness, ensure understanding and build a compliance culture across the organisation – Delivered new training programmes covering antitrust, international sanctions and the failure to prevent the facilitation of tax evasion – Managing complex litigation activity related to the manufacture, sale and distribution of opioid products – Provided oversight on pricing committees assessing price increase to ensure thorough assessment of business needs – Ongoing assessment and monitoring of general litigation activity in US pharmaceutical environment – External counsel engaged for the provision of independent specialist advice – Controls and procedures implemented to address risk of potential IP litigation in jurisdictions where Hikma markets its products

Inorganic growth

What does the risk cover?	Management actions
Identifying, accurately pricing and realising expected benefits from acquisitions or divestments, licensing, or other business development activities.	– Continuous improvement of procedures for target identification, valuation, due diligence, transaction execution and integration – Aligned business development practices across the businesses – Extensive due diligence of each acquisition in partnership with external support in order to strategically identify, value, and execute transactions – The Board spends a significant amount of time reviewing major acquisitions proposed by the Executive Committee to ensure strategic alignment – 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

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

What does the risk cover?	Management actions
Maintaining availability of supply, quality and competitiveness of API purchases and ensuring proper understanding and control of third-party risks.	– Applied rigorous selection process for API suppliers and focus on building long-term supply contracts and strategic partnerships – Continued to implement strategy for continuity of API supply for high-value products through alternative API suppliers, stocking strategies, and supply chain modelling – Ensured continuity of supply for our products through collaboration with suppliers to absorb COVID-19 pandemic-related disruptions – Developed capabilities of vertically integrated plant in Jordan to synthesise selected strategic APIs – Implemented enhanced third-party due diligence process to reinforce vendor qualification process – Enhanced management of inventory levels to increase resilience of our supply chain – Established remote audit and monitoring process for API third-party suppliers due to travel constraints

Crisis response and business continuity

What does the risk cover?	Management actions
Preparedness, response, continuity and recovery from disruptive events, such as natural catastrophe, economic turmoil, operational issues, pandemic, political crisis, and regulatory intervention.	– Coordinated activation, structure and processes for COVID-19 incident response teams. See 'Our response to COVID-19' on pages 10 and 11 for more details. – Established crisis and continuity management programme to continue implementation of organisational resilience framework – Rolled out crisis management training to c.8,000 employees to develop capability across the Group – Corporate insurance programme alignment to ensure appropriate coverage of high-impact, low-likelihood events

Principal risks and uncertainties continued

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.	– Hikma Quality Council provides oversight and shares best practice across the Group – Quality and safety culture driven throughout the organisation by global initiatives, and regularly reinforced by communication from senior executives – Board conducted a deep dive review of the corporate quality programme and results of quality compliance audits – 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 – Oversaw cGMP compliance of third parties supplying APIs, raw materials, packaging components and other services – Maintained environment and health certifications and drove continuous improvements – Continuous monitoring of the safety of products to detect any change to risk-benefit – Global pharmacovigilance programme in place supported by globalised systems

Financial control and reporting

What does the risk cover?	Management actions
Effectively managing income, expenditure, assets and liabilities, liquidity, exchange rates, tax uncertainty, debtor and associated activities, and in reporting accurately, in a timely manner and in compliance with statutory requirements and accounting standards.	– Enhanced financial control procedures and increased proportion of automated controls – Continued oversight and control by the financial compliance monitoring programme to ensure adherence to Group accounting policies – Improved reporting efficiency and reduced reporting timeframes with new systems and tools – Enhanced budgeting and forecasting processes with new systems and tools – Introduced a more flexible hedging strategy to mitigate currency and interest rate exposure risks – Strengthened and restructured Global tax team – Continued automation of banking processes to minimise risk of fraud and reduce human error

Risk management is fundamental to our long-term success

Going concern and longer-term viability

Assessment of position and prospects
The Group's current and forecast financial positions are used to assess the going concern position and longer-term viability.

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, principal and emerging risks, financial reporting and forecasting from the Chief Financial Officer, and through the development of a business plan. The business plan takes into account our current position, specific risks and uncertainties facing the business and known changes to our organisation and business model.

The Executive Committee assesses the future strategic positioning of Hikma as a company in the context of the changing macroeconomic and healthcare environment. Aspects of this analysis are shown in 'Global context' and 'Key trends' (see pages 16 and 17).

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

Financial position
The going concern and longer-term viability assessments are based on the financial position (as at 31 December 2020):

- net cash flow from operating activities was $464 million
- overall net debt was $605 million[1] (0.9 times core EBITDA)
- available borrowing capacity is $1,286 million of committed undrawn long-term and short-term banking facilities, including 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

Future prospects
The Group's base case forecasts take into account reasonable possible changes in trading performance, including those that may arise related to the COVID-19 pandemic, facility renewal sensitivities, and maturities of long-term debt.

Assumptions
Financial modelling for the business plan and the going concern and viability assessments is subject to assumptions related to:

- launch and commercialisation of new products
- market share and product demand rates
- maintenance of certain product prices
- political and social stability
- ability to re-finance existing debt on similar terms
- ability to increase operational efficiency and reduce central costs
- effective tax rate being within the current guidance range

Going concern

For the purposes of assessing the going concern position the base case and a forecast including severe but plausible downside risks were analysed over the 12-month period from the date of signing the financial statements.

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

Viability period
In accordance with the UK Corporate Governance Code, the longer-term viability of the Group is assessed for a period longer than for the going concern analysis. The longer-term viability assessment was conducted for a period of three years, ending on 31 December 2023. 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 this limitation also applies to our viability assessments.

Stress testing, modelling and sensitivity analysis
Management developed severe but plausible multi-event risk scenarios that could impact the business adversely. The Group's strategic objectives, principal risks (PR) and assessments of longer-term emerging risks (ER) together with management input, real-world examples and the financial modelling assumptions listed above were used to design the scenarios. Realistic but extremely severe adjustments were further applied for sensitivity analysis.

- Significant adverse changes to the pricing environment (PR: industry dynamics)
- Major underperformance of the pipeline to deliver strategic new products (PR: product pipeline)
- Regulator investigation into systemic failure of corporate compliance programme (PR: ethics and compliance)
- Prolonged regulator-imposed restriction of a major US FDA-inspected manufacturing plant (PR: product quality and safety)
- Escalation of political or social instability in MENA markets (PR: crisis response and business continuity)
- Disruption to API supply and increased import tariffs (PR: API and third-party risk management)
- Changing regulatory requirements and disruption through extreme weather events (ER: climate change)
- Cyber attacks impacting endpoints and ERP systems (PR: information and cyber security, technology and infrastructure)

The consequences of each of these multi-event risk scenarios were modelled independently over the forecast period and the impacts on EBITDA, ability to meet our debt obligations, and cash flow were determined.

The assessment shows that although the scenarios are severe they do not threaten the viability of Hikma. Headroom was comfortably maintained throughout the viability period for each of the multi-event risk scenarios.

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, 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 downside risk scenarios. This is largely as a result of our financial position (in particular our strong balance sheet and low levels of debt) and is supported by the fact that our business is well-diversified through geographic spread, product diversity, and large customer and supplier base. Further details are provided in 'Our markets' (page 16), 'Our business model' (page 18) and 'Our strategy' (page 12).

1. At 31 December 2020, there were two covenants in place on the Group's revolving and banking facilities with which the Group was in compliance. The Group also expects to be in compliance in the future.

Non-financial disclosures

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

	Summary	Further information and policies
Our business model	– Our diversified business model allows us to respond to the many opportunities and risks we face, while delivering value for our stakeholders	– Our business model, pages 18 and 19
Principal risks	– Our risk management framework is designed to ensure we take a comprehensive view of risk. This includes financial and non-financial risks that may impact our business and stakeholders	– Risk management, pages 52 to 59
Environmental matters	– We are committed to making our operations more energy efficient and environmentally responsible – We are improving the way we monitor our impacts, pursuing projects that reduce our footprint – We are aligning our internal processes and public disclosure with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations – Board-level oversight of environmental sustainability through the Compliance, Responsibility and Ethics Committee (CREC) – Environmental matters are incorporated in our risk management framework	– Monitoring and minimising our environmental impacts, pages 48 to 51 – Climate impact identification and materiality assessment, page 51
Employees	– Our employees have always been at the heart of everything we do. As the driving force behind Hikma's growth and success, our people are our most valuable asset – We are committed to investing in the development of our workforce and in protecting their health and safety. We have c.8,600 employees across the US, MENA, Europe and ROW	– Stakeholder engagement: Employees, page 22 – Operating responsibly and ethically, page 44 – Code of Conduct[1] – Enabling our people, page 46 – Occupational health, safety, environment and energy policy[1] – Principal risk: Organisational development, page 55
Social matters	– In all of our markets, we work to meet social needs locally and improve lives. We have developed programmes in key areas to address social challenges: • providing better health • supporting education • helping people in need – Where our activities relate to other social matters, we seek to understand the perspective of all stakeholders, determine our role and make clear our position based on our values and purpose	– Stakeholder engagement, pages 20 to 25 – Supporting patients and communities, page 39 – Addressing drug shortages in the US[1] – Animal testing position[1] – Principal risk: Reputation, page 56

1. Our public policies, codes and statements are available on www.hikma.com

	Summary	Further information and policies
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 – We object in the strongest possible terms to the use of any of our products for the purpose of capital punishment	– Operating responsibly and ethically, page 44 – Modern slavery act policy statement[1] – Use of products in capital punishment[1] – Principal risk: Reputation, page 56
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) as well as local laws and regulations	– Operating responsibly and ethically, page 44 – Code of Conduct[1] – Principal risk: Ethics and compliance, page 56 – Compliance, Responsibility and Ethics Committee report, page 81
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 (pages 14 and 15), our exposure to risks (page 52), 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	– Environmental matters: Greenhouse gas emissions, page 49 – Employees: Engagement and Enablement, page 15 – Audit Committee report, page 77 – Compliance, Responsibility and Ethics Committee report, page 81

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

Sigurdur Olafsson
Chief Executive Officer

24 February 2021

Corporate governance

During the year, we continued to adapt our governance practices to the changing environment.

In this section

The Board has continued to deliver strong governance and strategic oversight in a challenging environment

Dear Shareholders

I am very pleased to be able to report on the strong performance of the Board during 2020. While the COVID-19 pandemic posed many challenges for the Group, the Board was able to respond swiftly and flexibly in order to maintain its strong oversight and leadership of the Group.

Board practices

The calibre of our directors and excellent relationships around the Boardroom have ensured that we have operated in a very effective manner in a largely virtual environment. Earlier in the year, we significantly increased the frequency of our Board meetings as we oversaw Hikma's initial response to the pandemic. As we moved into the second half of the year, we conducted our first virtual strategic review. This will ensure that we are well positioned to continue to deliver on our pipeline and improve patients' access to high quality, affordable medicines.

Share buyback

In the first half of the year, the Board decided to undertake a significant share buyback as part of Boehringer Ingelheim's (BI) disposal of their strategic stake in Hikma. Further commentary on the strategic aspects of the buyback is available on page 5. In terms of Hikma's governance, the disposal brings our shareholder agreement with BI to an end and results in a more diverse shareholder base. Dr Jochen Gann left the Board on completion of the disposal and I would like to thank him for his valuable contribution.

Board and Committee composition

During 2020, we wished Robert Pickering well following his decision to retire from the Board on 18 December 2020. As Senior Independent Director and Chair of the Nomination and Governance Committee, Robert has greatly assisted with directing our governance and succession arrangements and leaves the Group well positioned. Robert has been a great friend to Hikma and me personally. We wish him well for the future.

Following Robert's retirement and as previously announced, Pat Butler stepped into Robert's role. Pat and I have worked well together in his time as Chair of the Audit Committee and I am looking forward to working with him more closely as we further develop our governance arrangements.

Said Darwazah
Executive Chairman

Earlier in the year, we welcomed Douglas Hurt to the Board. Douglas brings a wealth of experience, particularly in relation to operational and financial management, reporting, risk and leadership of audit committees. Douglas became our Audit Committee Chair on 1 December 2020, having undertaken an induction and handover process during the year.

With the above changes, we have completed the implementation of our near-term succession plan. Whilst we consider it is unlikely that further changes will be made in the short term, we will review the succession arrangements during 2021 and make adjustments to ensure that we are well placed for the medium term.

Culture and strategy

Our response to the COVID-19 pandemic highlighted the strength of Hikma's culture and the dedication, teamwork and level of personal sacrifice our people were willing to make to ensure that we continued to deliver essential medicines. During 2020, we introduced a new set of corporate values – innovative, caring and collaborative – and a new cultural framework of Progress and Belonging. These refreshed values and new framework build upon our history and will assist us in delivering our strategic objectives by fully engaging our employees. Further details are available on page 5.

During the year, we also undertook an assessment of our organisational strength in order to evaluate our ability to deliver our strategic plans. We have strong teams in place and are confident that the passion and commitment of our employees will enable us to deliver on our objectives.

Nina Henderson is our independent Board member who helps ensure that employee perspectives are considered when undertaking Board and Committee business and, outside of our Executive Directors, ensuring that the Board is visible amongst our colleagues. The engagement programme has been sponsored internally by the CEO and has been developed to ensure that we comply with social distancing requirements. This year's activities included participation in:

- attended the Columbus facility and met with employees
- virtual Global Leadership Conference
- CEO virtual briefings to all colleagues

Nina formally reports to the Board on her findings at each meeting and provides us with the benefit of her insights as we consider formal business, such as during the grading structure review, employee engagement survey and during remuneration considerations.

Stakeholders

The Board undertakes significant efforts to understand and take account of the desires and perspectives of our patients, suppliers, employees, investors and the communities in which we operate. Further details are available on pages 20 to 24. If there are any matters that you wish to discuss, please do not hesitate to contact me.

Said Darwazah
Executive Chairman

At a glance

Highlights 2020

- Developed practices to ensure socially-distanced, but strong governance
- Smooth implementation of changes to the responsibilities of Independent Directors in terms of committee chairs and the Senior Independent Director position
- Reviewed our approach to Board evaluation and developed a new programme for 2021
- Increased the proportion of independent representation on the Board
- Reviewed the Group's strategic plans and response to the changing healthcare environment
- Implemented recommendations arising from the recent externally facilitated Board evaluation

Priorities 2021

- Undertake a full interview-based external Board evaluation
- Develop the medium-term succession plan
- Review the implementation of the Board and Committee changes made in 2020

Experience

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

Business ethics and integrity	80%
Listed environment	100%
Manufacturing	80%
Sales	80%
Finance	100%
Governance	100%
Commercial	90%
Pharmaceutical	100%
Human resources	90%
Regulatory and political	100%
Strategy and risk	100%

Geographical experience

MENA	50%
UK	70%
Europe	90%
US	90%
Multinational	100%

Country of origin

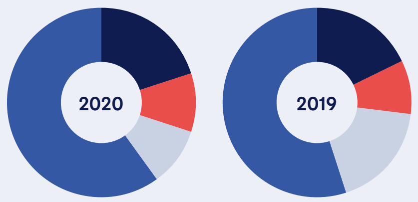
Attendance

Directors	Meetings attended (8 scheduled and 8 unscheduled)	%
Said Darwazah	16/16	100%
Siggi Olafsson	16/16	100%
Mazen Darwazah[1]	15/16	94%
Robert Pickering	16/16	100%
Ali Al-Husry	16/16	100%
Pat Butler[2]	15/16	94%
Dr Pamela Kirby	16/16	100%
Dr Jochen Gann[3]	8/9	89%
John Castellani[4]	15/16	94%
Nina Henderson	16/16	100%
Cynthia Schwalm	16/16	100%
Douglas Hurt[5]	10/10	100%

1. Mazen Darwazah was unable to attend one meeting due to a conflict with his executive responsibilities
2. Pat Butler was unable to attend one meeting due to a medical procedure
3. Dr Jochen Gann was unable to attend one meeting because of a commitment to his executive responsibilities with his main employer. Additionally he was excused from attending three meetings due to a conflict of interest. Dr Jochen Gann retired from the Board on 25 June 2020
4. The Company scheduled several additional Board meetings as a result of the response to the COVID-19 pandemic. As a result, some meetings were arranged at times when 100% attendance could not be achieved. John Castellani was unable to attend one meeting due to previous commitments
5. Douglas Hurt joined the Board on 1 May 2020

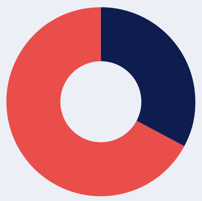
Composition

	February 2020	February 2019
Executive Chairman and Chief Executive Officer	**20%**	18%
Other Executive Directors	**10%**	9%
Non-Independent NED	**10%**	18%
Independent NED	**60%**	55%



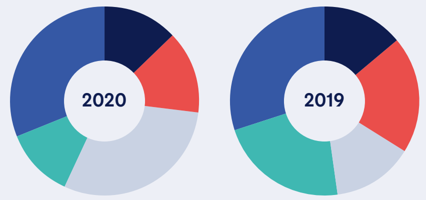
Independent Director tenure (as at 24 February 2021)

	Number	%
0–3 years	2	33%
4–6 years	4	67%



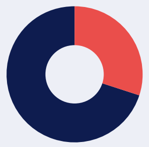
Time

	2020	2019
Corporate governance	**13%**	14%
Financial performance	**14%**	20%
Performance and operations	**30%**	22%
Risk	**12%**	14%
Strategy and acquisitions	**31%**	30%

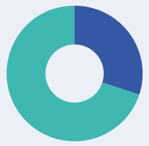


Diversity (as at 31 December 2020)

Board

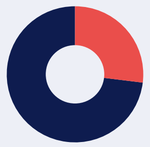


Women	3 (30%)
Men	7 (70%)

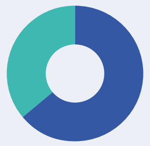


BAME[1]	3 (30%)
White	7 (70%)

Executive Committee

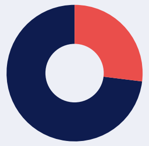


Women	3 (27%)
Men	8 (73%)



BAME[1]	7 (64%)
White	4 (36%)

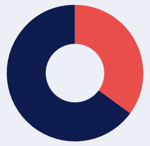
Executive Committee reports[2]



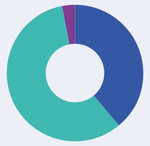
Women	18 (27%)
Men	49 (73%)

BAME[1]	40 (60%)
White	27 (40%)

Group



Women	3,108 (35%)
Men	5,795 (65%)



BAME[1,3]	816 (39%)
White[3]	1,219 (58%)
Prefer not to say[3]	57 (3%)

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

GOVERNANCE

Board of Directors

SAID DARWAZAH, 63
EXECUTIVE CHAIRMAN

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

Board experience:

Experience: Said served as Chief Executive Officer from July 2007 to February 2018 and has served as Chair since May 2014. Said has over 40 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 Chairman of Royal Jordanian Airlines. Director of the Central Bank of Jordan and Dash Ventures Limited.

SIGGI OLAFSSON, 52
CHIEF EXECUTIVE OFFICER

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

Board experience:

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: MS in Pharmacy (Cand Pharm) from the University of Iceland, Reykjavik.

Other appointments: Trustee of the American-Scandinavian foundation.

MAZEN DARWAZAH, 62
EXECUTIVE VICE CHAIRMAN, PRESIDENT OF MENA

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

Board experience:

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

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

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

JOHN CASTELLANI, 70
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

Board experience:

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: Vice Chairman of the Johns Hopkins Medicine National Capital Region Executive Governance Committee. Director of 5th Port. Trustee of The John Hopkins Medical System Sibley Memorial Hospital, Washington, DC. Member of the Advisory Board of RSR Partners.

NINA HENDERSON, 70
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

Board experience:

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.

Committees

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

Board experience

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

GOVERNANCE

PATRICK BUTLER, 60
INDEPENDENT NON-EXECUTIVE DIRECTOR

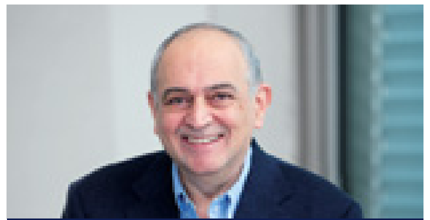
Appointed: 1 April 2014 | **Joined Hikma:** 2014
Nationality: Irish

Board experience:

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

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

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



ALI AL-HUSRY, 63
NON-EXECUTIVE DIRECTOR

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

Board experience:

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

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

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

DR PAMELA KIRBY, 67
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

Board experience:

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

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

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

CYNTHIA SCHWALM, 61
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

Board experience:

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

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

Other appointments: Non-executive Director of Caladrius Biosciences Inc., Kadmon Group, Nanoform Finaland Oyj and G1 Therapeutics Inc., where she chairs the Compensation Committee. Cynthia chairs the Launch Excellence Committee at Kadmon Group. Member of an angel investment group associated with the University of North Carolina.

DOUGLAS HURT, 64
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed: 1 May 2020 | **Joined Hikma:** 2020
Nationality: British

Board experience:

Experience: Douglas was the Finance Director of IMI PLC. Prior to this, he held a number of senior finance and general management positions at GlaxoSmithKline PLC, previously having worked at Price Waterhouse. His career has included several years working in the US as a Chief Financial Officer and significant experience in European businesses as an Operational and Regional Managing Director.

Qualifications: Chartered Accountant, MA (Hons) in Economics from Cambridge University

Other appointments: Non-executive Director and chair of the Audit Committee of Vesuvius PLC, Countryside Properties PLC and British Standards Institution. Senior independent director of Countrywide and Vesuvius.

PETER SPEIRS
COMPANY SECRETARY

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

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

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

Find detailed Directors' biographies at:
www.hikma.com/about/leadership/

Leadership

Executive Committee

SIGGI OLAFSSON
CHIEF EXECUTIVE OFFICER

Joined: 2018
Nationality: Icelandic

For further biographical details please see page 66.

MAZEN DARWAZAH
EXECUTIVE VICE CHAIRMAN, PRESIDENT OF MENA

Joined: 1985
Nationality: Jordanian

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 20 years with Hikma, including VP Finance.

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

HUSSEIN ARKHAGHA
CHIEF COUNSEL

Joined: 2001
Nationality: Jordanian

Role: Hussein established the global legal department and sets its strategic direction. Prior to his appointment as Chief Counsel, he held several positions at Hikma, including Head Legal/MENA, Head of Shareholders' Department and Head of Tax.

Qualifications: Hussein is a qualified lawyer in Jordan and holds a Master's degree in International Business Law from the University of Manchester, under the UK Chevening Scholarship Program.

SHAHIN FESHARAKI
CHIEF SCIENTIFIC OFFICER

Joined: 2019
Nationality: American

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

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

BRIAN HOFFMANN
PRESIDENT, GENERICS

Joined: 2009
Nationality: American

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

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

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

BASSAM KANAAN
EXECUTIVE VICE PRESIDENT, CORPORATE DEVELOPMENT AND M&A

Joined: 2001
Nationality: Jordanian

Role: Bassam has Group level responsibility for strategic development, acquisitions and alliances. Bassam has held several executive positions during 20 years with Hikma, including Chief Financial Officer.

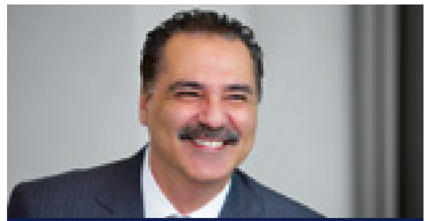
Qualifications: US Certified Public Accountant and Chartered Financial Analyst. BA from Claremont McKenna. International Executive MBA from Kellogg/Recanati Schools of Management.

MAJDA LABADI
EXECUTIVE VICE PRESIDENT, ORGANISATIONAL DEVELOPMENT

Joined: 1985
Nationality: Jordanian

Role: Majda has Group level responsibility for human resources. Majda has held several executive positions during 36 years with Hikma, including VP Injectables and VP MENA Operations.

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



RIAD MISHLAWI
PRESIDENT, INJECTABLES

Joined: 1990
Nationality: Lebanese

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

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

HENRIETTE NIELSEN
EXECUTIVE VICE PRESIDENT, BUSINESS OPERATIONS

Joined: 2018
Nationality: Danish

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

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

SUSAN RINGDAL
EXECUTIVE VICE PRESIDENT, STRATEGIC PLANNING AND GLOBAL AFFAIRS

Joined: 2005
Nationality: American

Role: Susan is responsible for strategic planning, investor relations, communications, 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.

UK Governance Code

Code Compliance

The Board is committed to the standards of corporate governance set out in the UK Corporate Governance Code (the UK Code) adopted in January 2019 and the Markets Law of the Dubai Financial Services Authority (the Markets Law). The report on pages 63 to 108 describes how the Board has applied the Main Principles of the UK Code and Markets Law throughout the year ended 31 December 2020. 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 Markets Law.

The Board acknowledges that Said Darwazah holding the position of Chairman and Chief Executive Officer until February 2018 and, since that point, Executive Chairman, requires explanation under the UK Code. Other than the Executive Chairman position, the degree of direct engagement with the workforce regarding executive remuneration (which is discussed in the Remuneration report on page 84), and the Chief Executive Officer's pension contribution level being 5% above the general workforce (which is discussed in the Remuneration report on page 84), throughout the year and up until the date of this report, Hikma was in full compliance with the UK Code. Should shareholders require any further information relating to these matters, questions may be directed to the Company Secretary.

Chair

Role

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

Rationale

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

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

The Board consulted shareholders prior to Said's appointment as Chairman and Chief Executive Officer in May 2014 and following the change to the position of Executive Chairman in February 2018. The Independent Non-Executive Directors met as a group twice during 2020 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 organisation
- **Business partners:** a significant number of Hikma's key political and commercial relationships across the MENA region are built on the long-term trust and respect for the Darwazah family where the role of the Executive Chairman remains key

The Board continues to operate the following enhanced controls:

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

Said Darwazah is non-executive chairman of Royal Jordanian Airlines (RJ). During 2020, RJ ceased to have a Chief Executive Officer resulting in Said undertaking authorisation duties to ensure that RJ management had authority to operate. The additional time commitment was minimal, Said's role remained non-executive and no employee benefits were received as a result. The Board reviewed Said's external commitments, including his role with RJ, and concluded that they did not affect his ability to fulfil his responsibilities to Hikma.

Executive

Chief Executive Officer

The members of Hikma's Executive Committee report to the Chief Executive Officer, who reports to the Executive Chairman. The Chief Executive Officer chairs the Executive Committee, which develops strategic initiatives and ensures the delivery of the approved strategy and performance of the Company.

Executive Vice Chairman

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

Non-Executive Directors

Independence

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

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

Senior Independent Director

The Senior Independent Director responsibilities include:

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

Employee engagement

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

Nina Henderson has undertaken the employee engagement role since January 2019 and further details on her activities during 2020 are included in the Chair's statement on page 63.

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/

Applied Governance

The Board has a well developed and broad system of governance which includes detailed procedures that are set out in the Board Governance Manual, extensive Group Policies and a secure communications system. The Board has clearly established responsibilities in the matters reserved which ensures a regular cycle of work and that management are clear when additional oversight and approval is required. After each meeting, action points are agreed with the Chair, Senior Independent Director and Chief Executive Officer and a timeframe is established for dealing with the matters raised.

The Chief Executive Officer is responsible for ensuring that operational and strategic matters are presented to the Board, including the annual strategic review which feeds into the development of the five year business plan and budget for the following year. The Chief Executive Officer ensures that the Board receives regular updates on progress with the budget and delivery of longer-term strategic projects.

The Board receives regular reports at each meeting on cultural matters both from the director responsible for employee engagement and the Chief Executive Officer. The Chief Executive Officer reports the results of the employee opinion survey each year. Further information on the Group's activities that relate to culture is available on pages 5, 7 and 25. These activities have been reported to the Board and reflect the comments received from the Directors.

Commitment and interests

The Nomination and Governance Committee considers the commitment of all Directors both in terms of dedication to the role and their time availability. In order to ensure an appropriate balance of skills and diversity across the Boardroom, the Committee has made accommodations to the Board calendar to maximise availability and has acknowledged that there are times when this may mean that full attendance may not be achieved. The Committee considers that Hikma gains more from high-quality Directors than it loses from occasional situations where full attendance cannot be achieved. During the year, in response to the COVID-19 pandemic, a significant number of Board meetings were added to the schedule at relatively short notice. There were occasions where the Directors could not make those meetings because a time had to be determined to ensure the highest possible attendance while being able to conduct business in a timely manner. 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, while noting that experiences with other organisations can enhance a Director's ability to perform the role. Directors must obtain prior approval before accepting additional external appointments. The Board and NGC consider that the Directors' external commitments do not negatively impact their ability to perform their roles and that any significant appointments have been explained in the Annual Report. The outside interests of Directors are detailed on pages 66 to 67.

Committees

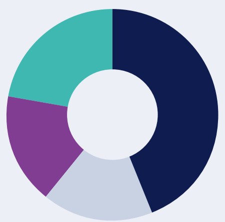
The Board has appointed four Board Committees to assist with the delivery of the Board's responsibilities. The reports of those Committees are available on pages 72 to 104. The Chair of each Committee engages with stakeholders as is necessary in the conduct of the Committee's business. The Chairs are available to answer shareholders' questions at the AGM and by direct correspondence through the Company Secretary (cosec@hikma.uk.com).

Structure
Committee overview

Nomination and Governance Committee

2020 highlights
- Identified and inducted a new Independent Director
- Implemented an orderly transition of the Senior Independent Director and the Audit and NGC Committee Chair roles
- Reviewed and enhanced the Group's governance arrangements, including all committee terms of reference and the Company's Articles of Association
- Reviewed the Board evaluation process and selected a new independent third party to undertake the process

2021 priorities
- Undertake an externally assisted, interview based Board evaluation
- Consider the key aspects of the medium-term succession plan for Non-Executive Directors
- Continue to develop the plan for executive succession and assessment of executive capabilities and development

Allocation of time


Corporate governance	44%
Independence	17%
Skills and experience	17%
Succession	22%

Members and attendance

Member	Meetings	Attendance
Pat Butler (Chair)[1]	4/4	100%
Robert Pickering[2]	4/4	100%
Mazen Darwazah	4/4	100%
Nina Henderson	4/4	100%
Cynthia Schwalm	4/4	100%
Douglas Hurt[3]	3/3	100%

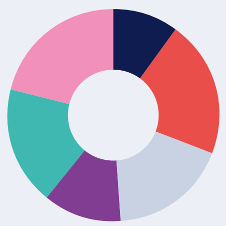
1. Pat Butler became the Committee Chair on 1 December 2020. Robert Pickering was the Chair prior to this point
2. Robert Pickering retired from the Board on 18 December 2020 and ceased to be a member from that date
3. Douglas Hurt joined the Committee on 1 May 2020

The full Committee report is on pages 74 to 76.

Audit Committee

2020 highlights
- Implemented our plan for the orderly transition of the Committee Chair
- Reviewed the approach to enterprise risk management and considered the risk control environment, including in-depth, Board-level reviews of principal risks related to IT and quality
- Enhanced our processes for ensuring the report is fair, balanced and understandable with additional independent verification activities
- Assessed the impact of multiple adverse event scenarios on our business
- Continued delivery of uninterrupted financial reporting, assurance and risk management during the pandemic

2021 priorities
- Review the internal financial policies for treasury and reporting
- Extend the management reporting elements of the auditor performance review process
- Keep under review the point at which an audit tender exercise may be appropriate
- Continue to monitor the Group's distributable reserves

Allocation of time


Corporate governance	10%
External audit	21%
Financial performance	18%
Forecast and accounting	12%
Internal audit	18%
Risk	21%

Members and attendance

Member	Meetings	Attendance
Douglas Hurt (Chair)[1]	3/3	100%
Pat Butler[2]	4/5	80%
Robert Pickering[3]	5/5	100%
Dr Pamela Kirby	5/5	100%
John Castellani	5/5	100%
Nina Henderson	5/5	100%
Cynthia Schwalm	5/5	100%

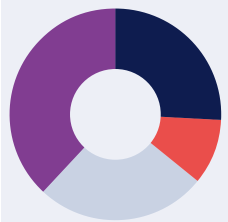
1. Douglas Hurt joined the Committee on 1 May 2020 and became Committee Chair on 1 December 2020
2. Pat Butler was unable to attend one meeting due to a medical procedure
3. Robert Pickering retired from the Board on 18 December 2020 and ceased to be a member from that date

The full Committee report is on pages 77 to 80.

Compliance, Responsibility and Ethics Committee

2020 highlights
- Continued to promote our commitment to integrity
- Rolled out new third-party due diligence process in the US and are currently rolling it out further in MENA
- Reviewed and approved a new CSR policy which forms part of our Environmental, Social and Governance (ESG) framework
- Continued to enhance colleagues' awareness of our programmes through virtual training

2021 priorities
- Undertake a review of our ESG strategy
- Continue to monitor ABC compliance developments and our whistleblowing programme
- Continue third-party due diligence process across remaining geographies
- Review the Group's data protection arrangements following the Board's request that the Committee assume responsibility for this area

Allocation of time


ABC operations	26%
Anti-trust, AML and trade sanctions	10%
Corporate governance	26%
Sustainability	38%

Members and attendance

Member	Meetings	Attendance
John Castellani (Chair)	4/4	100%
Siggi Olafsson	4/4	100%
Mazen Darwazah	4/4	100%
Pat Butler[1]	3/4	75%
Dr Pamela Kirby	4/4	100%
Nina Henderson	4/4	100%
Douglas Hurt[2]	2/2	100%

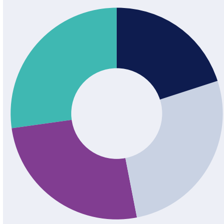
1. Pat Butler was unable to attend one meeting due to a medical procedure
2. Douglas Hurt joined the Committee on 1 May 2020

The full Committee report is on pages 81 to 82.

Remuneration Committee

2020 highlights
- Reviewed the alignment of the grading structure with employee performance incentives
- Reviewed performance remuneration targets and determined outcomes
- Instructed and considered the benchmarking of the executive directors compensation, including specific data from regional operations
- Considered the impact of remuneration governance developments, particularly in relation to the impact of the COVID-19 pandemic

2021 priorities
- Develop the ESG performance targets following a review of our ESG strategy and milestones
- Monitor progress against performance targets, including the milestones for the business plan
- Continue to enhance the linkage between employees and executive compensation matters

Allocation of time


Wider employee issues	20%
Corporate governance	27%
Developing practices	26%
Setting executive remuneration	27%

Members and attendance

Member	Meetings	Attendance
Dr Pamela Kirby (Chair)	5/5	100%
Robert Pickering[1]	5/5	100%
Pat Butler[2]	4/5	80%
John Castellani	5/5	100%
Nina Henderson	5/5	100%
Cynthia Schwalm	5/5	100%
Douglas Hurt[3]	3/3	100%

1. Robert Pickering retired from the Board on 18 December 2020 and ceased to be a member from that date
2. Pat Butler was unable to attend one meeting due to a medical procedure
3. Douglas Hurt joined the Committee on 1 May 2020

The full Committee report is on pages 83 to 104.

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

Nomination and Governance Committee
Letter from the Chair

Patrick Butler
Chair, Nomination and Governance Committee

Dear Shareholders
This is the first time that I am writing to you as the Senior Independent Director and Chair of the Nomination and Governance Committee (NGC). I would like to thank Robert Pickering, my predecessor, who has done an excellent job in steering the development of the Group's governance arrangements over the last six years. The NGC is well positioned and ready to meet the challenges ahead of us as we continue to develop and enhance the Group's governance and succession arrangements.

Succession
Executive
We have made good progress on further developing and documenting our arrangements for executive succession. The medium-term plans have been discussed and we have reviewed the process by which executive appointments are made. This builds on the work that we undertook in the previous year assessing each member of the Executive Committee and creating succession and development plans accordingly.

Independent
During 2020, Douglas Hurt joined the Board, bringing with him a wealth of financial and auditing experience. This has ensured that we could smoothly transition the Audit Committee responsibilities to him over the course of the year. Robert Pickering has transferred his previous responsibilities to me and retired from the Board in December 2020.

The changes that we made in 2020, combined with the appointment of Cynthia Schwalm in 2019 and other appointments in recent years, ensure that there are relatively few near-term non-executive succession requirements. The NGC will develop a new plan for the succession of independent directors over the medium term.

The NGC oversaw the development of an induction programme for Douglas Hurt. Whilst the movement restrictions arising from the pandemic have led to some in-person elements being deferred, Douglas received briefings from the auditors, Company Secretary, Chief Executive Officer, Chief Financial Officer and members of the Executive Committee. Once movement restrictions have been lifted, arrangements will be made for Douglas to visit operating facilities and hold in person discussions with relevant management.

Balance
During the year, the NGC reviewed the composition of the Board. This review included consideration of the skills and attributes of each member, the balance between constructive challenge and empowerment of the executive, the results of the recent Board evaluation exercise and the current and desired level of diversity in the Boardroom (see page 65). I am pleased to report that the NGC confirms that the Board continues to operate in a highly effective manner and that each member is valued for the experience and skills that they bring.

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

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

Hikma supports Directors in their continued professional development. As the Directors are highly experienced, their training needs tend to be related to either ensuring awareness of changes in the business, political and regulatory environments, or bespoke training and mentoring on particular areas for development. Therefore, Hikma financially supports specific training requests and ensures that Directors are briefed by internal and external advisers on a regular basis. During the year, the Board received briefings on matters such as the pharmaceutical competitive environment, the impact of COVID-19 on healthcare, investor perceptions, business intelligence, capital markets and listing related developments.

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

As in previous years, each member of the Board will stand for election or re-election at the 2021 AGM. The position of each Director was closely reviewed during the year as part of the consideration of succession arrangements, independence issues, the bi-annual governance structure reviews, the Board and Committee evaluation processes and the ongoing dialogue between the Executive Chairman and the Senior Independent Director.

Time commitment
The NGC continues to review the external commitments of each Director with a view to ensuring that the benefits of the additional experience from the external commitment are not outweighed by reductions in the commitment to the Company. The Directors achieve excellent attendance and spend significant time delivering their responsibilities. Accordingly, the NGC considers that there is currently an appropriate balance. The Committee will continue to monitor the situation.

Hikma's inclusive workplace welcomes different cultures, perspectives, and experiences from across the globe

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

One of the three pillars of the Group's strategy is to 'inspire and enable our people'. The Group's policy and approach to diversity, succession and appointments are a core part of this pillar. The Board monitors the diversity metrics which are detailed on page 65 and uses these as a reference point when considering the level of achievement against its diversity objective (detailed above). Hikma has successful empowerment and talent development programmes to help all employees make the most of their potential. This diversity policy is included in our Code of Conduct and communicated to all employees. Further detail on employee diversity is provided on page 65.

Ethnicity
The Board considers that it has demonstrated strong ethnic diversity since the formation of Hikma and has three Directors identifying as BAME representing 30% of the Board, including the Executive Chairman. Accordingly, the Board wholeheartedly supports and adopts the Parker recommendation to have at least one Director of colour.

Gender
Since its founding, Hikma has actively promoted gender diversity across its operations. The NGC was pleased to be able to improve gender diversity in the Boardroom over the past few years, including through the recent appointment of Cynthia Schwalm. The Board has adopted the Hampton-Alexander target to achieve at least 33% female Board representation. The new medium-term succession plan will take into account the strong desire to achieve this target.

Governance review
As in previous years, the NGC undertook the annual review of the Group's governance arrangements in conjunction with the Company Secretary. This year the exercise included a thorough review of the Company's Articles of Association (which are being put to shareholders for approval at the AGM), terms of reference of each Board Committee, and the indemnity provisions for each Director.

Evaluation and performance
The most recent, externally moderated, evaluation exercise commenced in December 2019 and concluded in April 2020. During the latter part of 2020, the Company Secretary and I reviewed the Board evaluation process and undertook an exercise to assess the Board evaluation market. As a result, Independent Audit, an external specialist, were appointed to undertake a full, interview-based evaluation exercise. The interviews will take place in 2021 to conduct as many as possible in person and allow the recent changes to the responsibilities of certain Independent Directors to become more embedded.

Process
The most recent evaluation process was coordinated by the Senior Independent Director at the request of the Executive Chairman. Lintstock, a London-based advisory firm, led the exercise with an anonymous thematic review questionnaire. Lintstock reported independently to the Executive Chairman and the Senior Independent Director. The results were also discussed by the Board and relevant action points were agreed (see the table on this page).

The results of the 2020 evaluation process formed part of the Executive Chairman's appraisal of the overall effectiveness of the Board and its members. Additionally, during the period between assessments, the Directors suggest and promote improvements as they arise.

Results
Progress on previously disclosed action points

Observations	Action taken
Drive for expansion	During the year, the Chief Executive Officer led a strategic review which involved an assessment of the base business and analysis of the expansion opportunities available that best meet Hikma's ambitions. The Board reviewed and approved the new strategy.
Succession planning	During 2020, the Board implemented the changes to the responsibilities of Independent Directors, including the appointment of an additional Director. The succession plan for Executive Directors has been reassessed.
Risk management	During the year, the Board received an in-depth overview of the way in which quality risk is managed within Hikma and continued to receive regular reports on action taken to mitigate information security risk.
Meeting efficiency	The Board has been very impressed by the presentations made by the Chief Executive Officer and the executive team, providing commentary at the point of receipt. Meeting efficiency will be assessed further at the next evaluation.

During the year, I met separately with the Independent Directors, the Chairman and the Chief Executive Officer in order to undertake an assessment of the performance of the Board. We concluded that the Board continues to operate highly effectively and that a significant number of enhancements have been made over the recent period, particularly since the Chief Executive Officer joined in February 2018. We considered that the main area for further development was in our succession arrangements, which is progressing well. Accordingly, we were satisfied that we did not need to undertake further enhancement work at this stage and look forward to the forthcoming interview-based evaluation. The next externally moderated Board evaluation exercise will be undertaken in the first half of 2021 and reported in the following Annual Report.

Conclusions and actions

In relation to the most recent assessment exercise, the Board considered that it continued to operate effectively with particular strengths in the following areas:

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

Executive Chairman's appraisal

The Executive Chairman and I meet regularly to discuss matters including the performance of the Board and how his role helps deliver and enhance that performance. This builds on discussions that I hold with the Independent Directors which occur bi-annually. The Executive Chairman's performance is also reviewed by the Remuneration Committee as part of the determination of performance-based compensation.

Director appraisal

The Executive Chairman, having taken into account the comments from the Board evaluation and discussions with the Senior Independent Director and Chief Executive Officer, reviewed the performance of each of the Directors during the year and concluded that each Director contributes effectively to the Board, brings particular areas of skill and experience that ensure the Board as a whole has the right capabilities, and devotes sufficient time to their role. The NGC has concluded that each Director be recommended to shareholders for re-election at the 2021 AGM.

For and on behalf of the Nomination and Governance Committee.

Patrick Butler
Chair, Nomination and Governance Committee
24 February 2021

A fresh approach to evaluating the Board will be undertaken in 2021

Audit Committee
Letter from the Chair

Douglas Hurt
Chair, Audit Committee

Ensuring high quality financial reporting in a challenging time

Dear Shareholders

I am pleased to present my first letter to you. I succeeded Pat Butler as Chair of the Committee in December 2020 and I would like to thank Pat for his contribution and diligent leadership of the Committee over the last few years.

During the year, the Committee continued to play a key role in assisting the Board in its oversight of financial reporting, forecasting and auditing matters. The Committee's activities included reviewing and monitoring the integrity of the Group's financial information, the Group's system of internal controls and risk management, and the internal and external audit process.

Chair transition

Since joining the Board in May, I have completed a comprehensive induction programme, albeit that it had to be held virtually. I have had the opportunity to work alongside Pat Butler for seven months in which time I have built relationships with our key stakeholders in finance, risk and internal and external audit. I look forward to building on the strong foundation of oversight and challenge established by the Audit Committee under Pat's chairmanship.

Pandemic impacts

The COVID-19 pandemic has created some of the most challenging conditions that the world has experienced for some time. Whilst Hikma has been fortunate to have weathered the storm well, it has posed particular challenges to our financial and auditing teams.

The Committee is pleased to report that the processes under its oversight have continued to operate in an effective manner during the pandemic and with the move to remote working. We recognise that we owe a lot to the commitment of colleagues and their strong relationships with internal and external auditors and advisers.

As a Group that manufactures and distributes generic pharmaceuticals, we have experienced changing demand for our products as a result of the pandemic. We have increased supplies of products necessary for ventilated COVID-19 patients in intensive care units and experienced reduced demand for products used for elective surgeries. The Group has continued to perform well throughout the pandemic and at the end of the financial year had undrawn committed financing facilities in excess of $1,000m.

The viability statement and going concern assumptions have been critically reviewed and the Group is in a strong financial position.

Enhanced verification

During the year, the Committee asked management to consider mechanisms to further enhance (beyond the audit, adviser review and internal review processes) the assurance process as regards the qualitative disclosures in the Annual Report.

As a result, the qualitative disclosures have been reviewed by our legal advisers, who have been provided with additional verification and support material in respect of these disclosures. This enhancement assisted the Committee in its determination that the report and accounts taken as a whole are fair, balanced and understandable.

Distributable reserves

The Committee is aware that the FRC is encouraging organisations to provide greater clarity on their distributable reserves position. Accordingly, the Committee instructed management to re-assess the Group's distributable reserves in line with FRC guidance and the impact of the share buyback which occurred during the year. While the Committee is satisfied that the Group has adequate distributable reserves, it has requested management to enhance our audited disclosures of distributable reserves in 2021.

Internal audit

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

EY assess each facility and major processes over a three-year period. For major sites, assessments are more frequent. Management is required to respond to findings within a short period, complete all process improvements within two years and ensure at least 80% of high-risk findings are resolved within six months. The Committee has received reports on the findings of the programme and is pleased to report that management has responded appropriately to any new findings and has made good progress in delivering its plans for enhancements that have previously been identified.

During the year, the impact of the COVID-19 pandemic necessitated increased remote working. For a short period of time the internal audit programme had to be placed on hold. However, EY and management worked closely together to create a new programme which ensured that as much of the scheduled work as possible could be undertaken virtually. The plan was reviewed and approved by the Committee. While the overall programme continues to experience some delays to some assessments that require site visits, the programme for 2021 is designed to ensure that all key deliverables will be on track by the end of the year. The Committee is pleased with the progress and commitment of management and the internal auditors.

During 2020, the Committee continued to monitor the performance and independence of the internal auditors in accordance with the policies that have been established. The Committee concluded that EY continue to perform an effective internal audit programme and remain independent. The Committee considers that EY bring significant pharmaceutical and MENA market experience which is complemented by the experience of other third party experts where required.

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

External audit

The external audit was undertaken by PricewaterhouseCoopers LLP (PwC) and has been since their appointment in May 2016. PwC were appointed following a competitive tender process. Mr Darryl Phillips was appointed as the senior statutory auditor in May 2019.

Effectiveness

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

- **Audit quality and technical capabilities:** the Committee considered that the auditors undertook an effective and in-depth assessment and verification exercise and that the level of expertise PwC brought to bear was high. The Committee provides feedback on the auditor's performance as part of the regular meetings with them without management present, takes into account the reports and analysis of the Financial Reporting Council, and believes that there is an open and appropriately challenging relationship between the audit leadership team, the Audit Committee and management
- **Independence:** the Committee regularly reviews the independence safeguards of the auditors and remains satisfied that auditor independence has not been compromised. During 2020, in one territory in the MENA region, PwC supported the preparation of local statutory accounts. PwC reported that the service involved administrative typing and drafting of the local statutory financial statements, but not any management decision-making or bookkeeping and the service did not relate or have a direct impact on the Group audit. PwC subsequently identified this service as a breach of the FRC's Ethical Standard and the Committee's policy on non-audit work and confirmed that this service has now ceased. The Group auditors and Group management have subsequently strengthened the controls to prevent any recurrence and provided additional training and guidance to the Group's finance and audit teams. The Committee is satisfied that this has not compromised the auditors' professional judgment or the audit report. The Committee made clear to the auditors and management that it did not expect any non-audit services to occur without prior approval.
- **Challenge and judgement:** the Committee considers that PwC provide significant challenge to the management team which results in the Company's position being fully considered and supported and, where appropriate, adjusted. The Committee believes that PwC has demonstrated well considered and clear sighted judgement in the matters on which it has provided opinion and has been open to an appropriate level of challenge and debate.
- **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, having due regard to the FRC's ethical standards for auditors. The Committee's approval is required to instruct PwC's services. PwC provided assurance services related to the bond offering with a value of $208,000 and work related to the interim review and other audit related assurance work with a value of $210,000. These services are within the ordinary course of services provided by the auditor.

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.

Audit tendering

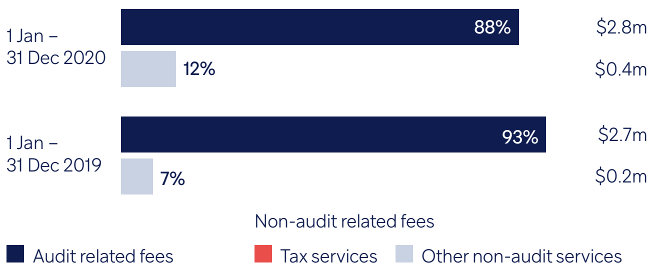
PwC were appointed as auditors in May 2016, therefore, the current Annual Report is the fifth report that they have audited. PwC rotated the Senior Statutory Auditor in 2019. Additionally the chair of the Audit Committee was transferred to Douglas Hurt during 2020 and the Committee considers it is prudent to allow time for one significant change to become embedded before embarking on another. In accordance with the audit tendering guidelines, the Committee confirms that it is not expecting to undertake a tender exercise until 2025. The Committee will keep the situation under review and report to shareholders accordingly.

Fees

Auditor's fee ($m)

$3.2m

PwC



Reporting

Position and prospects

During the year, management undertook an annual review of its strategic direction and an extensive assessment of the Group's short-term and medium-term prospects which are included in the budget for the following year and five-year business plan, respectively. Management presented and received the Board's approval and commentary on the full strategy, budget and business plan. Having taken account of how the business has responded to the challenges of the pandemic environment, the business plan, principal risks and uncertainties facing the Group and other relevant information, the Committee has concluded that the Group continues to have attractive prospects for the future.

Going concern and longer-term viability

The Group has a selection of scenarios with severe but plausible downside assumptions based upon the Group's principal risks and uncertainties. Each year, management models the impact of these scenarios occurring as part of the going concern and viability analysis. The impact of a single event has consistently been manageable for the Group, while acknowledging that it may result in short-term set backs.

The Committee requested that management consider the implications of several stress events occurring at the same time. Management developed updated models that included multi-event scenarios. The Committee assessed these, as well as low likelihood situations of the scenarios occurring at the same time, and concluded that the Group could reasonably be considered as being able to respond to the challenges and ensure the continued survival of the business.

The Directors considered the going concern position as detailed on page 59. Having reviewed and challenged the downside assumptions, forecasts and mitigation strategy of management, the Directors believe that the Group is adequately placed to manage its business and financing risks successfully. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of signing the financial statements. Therefore, the Directors continue to adopt the going concern basis in preparing the financial statements.

The Directors, having considered the longer-term viability assessment as detailed on page 59, confirm that they have a reasonable expectation that Hikma will be able to continue in operation and meet its liabilities as they fall due and over the viability period which ends on 31 December 2023. See page 59 for further details.

Significant matters

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

- **Goodwill and intangible assets - valuations and disclosures:** The Committee reviewed and approved some enhancements and clarifications made to the Group's policy for reviewing impairment reversals. In determining whether or not any impairment reversal was required for the Generics CGU, the Committee carefully considered management's judgement that the initial events that triggered the impairment made in 2017 still existed, namely pricing pressures in the market, the increasing number of generic products and delays to approvals of more complex products. The Committee concurred with management and in addition concurred with the judgement that what headroom now exists above the carrying value of the CGU's assets has predominantly been created by the launch of new products that were not reflected in the Group's plans at the time that the original impairment was made, and as such did not reflect a reversal of the initial triggering events. The Committee also challenged management's models for deriving the value in use for the generic Advair Diskus CGU and agreed that while no impairment was required, additional disclosures around the sensitivity of the headroom to changes in the assumptions should be made. The Committee reviewed management's assessment of the values of certain product intangibles and concurred with the $5m impairment and a separate $66m impairment reversal and their presentation between core and non-core operations within the consolidated income statement.
- **Revenue recognition:** The Committee reviewed the Group's policies for revenue recognition and the application of those policies by management. The Committee reviewed the model applied by management to arrive at the chargebacks, which estimates the 'in-channel' inventories held by wholesalers and the chargeback rate being the difference between the contracted price with indirect customers and the wholesaler's invoice price. Similar reviews were undertaken of the deductions to revenue made for customer rebates, returns and indirect non-customer and government rebates. The Committee also agreed the disclosures around these year-end estimates and the sensitivity of the estimates to changes in assumptions.
- **Exceptional items:** Exceptional items for 2020 were chiefly related to a $62 million net impairment reversal of product related intangibles related to the Columbus business in the Generics segment, proceeds from an insurance claim related to a warehouse fire at one of our facilities in Jordan of $11 million, ($15) million asset write off, intangible asset amortisation other than software amortisation of ($42m) and $23m related to the unwinding and remeasurement of contingent consideration and other financial liabilities. The Committee reviewed the treatment of these items
- **Taxation:** Hikma's worldwide operations are highly integrated and involve a number of cross-border supply chains, which results in judgement being required to estimate the potential tax liabilities in different jurisdictions. During the year, the Committee and Board received presentations from the Head of Tax regarding the potential direction of tax planning activities and enhancements to the resources available to the department, the control environment for operational effectiveness and reporting. The Committee took advice from professional services firms and management in assessing the appropriateness of the Group's provisions for uncertain tax positions which amounted to $43m and in reviewing the deferred tax assets in key markets. The Committee reviewed the appropriateness of the disclosures in the Annual Report, and reviewed and approved the Group's tax strategy statement, which is available on the Company's website
- **Contingent consideration:** The Committee reviewed management's assessment of the fair value of the contingent consideration payable as future milestones and royalties and the disclosures of the movements in the balance between the consolidated income statement and consolidated cash flow statement. The assessment resulted in a contingent liability of $89m. The critical estimate and assumptions taken into consideration for this assessment are described in Notes 28, 30 and 31 to the group financial statements on pages 151 and 153 to 158

Understanding our financial and qualitative reporting

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 the report from external counsel regarding the assurance activities for qualitative statements (see page 77) and a comprehensive review conducted by the

Ensuring continued management of risk and uncertainty

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, corporate brokers and public relations advisers
- undertaking several multi-functional reviews of the disclosures as a whole prior to the publication of the Annual Report to ensure consistency and accuracy across the document as a whole
- overseeing an extensive verification process to ensure the accuracy of disclosures

Each member of the Audit Committee and the Reporting Committee is satisfied that the 2020 Annual Report is fair, balanced and understandable and has recommended the adoption of the Report and Accounts to the Board. While the Committee assesses the whole report for this analysis, in respect of the year under review it has paid particular attention to the potential impacts of changes in the operating environment arising from the COVID-19 pandemic. Further information is available on pages 10, 11, 16 and 21.

Reporting controls
Hikma's key controls and risk management systems relating to the financial reporting process include the external audit at subsidiary and group-levels, the processes in the 'Fair, balanced and understandable' and 'Enhanced verification' (page 77) sections, the review of the financial statements and disclosures that is undertaken by the Executive Committee, and detailed internal financial control processes necessitating the verification of financial records at a local, regional and Group level.

Risk management and internal control

Risk management
The Committee has continued to receive reports on the operation of the Group's enterprise risk management framework which includes the material controls and programme for enhancing the Group's mitigation efforts. As in previous years, management and the Board have undertaken a thorough assessment of the Group's emerging risks as well as the annual review of the principal risks. The Committee and the Board have considered the principal risks facing the Group which we have decided to maintain unchanged. The Board and management have also reviewed the appetite for those principal risks and has concluded that it remains appropriate. After review by the Committee, the Board received additional information on the Group's data security initiatives and the key controls and monitoring processes for our quality framework. Further information regarding the Group's risk management activities is available in the risk report on pages 52 to 59.

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

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

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

The Board is satisfied that Hikma's systems for internal control to 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. The Board reviews the effectiveness of these systems at least annually as part of the processes for the annual report and risk management. The Board has not identified any material weaknesses. In making this assessment, the Board takes into account:

- **Risk management:** the Enterprise Risk Management framework that provides a structure for risk management activities to occur at all levels of the organisation, including management of the principal risks and uncertainties (detailed on pages 55 to 58). Risk reporting processes ensure the Executive Committee and the Board are engaged in the design and implementation of new control initiatives and provide oversight of existing programmes
- **Internal audit:** the Committee receives regular reports from the internal auditors and other third-party experts who review relevant parts of the Group business operations, assess Hikma's processes, identify areas for improvement, monitor progress, and undertake their own assessment of the risks facing Hikma
- **Financial performance:** Hikma's financial performance and forecasting reports are reviewed by the Board to aid the understanding of the underlying performance of the business, deviations from expectations and management's operational challenges and responses
- **Ethics:** the business integrity and ethics procedures and controls that are led by the Compliance, Responsibility and Ethics Committee (CREC). To ensure consistency and awareness between these Committees' responsibilities, the Audit Committee Chair is a standing member of the CREC
- **Governance:** the Board and Group-level controls and processes that make up our approach to governance that is led by the Nomination and Governance Committee and includes all appropriate financial controls and matters reserved
- **External auditor:** the regular and confidential dialogue with the external auditor

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

Douglas Hurt
Chair, Audit Committee
24 February 2021

Compliance, Responsibility and Ethics Committee
Letter from the Chair

John Castellani
Chair, Compliance, Responsibility and Ethics Committee

Committed to integrity, quality and community

Dear Shareholders

The Compliance, Responsibility and Ethics Committee (CREC) has continued to promote and oversee our commitments to business integrity, quality, communities and ethical conduct. While 2020 has presented its own challenges for our communities and colleagues, we have made good progress.

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.

At a senior level, our compliance, CSR and legal teams have remained unchanged during the year. Therefore, we have focused on delivering our established work programmes, many of which stretch over more than one year, as we seek to continuously improve the systems that we have created.

Anti-bribery and corruption

ABC programme
Our ABC compliance programme continues to perform in a highly effective manner. The Chief Compliance Officer has brought the benefit of significant experience which has been used to assess our existing arrangements, enhance them where we can and add new systems to take our programme to the next level.

The ABC programme has strong support from the Board, the CREC and the Chief Executive Officer. The Chief Compliance Officer reports to a member of the Executive Committee.

I am pleased to update you on our progress with our programme to assess the ABC practices of our suppliers. During the year, we rolled out new third-party due diligence processes in the US and are currently rolling it out further in MENA to reinforce our supplier qualification process and reduce our risk exposure. We are planning to further extend this across our other geographies in 2021. Where relevant, appropriate action has been taken.

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

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 are critical to the Group's success. The Code guides all the Committee's activities and is the key reference point for all our employees. During 2020, we undertook a programme of remote training on the updated Code of Conduct to ensure that our colleagues were reminded of our principles and clearly understood changes in emphasis. This helps build upon the in-depth training that is provided to new joiners.

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

The Committee continued to receive regular reports on issues identified through the Group-wide speak up arrangements, which include confidential reporting lines that report directly to the previously mentioned Investigations Committee. The programme includes a Group-wide reporting software and communications system provided by an independent third party. This system ensures that colleagues can report in anonymity. The overall level of reports is within the normal range for an organisation of our size.

The Chair of the Audit Committee is a standing member of the CREC and vice versa, which ensures that any relevant issues are considered by the right people within our governance structure. Both Committee chairs report to the next Board Meeting all relevant matters considered by the Committee. Speak-up matters are reported and considered as part of this process.

Training
During the year, we continued with our training programmes for the Code of Conduct, ABC, anti-money laundering and related matters. The programmes have been developed with assistance from external experts and are provided to employees virtually through their personalised corporate training portal. Our training programmes include worked examples and tests to ensure and enhance understanding. The Board has fully supported the training programmes and has undertaken the aspects that apply to all colleagues.

Regulations

Anti-trust, anti-money laundering (AML) and trade sanctions
The Chief Counsel oversees Hikma's compliance with the anti-trust, AML and trade sanctions legislation, amongst other matters. The Chief Counsel has created procedures for the management of these matters which have been reviewed and approved by the CREC. The Chief Counsel reports to the CREC on relevant matters that arise, including pertinent changes to the regulatory landscape. The legal team has developed a training programme on anti-trust, AML, prevention of tax evasion and trade sanctions, which has been undertaken by colleagues whose roles require training or awareness.

Criminal Finances Act
The Chief Counsel is responsible for ensuring compliance with the Criminal Finances Act. The CREC has approved procedures that have been recommended by the Chief Counsel and reviewed those procedures at appropriate intervals. The procedures are designed to respond to the requirements of the prevention of tax evasion legislation from the UK Government. Hikma's processes and procedures in this regard are proportionate to its risk of facilitating tax evasion, which is relatively low. Hikma is steadfast in applying the principles of the UK tax evasion legislation across its businesses and will continue to oversee matters of compliance.

Data protection
The Chief Counsel is responsible for Hikma's data protection policies which are designed to ensure compliance with relevant legislation. The policies were considered by the Board at the point of implementation of the General Data Protection Regulation and, following the delegation of oversight to the CREC, will be reviewed by the Committee during 2021.

Ethics

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

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

Doing the right thing and ensuring compliance

Sustainability
The Committee oversaw, 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 38 to 51.

During the year, the team proposed a new management level policy for our CSR activities across the Group. The Committee provided feedback to the team which was taken into account and resulted in further developments to the policy which the CREC has also approved.

During 2021, the Board and the CREC will undertake a review of our environmental, social and governance framework with a view to considering new medium-term priorities. We will report to shareholders in due course.

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

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

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

John Castellani
Chair, Compliance, Responsibility and Ethics Committee
24 February 2021

Remuneration Committee
Letter from the Chair

Dr Pamela Kirby
Chair, Remuneration Committee

Delivering value in uncertain conditions

Dear Shareholders

I am pleased to present our 2020 Remuneration Report which describes our Remuneration framework and how it aligns with our business strategy. In addition, it covers the decisions made by the Committee as a result of business performance and the intended Remuneration arrangements for the future.

Last year, we undertook a full review of our Remuneration policy, which was well supported by our investors. Shareholders will recall that we maintained the core elements of our remuneration policy with a few enhancements to reflect the direction of the regulatory landscape. Maintaining our position provided clarity and simplicity to our employees, directors and stakeholders, who understand the policy and how it fits within the culture of Hikma. We simplified the performance targets to a maximum of three per director in order that the outcomes are predictable for all stakeholders. We focused outcomes on financial performance which is readily measurable and reflects the risks and rewards of the Company's performance. The Committee considers that over the last few years the performance outcomes have provided a strong correlation with the organisation's performance (including TSR) and the quantum of consideration is proportionally in line with the comparators in the policy.

Accordingly, this year has been focused on setting targets to ensure that we deliver our strategy in a manner that best suits the changing environment, considering remuneration governance developments, and reviewing the sector and geographic information to ensure that our relative position remains in line with market practice.

Group performance

While the pandemic created a challenging environment for everyone during 2020, Hikma continued to perform strongly. We have delivered our responsibilities to society (please see the COVID-19 response, below), while also delivering strong financial performance (please see our performance against our Key Performance Indicators on page 14). The Group is in a strategically strong position, having acquired an injectable compounding facility (further details below), maintained our commitment to high-quality manufacturing, ensured excellent service standards, launched several new products, and implemented new business partnering activities (eg manufacturing remdesivir for Gilead Sciences, Inc.). This excellent performance is reflected in our total return to shareholders, where we have outperformed our generic peer groups by 54% (Hikma versus US mid-cap generics) and 41% (Hikma versus large-cap pharmaceuticals) during 2020 (see 'TSR Compared to Peers' on page 85).

COVID-19 response

Throughout this pandemic, the Group has continued to respond to the need for significant increases in demand for certain essential products, particularly those which are used by intensive care units to treat patients suffering from acute symptoms. Elsewhere, we experienced considerable reductions in demand for products related to elective surgeries. This has put considerable stress on the organisation, particularly in the areas of manufacturing, distribution and, most importantly, our people. Hikma had to make significant adjustments to its manufacturing and raw material supply processes to ensure that the priorities of hospitals could be met and those who use our products could continue to receive a secure supply of essential medicines. We had to run our facilities at near maximum output at a time when our people were fearful of the impact of the pandemic.

The Chief Executive Officer provided exemplary leadership of the Group, ensuring that our colleagues received the support they needed, that their family commitments could be prioritised and that those working in our facilities below the senior management level had their additional commitment recognised during the highly uncertain early stages of the crisis through additional compensation. This ensured that we were able to continue to provide patients with our products and that the Group delivered strong financial performance.

When the Committee set the Chief Executive Officer's strategic target (representing 20% of the performance remuneration outcome) for 2020, the COVID-19 pandemic was in its infancy and the potential impact on our business and the world was not clear. Accordingly, as the impact of the COVID-19 pandemic became clearer in March 2020, the Committee decided to include the response to the pandemic within the strategic target so that the Chief Executive Officer could focus on addressing the challenges that the pandemic created, as described above. The response to the COVID-19 pandemic represented half of the strategic target and the Committee considered the Chief Executive Officer's performance to be outstanding.

The existing part of the Chief Executive Officer's strategic target remained unchanged. The target focused on specific strategic deliverables which ensure the growth of the business over the medium term. A significant part of these deliverables related to bringing new products to market. During 2020, we expanded our product portfolio from circa 690 to circa 780 products, an increase of 13% in one year. Additionally, the Chief Executive Officer has identified and progressed expansion opportunities which are in the early stages of development. The Chief Executive Officer did an exemplary job in delivering these strategic enhancements whilst successfully dealing with the matters arising from the COVID-19 pandemic. Accordingly, the Committee considered that the strategic target was delivered at the highest level.

Performance remuneration

The Committee has determined the performance remuneration for the Executive Directors at a level which is between target and maximum, as detailed in the performance summaries on pages 94 to 99. This determination reflects the excellent absolute and relative performance, the performance remuneration paid across the Group, the benchmarking information received (further information is provided below) and the delivery of the Group's responsibilities to society, as detailed in the sections entitled 'Group performance' and 'COVID-19 response', above.

The Committee is aware of the importance of ensuring that the performance remuneration of the Executive Directors reflects wider issues, such as the experience of our colleagues, customers and patients. The Group increased the number of colleagues during 2020, did not put colleagues on furlough or make them redundant as a result of the pandemic, continued to pay dividends in accordance with shareholders' expectations, and did not receive any associated governmental support. Throughout the year, and particularly during the peaks of the pandemic, Hikma ensured that customers and patients received the medicines they needed.

Environmental, Social and Governance (ESG)

The Chief Executive Officer presented a strategic review of the Group's approach to Environmental, Social and Governance (ESG) matters in February 2021. The Board considered that, whilst the Group has undertaken significant work on ESG matters over a number of years and made good progress, a renewed focus was required to refine and develop the Group's ESG strategy and ambitions and ensure that these are aligned with and well integrated into the Group's overall strategy and operations. Accordingly, the Remuneration Committee determined that the Chief Executive Officer's strategic performance target for 2021 should ensure that clear progress is being made with respect of the development and execution of the new ESG strategy. Further details will be made available in the next annual report.

Pension contribution

Hikma's pension contributions for Executive Directors are aligned with the workforce contribution of circa 10% of salary, other than in respect of the Chief Executive Officer who receives a contribution of 14.6% of his joining salary (ie it is not being increased in absolute terms). The Committee has considered the guidance from external organisations regarding the alignment of pension contributions with the wider workforce, the pension contribution levels for executives in comparable companies and the importance of complying with contractual obligations. In light of these considerations, the Committee considers that the best course for the Company is to maintain the current mechanism in respect of Siggi Olafsson and seek to align the position in the event of a change in the position holder.

Salaries

The Committee undertook a benchmarking exercise during the year, which took into account the normal, size adjusted market data from the FTSE 100 and global pharmaceutical market. Additionally, the Committee instructed an additional exercise to consider market practices in the MENA region. Having considered the market data and packages of the executive directors, the Committee determined that the Executive Chairman was well positioned against his peers and, accordingly, no increase was required. In relation to the Chief Executive Officer, the Committee approved an increase of 3% which takes into account that his total package is significantly below our US peers and a 3% increase being the average increase for the Group's workforce. The Vice Chairman's salary was increased by 5% because his prime responsibilities relate to the MENA region and the benchmarking undertaken by an expert in this region demonstrated a significant gap in the salary positioning. Additionally, 5% was the average increase in salary across our MENA markets and the Committee was aware of his salary having remained unchanged since 2017.

Wider employee context

The Committee does not directly consult employees on the remuneration aspects contained in this report, but receives regular updates on employee feedback through the work of the Director responsible for employee engagement, the Group human capital department and the employee cultural survey, which is conducted by an external organisation. During 2020, in addition to the matters addressed in 'COVID-19 response' (above), the Committee oversaw the implementation of a new grading structure designed to recognise the importance of each role to the organisation.

The Committee is regularly briefed on the wider employee pay policies and practices throughout the Group and uses this information to provide context to the direction of its compensation decisions. This work includes the internal Living Wage report and the level of pay in each one of our jurisdictions, which takes account of the cost of living. We continue to be fully committed to provide a Living Wage to all our employees.

Engagement

At the 2020 AGM (further information is available on page 85), shareholders were supportive of both the remuneration policy and report on remuneration. The Committee has not sought to implement policy changes or made significant adjustments to the Executive Directors' compensation. Accordingly, the Committee did not conduct any one to one shareholder engagement activity during the year.

Discretion

The Committee oversees the application of discretion in accordance with the Remuneration Policy. Other than extending the Chief Executive Officer's strategic target to include the response to the COVID-19 pandemic, the Committee has not applied this discretion during the year under review.

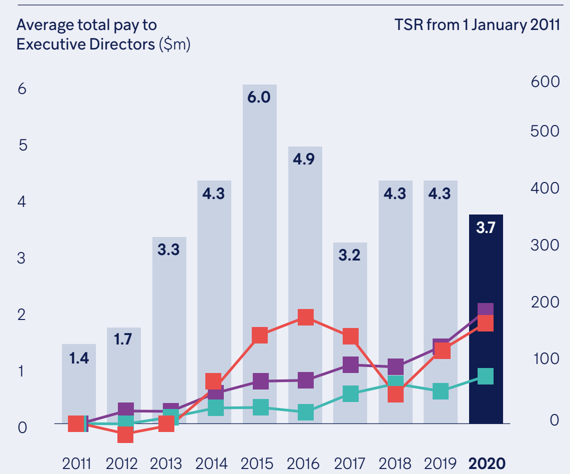
I remain open to discussion with shareholders should there be any matters that they wish to raise directly.

Dr Pamela Kirby
Chair, Remuneration Committee
24 February 2021

Remuneration dashboard

TSR and total executive pay

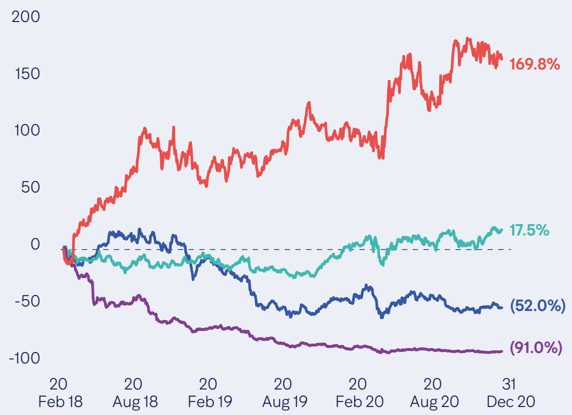
During 2020, Hikma performed strongly against its UK peers in Hikma's index (FTSE 100) and sector (FTSE 350 Pharmaceuticals & Biotechnology segment, a relatively small group of companies that are mainly focused on developing new medicines).



- Average Executive Director pay
- Hikma Pharmaceuticals PLC TSR
- FTSE 100 TSR
- FTSE 350 Pharmaceuticals & Biotechnology TSR

Generic pharmaceutical peers

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

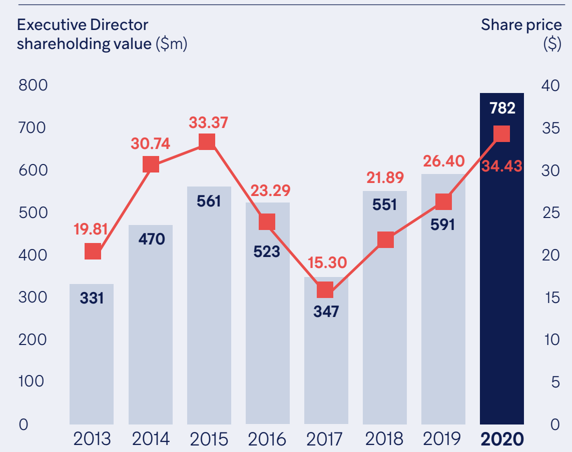


- Hikma
- Large Cap Specialty/Generics[1]
- CEEMEA Healthcare[2]
- US Mid Cap Generics and Injectables[3]

1. Large Cap Specialty/Generics includes Teva, Viatris and Perrigo
2. CEEMEA Healthcare includes KRKA, Aspen, Adcock and Gedeon
3. US Mid Cap Generics and Injectables includes Amneal, Amphastar, Lannett, Advanz and Mallinckrodt

Value of executive holdings

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

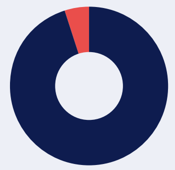


- Executive Director shareholding
- Share price (as at year-end in US dollars)

Shareholder approval

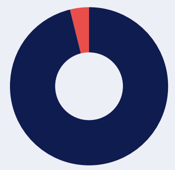
Annual report on remuneration (30 April 2020 AGM)

Votes available	242,543,355
Votes cast	199,924,407
For	95.16%
Against	4.84%
Withheld[4]	2,894,616



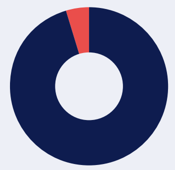
Annual report on remuneration (17 May 2019 AGM)

Votes available	242,013,996
Votes cast	198,171,484
For	96.12%
Against	3.88%
Withheld[4]	5,346



Remuneration Policy (30 April 2020 AGM)

Votes available	242,543,355
Votes cast	199,924,378
For	95.50%
Against	4.50%
Withheld[4]	2,894,646



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

GOVERNANCE

Remuneration and performance summary

This report (on pages 83 to 104) complies with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Performance components

	2019		2020
Sales	$2,203m	6%	**$2,341m**
Core operating profit before R&D	$634m	11%	**$703m**
Share price	1,991p	26%	**2,518p**
Dividend	44 cents	14%	**50 cents**
Employee compensation	$520m	8%	**$560m**
Shareholder implementation approval	96.12%		**95.16%**
Shareholder policy approval	N/A		**95.5%**

Total remuneration

Executive Director	2019 ($000)		2020 ($000)		2021 ($000) (estimate)
Said Darwazah	4,448	-9%	**4,060**	18%	**4,807**
Siggi Olafsson	4,121	-10%	**3,719**	49%	**5,557**
Mazen Darwazah	2,937	10%	**3,227**	21%	**3,915**

Components

	2019 ($000)		2020 ($000)		2021 ($000) (estimate)
Salary[1]					
Said Darwazah	1,018	0%	**1,018**	0%	**1,018**
Siggi Olafsson	1,100	3%	**1,133**	3%	**1,167**
Mazen Darwazah	717	0%	**717**	5%	**753**
Bonus[2]					
Said Darwazah	1,879	-1%	**1,855**	-18%	**1,527**
Siggi Olafsson	2,141	5%	**2,252**	-22%	**1,750**
Mazen Darwazah	1,312	-1%	**1,297**	-13%	**1,130**
Share awards vested[3]					
Said Darwazah	1,404	-25%	**1,047**	103%	**2,123**
Siggi Olafsson	0	N/A	**0**	N/A	**2,317**
Mazen Darwazah	760	40%	**1,064**	77%	**1,880**
Pensions[4]					
Said Darwazah	64	8%	**69**	0%	**69**
Siggi Olafsson	290	-41%	**170**	-6%	**160**
Mazen Darwazah	56	0%	**56**	5%	**59**
Other benefits					
Said Darwazah	83	-16%	**70**	0%	**70**
Siggi Olafsson	590	-72%	**163**	0%	**163**
Mazen Darwazah	92	1%	**93**	0%	**93**

1. Salary: The average rise for salaries across Hikma in 2020 was 3% but was 5% across the MENA region
2. Bonus: The bonus figure comprises Elements A and C of the EIP. See page 89 for further explanation. The 2021 estimate presumes target performance
3. Share awards vested: 2020 figures represent Element B of the 2018 EIP and Element C of the 2017 EIP exercised during that year. 2021 is an estimation of the value of Element B of the 2019 EIP and Element C of the 2018 EIP that are to vest in that year, using 31 December 2020 vesting percentages, share prices and exchange rates
4. Pension: Said Darwazah and Mazen Darwazah participate in the same pension plan as Jordanian employees, their country of employment. Siggi Olafsson was entitled to a pension contribution of 15% of salary in 2018; however, $125,014 of this liability was paid in 2019. Additionally, an over payment of $4,950 was made in 2020 which will be reflected in the contribution in 2021

Remuneration and performance summary continued

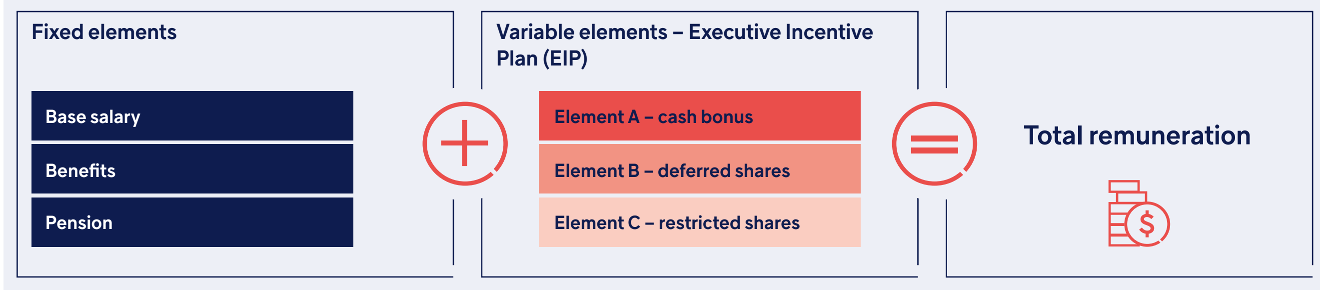
Non-Executive Directors' fees

Non-Executives	2019 (£000)		2020 (£000)		2021 (£000) (estimate)
Non-Executive Directors' average total fee[1]	88.2	10%	**97.1**	8%	**104.6**

1. NED fees: The average Non-Executive Director's fee includes basic fee, Committee membership fee, fees for specific additional responsibilities, and Committee Chair fees. A full breakdown of fees on page 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 79 to 84 of the 2019 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 30 April 2020. The Policy took effect from this date and may operate for up to three years.



Fixed elements

Fixed elements	Purpose and link to strategy	Operation
	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 acting as an upper limit unless exceptional circumstances exist; salaries in peer companies from the pharmaceutical sector and UK listed companies; Company performance; and affordability.
	Benefits An appropriate package of market competitive benefits to ensure executives are rewarded and focused.	Benefits may include, but are not limited to: healthcare; school fees; company cars; life insurance; relocation where it is required by the Company; and tax equalisation where the director becomes tax resident in a jurisdiction as a result of the role.
	Pension An appropriate level of pension contribution to ensure executives are provided with a retirement standard commensurate with their role.	The Company operates defined contribution arrangements in its main operational jurisdictions and executives participate in these arrangements. A cash supplement in lieu of pension may be paid provided that the total pension payment does not exceed the maximum opportunity.

Executive Incentive Plan (EIP)

Performance awards that incentivise Directors to deliver annual financial performance targets and certain key strategic deliverables, with the majority of awards made in shares to ensure that medium-term performance is delivered.

The Remuneration Committee sets annual performance targets for awards under the EIP, in accordance with the rules of the EIP. Annual performance metrics are based on:

- **Financial metrics:** At least 80% of the performance award, with specific targets based on the budget that is approved prior to the performance period. The precise targets will be determined by the Committee on an annual basis
- **Strategic deliverables:** Up to 20% of the performance award is based on the delivery of specific, subjective targets that are set by the Committee in order to ensure that key milestones in the Company's strategy are delivered

At the end of each year the Committee determines the level of performance for the prior year. Based on the performance, the Committee makes the following awards:

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

A holding requirement applies to Elements B and C ensuring that shares may not be sold until five years from the point of grant.

In relation to disclosure of performance targets:

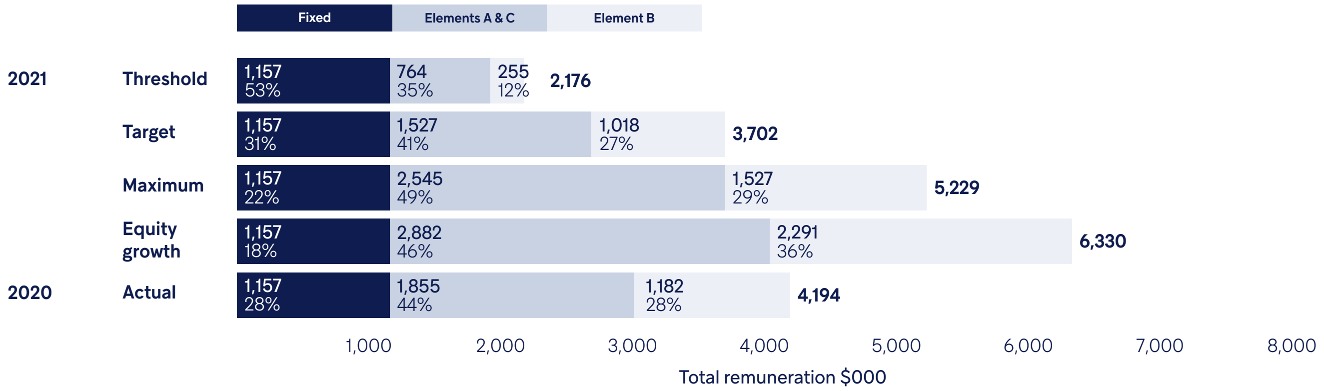
- Prior years (2020): full details of the previous year's performance targets, their level of satisfaction and the resulting performance remuneration are disclosed on pages 94 to 99
- Future year (2021): the nature and weighting of future performance targets are disclosed on page 92

Malus and clawback provisions apply.

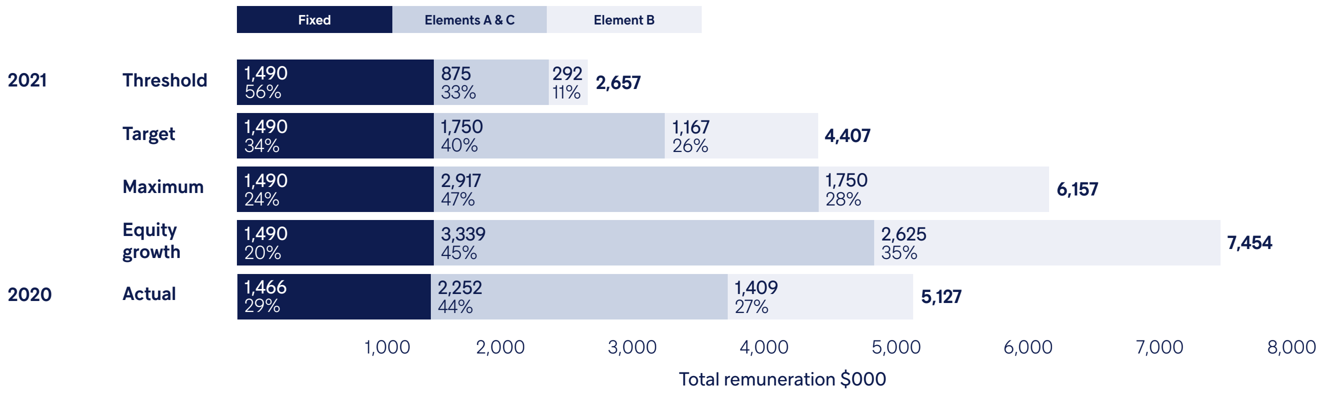
Illustration of policy

The following charts show the value of each of the main elements of the compensation package provided to the Executive Directors during 2020 and the potential available for 2021 (dependent upon performance).

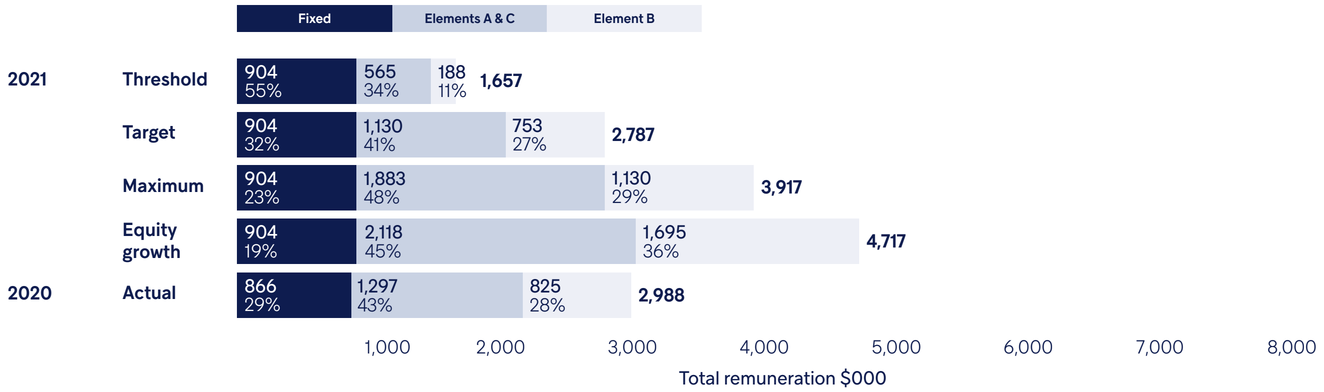
Said Darwazah



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 2021 illustration, the bonus would be paid and the share awards be granted in 2022. The share awards would vest two or three years later). Please note that the Remuneration and performance summary on page 86 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 director receives in practice
- 'Equity growth' presumes a 50% increase in the value of shares granted under the EIP in respect of that year and that the executive remains in place for the holding period (ie the award vests)

Annual report on remuneration

Annual report on remuneration

The information presented on the pages 90 to 104 has been audited by PwC, as indicated.

Director and average employee compensation change

The table below shows the percentage change in the Chief Executive Officer's (CEO) salary, benefits and bonus between 2019 and 2020 compared with the percentage change in the average of each of those components of pay for employees (excluding the Executive Directors).

	Salary			Benefits			Bonus		
	2020	2019	Percentage change	2020	2019	Percentage change	2020	2019	Percentage change
Executive Chairman	**$1,018,000**	$1,018,464	0.0%	**$70,323**	$83,278	-15.6%	**$1,855,055**	$1,879,388	-1.3%
CEO	**$1,133,000**	$1,100,000	3.0%	**$163,231**	$590,291	-72.3%	**$2,252,369**	$2,141,419	5.2%
Vice Chairman	**$717,155**	$717,155	0.0%	**$92,892**	$92,271	0.7%	**$1,297,238**	$1,312,176	-1.1%
Robert Pickering	**$133,206**	$134,054	-0.6%	**$0**	$0	0.0%	**$0**	$0	0.0%
Pat Butler	**$149,730**	$146,821	2.0%	**$0**	$0	0.0%	**$0**	$0	0.0%
Ali Al-Husry	**$112,298**	$108,520	3.5%	**$2,002**	$3,319	-39.7%	**$0**	$0	0.0%
Dr Pamela Kirby	**$137,966**	$134,054	2.9%	**$0**	$0	0.0%	**$0**	$0	0.0%
Dr Jochen Gann	**$56,149**	$108,520	-48.3%	**$11,237**	$8,554	31.4%	**$0**	$0	0.0%
John Castellani	**$137,966**	$134,054	2.9%	**$12,443**	$16,342	-23.9%	**$0**	$0	0.0%
Nina Henderson	**$137,966**	$134,054	2.9%	**$12,170**	$14,810	-17.8%	**$0**	$0	0.0%
Cynthia Schwalm	**$125,132**	$70,729	76.9%	**$7,813**	$0	0.0%	**$0**	$0	0.0%
Douglas Hurt	**$85,560**	$0	0.0%	**$0**	$0	0.0%	**$0**	$0	0.0%
Employees ($m)	**$306**	$300	2.0%	**$105**	$104	1.0%	**$56**	$56	0.0%
Number of employees	**8,681**	8,578	1.2%	**8,681**	8,578	1.2%	**8681**	8,578	1.2%
Average per employee	**$35,249**	$34,973	0.8%	**$12,095**	$12,124	-0.2%	**$6,451**	$6,528	-1.2%
Average per UK employee	**$111,370**	$109,979	1.3%	**$9,234**	$6,851	34.8%	**$37,887**	$35,839	5.7%

Hikma's pay review, which took effect from 1 January 2020, 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 2020 were broadly similar to those in the previous year. Hikma has not disclosed the average pay of employees in the parent company as there are too few employees and there is significant variance in roles and responsibilities. Accordingly, no additional disclosure would provide meaningful comparison.

UK gender and CEO pay ratios

Hikma has circa 30 employees in the UK and, as a result, is exempt from gender pay and average employee: CEO pay disclosure requirements. The small number of employees and significant diversity of roles and seniority in the UK results in significant challenges in obtaining comparable data. Hikma is committed to paying fairly and not discriminating on gender or other grounds.

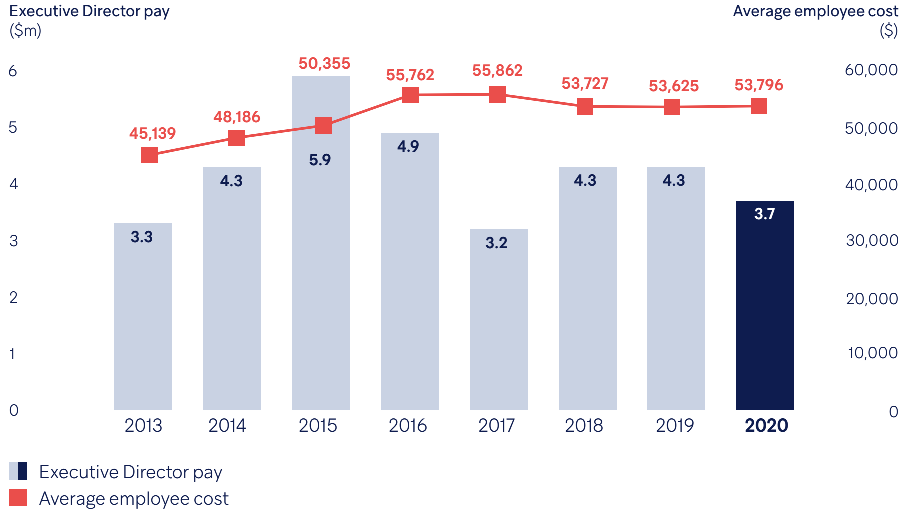
Relative importance of spend on pay

The following table sets out the total amount spent in 2020 and 2019 on remuneration of Hikma's employees and major distributions to shareholders.

Distribution expense	2020	2019	% change from 2019 to 2020
Employee remuneration	**$560m**	$520m	7.7%
Distributions to shareholders[1]	**$477m**	$97m	391.8%

1. The Company purchased 12.8 million shares during 2020 at a cost of $368 million, which is included in the distributions to shareholders in accordance with the regulations. Those shares are held in treasury and do not receive dividends

Employee cost and average executive pay ($m)



Committee membership and attendance

Members and attendance

Member	Meetings	Attendance
Dr Pamela Kirby (Chair)	5/5	100%
Robert Pickering[1]	5/5	100%
Pat Butler[2]	4/5	80%
John Castellani	5/5	100%
Nina Henderson	5/5	100%
Cynthia Schwalm	5/5	100%
Douglas Hurt[3]	3/3	100%

1. Robert Pickering retired from the Board and, accordingly, ceased to be a member of the Committee on 18 December 2020
2. Pat Butler was unable to attend one meeting due to a medical procedure
3. Douglas Hurt joined the Committee on 1 May 2020

Advice and support

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

Willis Towers Watson (WTW) continued to provide independent advice to the Committee, at the Committee's request, in relation to market practice, UK corporate governance best practice, and incentive plan target setting. WTW also provided support to our human capital 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 $90,929 (2019: $94,284), which were determined in accordance with a pre-agreed fee matrix applied to a schedule of regular projects which are undertaken by WTW. For ad hoc projects, an estimate is provided based on the specification for the work. 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. During 2020, the Committee instructed Mercer to undertake a region specific benchmarking exercise for which a fee of $8,000 was paid. Mercer are a recognised expert in the region in question.

Policy implementation 2020

Policy deviation

During 2020, the Committee has not deviated from the remuneration policy approved by shareholders at the AGM on 30 April 2020.

Salaries, benefits and pension

Please see the Chair's letter (page 84) for commentary on salaries. The application of benefits and pension is unchanged.

Executive Director	Individual	Salary 2021	Salary 2020	Change %
Executive Chairman	Said Darwazah	**$1,018,000**	$1,018,000	0%
CEO	Siggi Olafsson	**$1,166,990**	$1,133,000	3%
Executive Vice Chairman	Mazen Darwazah	**$753,013**	$717,155	5%

Executive Incentive Plan (EIP)

For 2021, the Committee has determined that the performance criteria for the Executive Directors will be:

Area	Description	Weight	Rationale
Financial	Revenue	40%	Historically, the pricing of generic pharmaceutical products has decreased with time. The Committee is cognisant that this could lead to declining revenue over the longer term, which could ultimately result in a declining business overall. By ensuring that a significant proportion of performance remuneration is based on revenue, the Committee is able to ensure that the Executive Directors are focused on mitigating pricing declines by maximising the potential of the in-market portfolio, launching new products, and developing the pipeline. Please see page 14 of the Strategic report for the detail on this target.
	Core operating profit before R&D	40%	Ultimately, core operating profit is a key measure of value to Hikma's 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 14 of the Strategic report for the detail on this target.
Strategic	Strategic deliverables	20%	The targets are designed to ensure that the Executive Directors deliver the strategic plan that was approved by the Board during 2020 and the ESG strategy that was presented in February 2021. 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.

Structure

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

Single total figure (audited)

The following table shows a single total figure of remuneration in respect of qualifying services for the 2020 financial year for each Executive Director, together with comparative figures for 2019.

Director	Year	Salary $	Benefits $	Pension $	Total Fixed $	Bonus (EIP Elements A & C) $	Shares Vested (EIP Element B) $	Total Variable $	Total $
Said Darwazah	2020	1,018,000	70,323	68,946	1,157,269	1,855,055	0	1,855,055	3,012,324
	2019	1,018,464	83,278	64,152	1,166,254	1,879,388	1,403,652	3,283,040	4,448,934
Siggi Olafsson	2020	1,133,000	163,231	169,950	1,466,181	2,252,369	0	2,252,369	3,718,550
	2019	1,100,000	590,291	290,014	1,980,305	2,141,419	0	2,141,419	4,121,724
Mazen Darwazah	2020	717,155	92,892	55,765	865,812	1,297,238	508,838	1,806,076	2,671,888
	2019	717,155	92,271	55,583	865,009	1,312,176	759,804	2,071,980	2,936,989

The EIP performance criteria for 2020 are detailed on pages 94 to 99.

Benefits

Said Darwazah received transportation benefits of $55,216 (2019: $68,176) and medical benefits of $15,107 (2019: $15,102). Siggi Olafsson received housing benefits of $110,903 (2019: $123,800) related to his stay in the UK, transportation benefits of $19,992 (2019: $20,000), medical benefits of $32,336 (2019: $39,105), and taxation benefits of $0 (2019: $407,386) to ensure he was not disadvantaged by UK taxation only to the extent that his UK taxation increased his US taxation. Mazen Darwazah received transportation benefits of $64,603 (2019: $64,604) and medical benefits of $28,289 (2019: $27,667). 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, up to a maximum of 10% of applicable salary. Participants become entitled to all of Hikma's contributions once they have been employed for ten years. Before that point, there is a staggered scale which starts at three years of employment. Said Darwazah and Mazen Darwazah have served for in excess of ten years and receive their benefits under the Jordan Benefit Plan because they are over 60 years of age. Siggi Olafsson was entitled to a pension contribution of 15% of salary in 2018; however, a contribution of only $16,500 was made to his 401K plan in the US. In order to correct the under payment, an additional payment of $125,014 was made in 2019 in lieu of the contractual liability for 2018. In respect of 2020, Siggi was due to receive a pension contribution of $165,000 which represented 14.6% of his salary. However, a calculation error was made resulting in an overpayment of $4,950 which will be deducted from the 2021 payment. Hikma Pharmaceuticals PLC does not and has not operated a defined benefit scheme. The Executive Directors do not receive personal pension contributions from Hikma.

Additional Information

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

- Director and average employee compensation change: please see page 90
- Relative performance and spend on pay: please see page 85
- AGM voting: please see page 85

Vested share awards

During 2020, the following share awards vested for the Executive Directors. The total shares vested in 2020 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. The tables below details all share awards vesting during the year ended 31 December 2020. In accordance with the Regulations, awards vesting under Element C of the EIP are treated as bonus in the performance year in which they were earned. Therefore, the Element C awards shown below were included in the bonus figure for the year ended 31 December 2016. Whereas the EIP B is treated as being earned in the year in which it vests and, therefore, is included in the Share awards vested figures for the year ended 31 December 2020.

Said Darwazah – EIP

Maximum number of shares capable of vesting – Element B	Nil
Maximum number of shares capable of vesting – Element C	36,438
Forfeiture	Nil
Vesting price	Nil
Number of vested shares	36,438
Total value of vested shares[1]	**$1,047,328**

1. Share price on vesting was £22.77 and was $1.2623 to £1 under Element C

Mazen Darwazah – EIP

Maximum number of shares capable of vesting – Element B	16,953
Maximum number of shares capable of vesting – Element C	19,318
Forfeiture	Nil
Vesting price	Nil
Number of vested shares	36,271
Total value of vested shares[2]	**$1,064,090**

2. Share prices on vesting were £24.60 and £22.77 and there were $1.2201 and $1.2623 to £1 under Element B and Element C, respectively

Share price appreciation

The increase in value of the above awards from the point of grant to the point of vesting was $171,630 in relation to Said Darwazah and $277,051 in relation to Mazen Darwazah.

GOVERNANCE

2020 Performance outcome: Executive Chairman (audited)

Readers are directed to the commentary on business performance that is included in the Chair's letter on pages 83 and 84. The following table sets out the performance conditions and targets for 2020 and their level of satisfaction:

Performance condition				Performance level					Achievement		Application
Section	Description	Rationale and measurement	Weighting	Forfeiture 0% salary awarded	Minimum 75% of salary awarded	Target 250% of salary awarded	Maximum 400% of salary awarded	Results	Achievement	% of salary
Financial	Core revenue	Historically, the pricing of generic pharmaceutical products has decreased with time. The Committee is cognisant that this could lead to declining revenue over the longer term, which could ultimately result in a declining business overall. By ensuring that a significant proportion of performance remuneration is based on revenue, the Committee is able to ensure that the Executive Directors are focused on mitigating pricing declines by maximising the potential of the in-market portfolio, launching new products, and developing the pipeline. See page 14 of the Strategic report for further detail on the performance related to this target.	40%	Target -30% $1,610m	Target -10% $2,069m	Target $2,299m	Target +10% $2,529m	Core revenue of $2,341	Target to maximum	111.0% of salary
	Core Operating Profit (COP) before R&D	Ultimately, COP is a key measure of value to Hikma's shareholders. Given the highly competitive business environment in which Hikma operates, the Executive Directors must focus continuously on optimising Hikma's cost base. The Committee wants the Executive Directors to deliver an optimised cost base without putting at risk the longer-term prospects of the business by underinvesting in R&D. Therefore, R&D costs have been excluded from this criterion. See page 14 of the Strategic report for further detail on the performance related to this target.	40%	Target -30% $467m	Target -10% $601m	Target $667m	Target +10% $734m	COP before R&D of $703m	Target to Maximum	132.2% of salary
Strategic	Return on Invested Capital (ROIC)	Hikma invests significant capital to expand its product portfolio and pipeline and improving its high-quality manufacturing capabilities. Over the longer term, these activities ensure that margins can be maintained through manufacturing more complex/specialty products and capturing greater market share, respectively. The extensive range of capital investments have various timeframes for delivering new capabilities and enhancing Hikma's competitive position. The performance of previous and existing projects is monitored by the Board on a project by project basis. ROIC provides a Group-level method of assessing the time and cost to deliver projects and their ultimate returns over a one-year time frame. See page 14 of the Strategic report for further detail on the performance related to this target.	20%	Target -40% 9%	Target -26% 11%	Target 15%	Target +47% 22%	ROIC of 16.2%	Target to maximum	55.1% of salary
Total			**100%**	**Unacceptable**	**Acceptable**	**Good**	**Excellent**			**298.3%**

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	$1,018,000	150%	116.1%	1,182,028	Cash now (February 2021)	All shares vesting are subject to a holding period after vesting. These shares may not be sold until 5 years after grant.
	B		150%	116.1%	1,182,028	Shares in 2 years from February 2021	
	C		100%	66.1%	673,028	Shares in 3 years from February 2021	
Total			**400%**	**298.3%**	**$3,037,084**		

The information in the above tables has been audited by PwC

GOVERNANCE

2020 Performance outcome: Chief Executive Officer (audited)

Readers are directed to the commentary on business performance that is included in the Chair's letter on pages 83 and 84.
The following table sets out the performance conditions and targets for 2020 and their level of satisfaction:

Performance condition				Performance level					Achievement		Application
Section	Description	Rationale and measurement	Weighting	Forfeiture 0% salary awarded	Minimum 75% of salary awarded	Target 250% of salary awarded	Maximum 400% of salary awarded		Results	Achievement	% of salary
Financial	Core revenue	Historically, the pricing of generic pharmaceutical products has decreased with time. The Committee is cognisant that this could lead to declining revenue over the longer term, which could ultimately result in a declining business overall. By ensuring that a significant proportion of performance remuneration is based on revenue, the Committee is able to ensure that the Executive Directors are focused on mitigating pricing declines by maximising the potential of the in-market portfolio, launching new products, and developing the pipeline. See page 14 of the Strategic report for further detail on the performance related to this target.	40%	Target -30% $1,610m	Target -10% $2,069m	Target $2,299m	Target +10% $2,529m		Core revenue of $2,341m	Target to maximum	111.0% of salary
	Core Operating Profit (COP) before R&D	Ultimately, COP is a key measure of value to Hikma's shareholders. Given the highly competitive business environment in which Hikma operates, the Executive Directors must focus continuously on optimising Hikma's cost base. The Committee wants the Executive Directors to deliver an optimised cost base without putting at risk the longer-term prospects of the business by underinvesting in R&D. Therefore, R&D costs have been excluded from this criterion. See page 14 of the Strategic report for further detail on the performance related to this target.	40%	Target -30% $467m	Target -10% $601m	Target $667m	Target +10% $734m		COP before R&D of $703m	Target to Maximum	132.2% of salary
Strategic	Business Development and the COVID-19 pandemic response	During the 2019 strategic review, the Board approved significant investment in new product launches and expansion into new business areas. The strategic target focused on the delivery of these elements. As the COVID-19 pandemic struck, the Chief Executive Officer's strategic target was expanded to include managing the challenges that arose and ensuring that the Group continued to supply essential medicines (further commentary is available on page 83).	20%	Committee assessment of the: — delivery of the product pipeline and business expansion plans; and — response to the operational and commercial challenges of the COVID-19 pandemic					Product portfolio increased by 13% in one year and delivered new business projects. Excellent organisational response to the COVID-19 pandemic	Maximum determined by the Committee	80% of salary
Total			**100%**	**Unacceptable**	**Acceptable**	**Good**	**Excellent**				**323.2%**

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	$1,133,000	150%	124.4%	$1,409,434	Cash now (February 2021)	All shares vesting are subject to a holding period after vesting. These shares may not be sold until 5 years after grant.
	B		150%	124.4%	$1,409,434	Shares in 2 years from February 2021	
	C		100%	74.4%	$842,934	Shares in 3 years from February 2021	
Total			**400%**	**323.2%**	**$3,661,802**		

The information in the above tables has been audited by PwC

GOVERNANCE

2020 Performance outcome: Executive Vice Chairman (audited)

Readers are directed to the commentary on business performance that is included in the Chair's letter on pages 83 and 84. The following table sets out the performance conditions and targets for 2020 and their level of satisfaction:

Performance condition				Performance level					Achievement		Application
Section	Description	Rationale and measurement	Weighting	Forfeiture 0% salary awarded	Minimum 75% of salary awarded	Target 250% of salary awarded	Maximum 400% of salary awarded	Results	Achievement	% of salary
Financial	Core revenue	Historically, the pricing of generic pharmaceutical products has decreased with time. The Committee is cognisant that this could lead to declining revenue over the longer term, which could ultimately result in a declining business overall. By ensuring that a significant proportion of performance remuneration is based on revenue, the Committee is able to ensure that the Executive Directors are focused on mitigating pricing declines by maximising the potential of the in-market portfolio, launching new products, and developing the pipeline. See page 14 of the Strategic report for further detail on this target.	40%	Target -30% $1,610m	Target -10% $2,069m	Target $2,299m	Target +10% $2,529m	Core revenue of $2,341m	Target to maximum	111.0% of salary
	Core Operating Profit (COP) before R&D	Ultimately, COP is a key measure of value to Hikma's shareholders. Given the highly competitive business environment in which Hikma operates, the Executive Directors must focus continuously on optimising Hikma's cost base. The Committee wants the Executive Directors to deliver an optimised cost base without putting at risk the longer-term prospects of the business by underinvesting in R&D. Therefore, R&D costs have been excluded from this criterion. See page 14 of the Strategic report for further detail on this target.	40%	Target -30% $467m	Target -10% $601m	Target $667m	Target +10% $734m	COP before R&D of $703m	Target to Maximum	132.2% of salary
Strategic	MENA revenue before R&D	The Executive Director is responsible for this region. The Committee considered financial metrics to be the best method of ensuring delivery of the strategy that could be measured in an objective manner that is readily understandable by investors. Measured by target MENA revenue compared to audited MENA revenue for the year ended 31 December 2020. See pages 32 and 33 of the Business and financial review for further detail on this target.	10%	Target -30% $541m	Target -10 % $695m	Target $773m	Target +10% $850m	MENA revenue of $762m	Threshold to Target	22.5% of salary
	MENA COP before R&D	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 2020. To align the approach with the Group target, R&D and Group costs have been removed from the measurments of this target. See pages 32 and 33 of the Business and financial review for further detail on this target.	10%	Target -30% $140m	Target -10% $180m	Target $200m	Target +10% $220m	MENA COP of $207m	Target to maximum	30.3% of salary
Total			**100%**	**Unacceptable**	**Acceptable**	**Good**	**Excellent**			**296.0%**

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

Participant		Calculation			Receive		
Executive	EIP Element	Salary	Maximum potential (% of salary)	Application % of salary	Value of bonus/shares	Receive	Notes
Executive Vice Chairman	A	$717,155	150%	115.1%	$825,379	Cash now (February 2021)	All shares vesting are subject to a holding period after vesting. These shares may not be sold until 5 years after grant.
	B		150%	115.1%	$825,379	Shares in 2 years from February 2021	
	C		100%	65.8%	$471,859	Shares in 3 years from February 2021	
Total			**400%**	**296.0%**	**$2,122,617**		

The information in the above tables has been audited by PwC

GOVERNANCE

Hikma continued to operate the EIP in 2020. 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 B	Conditional award	12-Mar-19	12-Mar-21	135% of salary	61,666	$1,377,010
	EIP Element C	Conditional award	12-Mar-19	12-Mar-22	85% of salary	38,862	$867,778
	EIP Element B	Conditional award	27-Feb-20	27-Feb-22	117% of salary	47,169	$1,194,310
	EIP Element C	Conditional award	27-Feb-20	27-Feb-23	67% of salary	27,057	$685,078
Total						**174,754** (2019: 136,966)	**$4,124,176** (2019: $3,616,558)
Siggi Olafsson	EIP Element B	Conditional award	12-Mar-19	12-Mar-21	137% of salary	67,307	$1,502,965
	EIP Element C	Conditional award	12-Mar-19	12-Mar-22	87% of salary	42,676	$952,965
	First Year Award (EIP C Equivalent)	Conditional award	12-Mar-19	12-Mar-22	150% of salary	72,000	$1,607,760
	EIP Element B	Conditional award	27-Feb-20	27-Feb-22	122% of salary	53,148	$1,345,709
	EIP Element C	Conditional award	27-Feb-20	27-Feb-23	72% of salary	31,426	$795,709
Total						**266,557** (2019: $181,983)	**$6,205,108** (2019: 4,805,223)
Mazen Darwazah	EIP Element C	Conditional award	16-May-18	16-May-21	23% of salary	12,042	$167,097
	EIP Element B	Conditional award	12-Mar-19	12-Mar-21	133% of salary	42,572	$950,634
	EIP Element C	Conditional award	12-Mar-19	12-Mar-22	83% of salary	26,514	$592,056
	EIP Element B	Conditional award	27-Feb-20	27-Feb-22	117% of salary	32,993	$835,377
	EIP Element C	Conditional award	27-Feb-20	27-Feb-23	67% of salary	18,831	$476,499
Total						**132,952** (2019: 117,399)	**$3,021,663** (2019: $3,099,895)

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 94 to 99
2. The face value is the value at the point of grant which is the 30-day average to the 31 December of the performance year. The actual value received by Executive Directors under the share incentive arrangements is dependent upon the share price of Hikma at the time of vesting, the satisfaction of performance criteria and the non-occurrence of forfeiture events (EIP Element B only)
3. The minimum value of the awards at vesting will be the share price on the day of vesting multiplied by the number of shares vesting. If the Executive Director leaves employment during the vesting period, the normal position is that zero shares vest. If all the forfeiture conditions occur in each year of the vesting period under Element B only, zero shares will vest. The weighting of each forfeiture condition has a proportional impact on the vesting percentage under Element B only

The information in the table above has been audited by PwC

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

Date	Market price (Closing price)
1 January 2020	2,001p
31 December 2020	2,518p
2020 Range (low to high)	1,596p to 2,768p
24 February 2021	2,423p

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 2010:

Type of plan	Granted in a rolling ten-year period	Granted during the year
Discretionary Share Plans (5% Limit)	3.70%	0.46%

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 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	22.29%	13,372,394	588,404	13,960,798
Mazen Darwazah[1]	11.59%	6,954,372	1,194,236	8,148,608
Ali Al-Husry[2]	8.24%	4,944,570	1,162,811	6,107,381

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%	88,709	Yes	13,960,798	108,835	65,919	14,135,552
Siggi Olafsson	300%	98,730	Yes	20,000	120,455	146,102	286,557
Mazen Darwazah[4]	300%	62,493	Yes	8,148,608	75,565	57,387	8,281,560
Ali Al-Husry[5]				6,107,381			6,107,381
Pat Butler				3,875			3,875
Dr Pamela Kirby				4,817			4,817
John Castellani				3,500			3,500
Nina Henderson				5,500			5,500
Cynthia Schwalm				1,100			1,100
Douglas Hurt				0			0
Robert Pickering[6]				10,000			10,000
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. Robert Pickering and Dr Jochen Gann retired from the Board on 18 December 2020 and 25 June 2020, respectively

There have been no changes in the interests of the Directors in the shares of Hikma between 31 December 2020 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 2020 of £25.18p and foreign exchange rate of $1.37 to £1 on the same date

The information in the above tables has been audited by PwC

Director share interests continued

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

Director	Date	Event	No. Shares
Cynthia Schwalm	23-Mar-20	Market purchase of shares	1,100
Said Darwazah	14-Apr-20	Vesting of 2017 EIP Element C. Retained all shares	36,438
Mazen Darwazah	14-Apr-20	Vesting of 2017 EIP Element C. Retained all shares	19,318
Mazen Darwazah	18-May-20	Vesting of 2018 EIP Element B. Retained all shares	16,953

The information in the table above has been audited by PwC

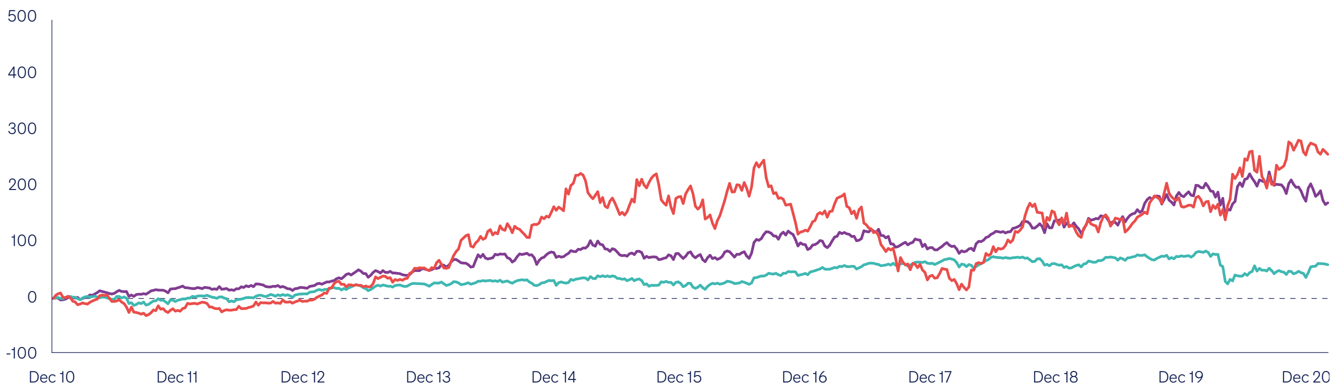
Scheme interests

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

	Type of interest		Share interests with performance measures		Vested but unexercised
Director	Shares	Share options	Yes	No	
Said Darwazah	174,754	–	108,835	65,919	–
Siggi Olafsson	266,557	–	120,455	146,102	–
Mazen Darwazah	132,952	–	75,565	57,387	–
All other directors	–	–	–	–	–

Total shareholder return

During 2020, Hikma performed strongly against 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). The Remuneration Committee has chosen these comparators because it uses executive compensation benchmarking data from the FTSE 100 and the pharmaceutical industry when considering compensation for the Executive Directors.



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

Remuneration table

The following table sets out the total remuneration, including amounts vesting under short-term and long-term incentive plans, for each financial period in respect of the Directors holding the positions of Executive Chairman and Chief Executive Officer. The total figures for the financial years 2017 and 2016 are higher than would otherwise be the case due to a change of incentive plan. In accordance with the Regulations, the 2017 and 2016 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]
2020	**$4,059,653**	**73%**	**77%**	**$3,718,549**	**80%**	**83%**
2019	$4,448,934	74%	78%	$4,121,724	78%	82%
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%

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 provided that the executive remains in employment and forfeiture events have not occurred

Non-Executive Directors

During the year, the Executive Directors reviewed the fees paid to Non-Executive Directors. The conclusion of the review was that the fees should remain unchanged (base fee of £87,500, committee membership fee of £10,000 and committee chair and additional responsibility fees of £10,000 (Audit chair £20,000)). The base fee was last increased in 2020 and other elements were last increased in 2019. 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:

		2020			2019		
Name	Board position	**Fee (all elements) £000**	**Taxable benefits[1] £000**	**Total £000**	Fee (all elements) £000	Taxable benefits £000	Total £000
Robert Pickering[2]	Non-Executive Director	**103.8**	**0.0**	**103.8**	105.0	0.0	105.0
Pat Butler[2]	Senior Independent Director	**116.7**	**0.0**	**116.7**	115.0	0.0	115.0
Dr Pamela Kirby	Remuneration Committee Chair	**107.5**	**0.0**	**107.5**	105.0	0.0	105.0
Ali Al-Husry	Non-Executive Director	**87.5**	**1.6**	**89.1**	85.0	2.6	87.6
Dr Jochen Gann	Non-Executive Director	**43.8**	**8.8**	**52.5**	85.0	6.7	91.7
John Castellani	CRE Committee Chair	**107.5**	**9.7**	**117.2**	105.0	12.8	117.8
Nina Henderson	Independent Director and Employee Engagement Lead	**107.5**	**9.5**	**117.0**	105.0	11.6	116.6
Cynthia Schwalm[2]	Non-Executive Director	**97.5**	**6.1**	**103.6**	55.4	0.0	55.4
Douglas Hurt	Audit Committee Chair	**66.7**	**0.0**	**66.7**	0.0	0.0	0.0

1. 'Taxable benefits' includes certain accommodation expenses for Non-Executive Directors that are wholly related to their attendance at Board meetings and are in accordance with normal Hikma expense policy. These expenses are treated as taxable benefits by the UK authorities and, where appropriate, the above figure includes the corresponding tax contribution
2. Pro-rated fees in respect of time served and position changes. Robert Pickering served as Senior Independent Director until 1 December 2020 and retired from the Board on 18 December 2020. Pat Butler served as Audit Committee chair until 1 December 2020, when he became the Senior Independent Director. Cynthia Schwalm joined the Board on 1 June 2019. Douglas Hurt joined the Board on 1 May 2020 and became Chair of the Audit Committee on 1 December 2020

The information in the table above has been audited by PwC

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

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

Terms of appointment and service
Service contracts
The details of the service contracts of the Executive Directors of Hikma in force at the end of the year under review, which have not changed during the year and are available for inspection at 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, 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
Ali Al-Husry	14 October 2005	1 month
Pat Butler	1 April 2014	1 month
Dr Pamela Kirby	1 December 2014	1 month
John Castellani	1 March 2016	1 month
Nina Henderson	1 October 2016	1 month
Cynthia Schwalm	1 June 2019	1 month
Douglas Hurt	1 May 2020	1 month

Hikma complies with the UK Corporate Governance Code requirement that all directors 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 (2019: $4,100), $nil (2019: $38,105) and $19,250 (2019: $25,000), respectively, relating to external appointments which are detailed in their Director profiles on page 66. The process for controlling external commitments is described in the governance statement on page 74.

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
24 February 2021

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 2020. This report forms the management report for the purposes of the Disclosure and Transparency Rules. Readers are asked to cross refer to the other sections of the Annual Report to the extent necessary to meet Hikma's reporting obligations as follows (statements that are not applicable have been excluded):

- Likely future developments of Hikma: Strategic report and the Business and financial review, pages 1 to 61
- Long-term incentive schemes: Directors' remuneration report, page 100
- Related party transactions: Note 38 to the Group financial statements, page 166
- Going concern statement: Risk management report, page 59
- Long-term viability statement: risk management report, page 59
- Names and biographical details of the Directors: corporate governance report, pages 66 and 67
- Independence of Non-Executive Directors: corporate governance report, page 71
- Directors' share interests: Directors' remuneration report, pages 101 and 102
- Greenhouse gas emissions: Sustainability report, page 49
- Financial instruments and risk: Note 30 to the Group financial statements, pages 153 to 158
- Stakeholder and S.172 Statement, pages 20 to 24

For the purposes of Listing Rule 9.8.4, shareholders are directed in accordance with the following table to notes in the Group financial Statements:

Item	Reference
Interest capitalised and associated tax relief	This page
Publication of unaudited financial information	None
Details of long-term incentive schemes	See Note 37 on pages 162 to 165
Waiver of emoluments by Directors	None
Allotment of securities for cash, including by major subsidiaries	None
Controlling entities/parent undertakings of Hikma	None
Contracts of significance with a material interest of a director or controlling shareholders	None
Services provided to Hikma by controlling shareholders	None
Arrangements by which shareholders have agreed to waive current or future dividends	See Note 32 on page 158
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 segmental results are shown by business segment in Note 5 to the Group financial statements on pages 134 and 135.

Results
Hikma's reported profit for the year in 2020 was $431 million (2019: $486 million).

Dividend
The Board is recommending a final dividend of 34 cents per share (approximately 24 pence per share) (2019: 30 cents per share) bringing the total dividend for the full year to 50 cents per share (approximately 36 pence per share) (2019: 44 cents per share, approximately 34 pence per share). The proposed dividend will be paid on 26 April 2021 to eligible shareholders on the register at the close of business on 19 March 2021, subject to approval at the Annual General Meeting on 23 April 2021.

Creditor payment policy
Hikma's policy, which is also applied by all subsidiaries and will continue in respect of the 2021 financial year, is to settle terms of payment with all suppliers when agreeing the terms of each transaction and to ensure that we abide by those terms of payment. Trade creditors of Hikma at 31 December 2020 were equivalent to 91 days' purchases (2019: 99 days), based on Group trade payables multiplied by 365, divided by trailing 12 months Group cost of goods sold.

Donations
During the year Hikma made charitable donations of approximately $6.8 million (2019: $5.3 million):

Type of donation	Amount donated in 2019 ($)	**Amount donated in 2020 ($)**
Local charities serving communities in which Hikma operates	2,169,549	2,731,248
Medical (donations in kind)	3,131,996	4,068,232
Political donations and expenditure	nil	nil
Total	**5,301,545**	**6,799,480**

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

GOVERNANCE

Research and development
Hikma's investment in research and development (R&D) during 2020 represented 5.9% of Group revenue (2019: 5.7%). Further details on Hikma's R&D activities can be found on pages 7, 9, 13, 15, 17 and 34.

Interest
The interest capitalised during the year under review was $nil (2019: $nil). The tax impact related to the capitalised interest was $nil (2019: $nil).

Streamlined Energy and Carbon Reporting
The Group operates one site within the United Kingdom which is an office within a building that is managed by a third party. During the year, the UK site consumed 128,654 kWh (2019: 164,658 kWh) of energy, which is equivalent to 29,994 kg of carbon dioxide (2019: 38,388 kg). This is equivalent to 3,675 kWh per employee (2019: 4,450 kWh). The energy consumption is measured by meter readings provided by the managing agent and relates to electricity and gas used for heating, cooling and general office power. Where there are gaps in the data provided by the managing agent, consumption has been modelled using the proportional consumption from data available from prior periods. The Group does not provide transport within the UK other than via private hire vehicles for which consumption data is not available. During 2021, the UK site is to be assessed by an independent expert for the potential to improve energy efficiency.

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, Douglas Hurt will seek election, and Said Darwazah, Siggi Olafsson, Mazen Darwazah, Patrick Butler, Ali Al-Husry, Dr Pamela Kirby, John Castellani, Nina Henderson and Cynthia Schwalm 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. During the year, the Directors' indemnities were reviewed and updated to bring them into line with current practice. The changes were not material.

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.

Employee engagement
Nina Henderson undertook the employee engagement activities, as described on page 63. Hikma continued to operate its existing employee engagement mechanisms which include intra-Group communications, social networking, an open door policy for legitimate union representatives and the operation of share incentive arrangements. Hikma does not discriminate against a potential employee on grounds of disability and will make reasonable adjustments to employ and develop disabled people.

Stakeholder engagement
Further information on the Board's engagement with stakeholders is detailed on pages 20 to 24.

Equity
Capital structure
Details of the issued share capital, together with movements in the issued share capital during the year, can be found in Note 32 to the Group financial statements on page 180. 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 2020:

Type	Nominal value	In issue	Issued during the year
Shares	10 pence	243,332,180	1,013,006

During 2020, 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.

The Directors are not aware of any agreements between holders of Hikma's shares that may have resulted in restrictions on the transfer of securities or on voting rights. No person has any special rights with regard to the control of Hikma's share capital and all issued shares are fully paid. Hikma placed 12,833,233 shares into treasury during the year under review.

Share buyback
At the Annual General Meeting (AGM) on 30 April 2020, 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 2021 or the 2021 AGM, which is scheduled for 23 April 2021. The Directors have used this authority during the year to purchase 12,833,233 shares from Boehringer Ingelheim (the 'Treasury Shares') when they disposed of their entire shareholding and are proposing to renew this authority at the 2021 AGM. These Treasury Shares are held in treasury and, accordingly, do not receive dividends and do not exercise voting rights.

Share issuance
At the AGM on 30 April 2020, the Directors were authorised to issue relevant securities up to an aggregate nominal amount of £8,077,634 and to be empowered to allot equity securities for cash on a non-pre-emptive basis up to an aggregate nominal amount of £1,211,645 at any time up to the earlier of the date of the 2021 AGM or 30 June 2021. The Directors propose to renew these authorities at the 2021 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 37 to the Group financial statements on pages 162 to 165. Shares are also held by the Hikma Pharmaceuticals Employee Benefit Trust (EBT) and are detailed in Note 32 to the Group financial statements on page 158. The EBT has waived its right to vote on the shares it holds and also to its entitlement to a dividend. Other than the shares held by the EBT and the Treasury Shares, no other shareholder has waived the right to a dividend.

Annual General Meeting
The AGM of Hikma will be held at Hikma Offices, 5th floor, 1 New Burlington Place, London W1S 2HR on Friday, 23 April 2021, starting at 1.00 p.m. and arrangements are in place for virtual attendance. The Notice convening the meeting is given in a separate document accompanying this document, and includes a commentary on the business of the AGM, explains how shareholders can take part either in person or virtually, 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 in the Notice.

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.

Article of association
The Company reviewed its Articles during the year with a view to bringing the Articles into line with best practice, such as enhancing the procedures for virtual general meetings. The Company is proposing to adopt new Articles at the 2021 AGM and has summarised the material changes in the Notice of Meeting.

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[1]
Darhold Limited[2]	60,000,000	26.04%
Capital Group International	23,275,396	10.10%
Wellington Management Group LLP	11,556,882	5.01%
BlackRock Group	11,551,161	5.01%

1. The percentages detailed relate to voting rights in the Company. Therefore, the Treasury Shares and shares held by the EBT have been excluded from the denominator for this calculation
2. 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 interests in Darhold Limited

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

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

Post balance sheet events
There have been no post balance sheet events.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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, 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 for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether for the group and company, international accounting standards in conformity with the requirements of the Companies Act 2006 and, for the group, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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; and
- 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's 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.

Directors' confirmations

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Directors' report confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRSs issued by IASB, give a true and fair view of the assets, liabilities, financial position and profit of the group;
- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the Annual Report and financial statements includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

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).

On behalf of the Board

Said Darwazah
Executive Chairman
24 February 2021

Sigurdur Olafsson
Chief Executive Officer
24 February 2021

Financial statements

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

In this section

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 2020 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and Company balance sheets as at 31 December 2020; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the consolidated and Company 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 international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of Companies Act 2006, has also applied international financial reporting standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

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

Basis for opinion

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

Independence

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

During the period, we identified that one PwC team in the Middle East was involved in supporting the preparation of the local statutory financial statements for the financial year ended 31 December 2019 on behalf of Hikma. The team provided administrative services in connection with the preparation of local statutory financial statements for which no fee was sought nor obtained. The service has completed and was limited to two sets of local statutory accounts which did not fall within the scope of the Group audit. Administrative typing and drafting of statutory financial statements is prohibited by the FRC's Ethical Standard. We confirm that, based on our assessment of this breach, the nature and scope of the service and the subsequent actions taken, the provision of the service has not affected our professional judgement and the audit report and therefore we remained independent for the purposes of the audit.

Other than the matter referred to above, 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.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group in the period under audit.

Our audit approach

Overview

Audit scope

- Our audit included full scope audits of four components, central audit procedures on specific financial statement line items of one component and audit procedures performed centrally over the consolidation and specific material balances at other locations around the world. Full scope components account for 73% of consolidated revenue, 75% of the adjusted profit measure we use as a basis for determining materiality and 76% of consolidated total assets.

Key audit matters

- Valuation and presentation and disclosure of goodwill and intangible assets (Group)
- Valuation and accuracy of gross to net rebate, returns and chargeback adjustments in the US (Group)
- Tax including completeness and valuation of provisions for uncertain tax positions (Group)
- Impact of COVID-19 (Group and Company)

Materiality

- Overall Group materiality: $24 million (2019: $21.5 million) based on 5% of profit before tax after adjusting for all exceptional items and other adjustments except for amortisation of intangible assets other than software.
- Overall Company materiality: $21.6 million (2019: $19.4 million) based on 1% of total assets, capped at 90% of overall Group materiality.
- Performance materiality: $18 million (Group) and $16.2 million (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to product safety (including but not limited to the regulations set out by the United States Food and Drug Administration regulations), competition and antitrust laws, pricing and practices legislation, tax legislation and anti-bribery and corruption legislation (including but not limited to the Foreign Corrupt Practices Act), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and Listing Rules of the Financial Conduct Authority (FCA). We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- discussions with management and the Group's legal counsels, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- assessment of matters reported on the Group's whistleblowing hotline and results of management's investigation of such matters;
- challenging assumptions made by management in its significant accounting estimates particularly in relation to estimation of rebate, chargeback and return reserves, valuation of intangible assets, and recognition and measurement of litigation and contingent liabilities and uncertain tax provisions (see related key audit matters below); and
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, journals posted by senior management, journals posted and reviewed by the same individual and consolidation journals.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Impact of COVID-19 is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Valuation and presentation and disclosure of goodwill and intangible assets (Group)

Key audit matter	How our audit addressed the key audit matter
At 31 December 2020, the Group had goodwill of $289 million and intangible assets of $587 million (31 December 2019: $282 million and $552 million, respectively) comprising product-related intangible assets, software and other identified intangible assets. These are contained within four cash generating units (CGUs): Generics, generic Advair Diskus®, Branded and Injectables. All CGUs containing goodwill and indefinite-lived intangible assets must be tested for impairment annually and finite-life intangible assets are tested when there is an indication of impairment. An impairment is booked when the carrying value exceeds the recoverable amount. Judgement is required in assessing whether an impairment trigger event has happened and there is significant estimation uncertainty in respect of calculating the recoverable value of CGUs and assets to determine whether an impairment charge should be booked. Impairment was determined to be a significant risk for the Generics, generics Advair Diskus® and Branded CGUs. Additionally, the Group must consider whether there are indicators of impairment reversal at each reporting date. Such indicators are usually the opposite of the indicators of impairment that previously gave rise to the impairment and there is judgement involved in assessing the existence of these impairment reversal indicators. Once indicators for impairment reversal are identified, the determination of recoverable values requires significant estimation on the part of management in determining the higher of the value in use (VIU) and fair value less costs to dispose (FVLCTD) for the relevant individual assets or CGUs. The reversal cannot be so large as to cause the carrying value of an asset to exceed the lower of (i) the asset's current recoverable amount; and (ii) the carrying amount that would have been determined if no impairment loss had been recognised previously, adjusted for subsequent depreciation or amortisation. These reversal considerations are relevant to the Generics and generic Advair Diskus® CGUs due to the impairment recorded in 2017 in relation to these CGUs. During 2020, no impairment has been recorded on a CGU level. Impairment of $5 million was recorded in respect of product related intangibles and $10 million in respect of software. Also, an impairment reversal of $66 million has been recorded on individual marketed product related intangibles. Refer to the Audit Committee's review of significant matters on page 79, significant accounting policies (note 2), critical accounting judgements and key sources of estimation uncertainty (note 3) and goodwill and intangible assets (note 16) in the Group financial statements.	We assessed the determination of the CGUs identified for the impairment calculation by considering the CGUs previously used as well as from our understanding of the business as it develops and how it is monitored. We concluded that management's determination of four CGUs in 2020 is reasonable. With support from our internal valuations experts we performed the following procedures: – Understood management's process for forecasting cash flows; – Evaluated the appropriateness of the methodology used in the relevant impairment models; – Tested the accuracy of the models as well as the underlying data used in the models, including reconciling the cash flows to the Board approved plan (which includes the impact of COVID-19); – Evaluated the significant assumptions used by management in determining future cash flows, including cash flow growth or decline, pricing and profitability, timing and probability of regulatory success for key products, and impact of COVID-19; – Our valuations experts assessed the reasonableness of the valuation methodology, discount rates, long term growth rate and mathematical accuracy. We also compared management forecasts to analyst consensus cash flows for the Generics, Injectables and Branded businesses and challenged management where there were significant differences; – Performed a retrospective comparison of forecasted revenues and costs to actual past performance including challenging management to produce additional analysis on a constant currency basis; – For the generic Advair Diskus® CGU, we challenged management's impairment model based on the expected impact of recent regulatory updates and the resulting delay in launch by getting them to include a probability of no launch in their model. Based on our work above we determined our own sensitivities and applied these to management's models. Where the sensitised VIU models showed limited headroom or some contradictory evidence we obtained recent market transactional data to form a view on a FVLCTD basis. We found management's conclusions on the CGUs and indefinite-lived intangible assets impairment assessment to be reasonable, although the headroom on the generic Advair Diskus® CGU is more sensitive to the key assumptions around growth rates, discount rates and terminal values. Additional disclosures have been included by management in accordance with IAS 36. We conclude the analyses performed and disclosed in note 16 are appropriate. We validated the appropriateness of the related disclosures in notes 2, 3 and 16 of the financial statements. We also tested management's impairment indicators assessment for finite life intangible assets and noted no issues. For impairment reversal considerations, we tested management's assessment of impairment reversal indicators both at the CGU level (Generics and generic Advair Diskus®) and individual intangible assets level taking into account the conditions in the US generics market (at a CGU and product level) and factors relating to generic Advair Diskus® and consulted with our technical accounting experts on the accounting judgements involved. Where indicators for impairment reversal were identified, we tested management's cash flow models for recoverable value in line with our testing over the CGU level models and agreed the cash flows to the business plan. Based on our procedures, we concluded it was appropriate to reverse $66 million of impairment on specific marketed product related intangibles which showed discrete and sustained recovery in performance. We believe management's position on not reversing impairment on the Generics and generic Advair Diskus® CGUs to be supportable.

Valuation and accuracy of gross to net rebate, returns and chargeback adjustments in the US (Group)

Key audit matter	How our audit addressed the key audit matter
Management is required to make estimates in respect of revenue recognition and specifically the level of chargebacks, returns, rebates and other revenue deductions that will be realised against the Group's revenue. These estimates are material to the financial statements, hence the reason for inclusion as an area of focus. The largest of these estimates relates to revenue recognition through chargebacks, rebates and returns in the US. Hikma USA recorded revenue deductions for the year ended 31 December 2020 of $2,142 million (2019: $2,235 million). We focused on this area as chargebacks, returns, rebates and the deductions from gross revenue are complex, material and because establishing an appropriate reserve requires significant estimation by the Directors. The Directors have determined a reserve of $442 million for Hikma USA to be necessary at 31 December 2020 (2019: $442 million). Refer to the Audit Committee's review of significant matters on page 79, significant accounting policies (note 2), critical accounting judgements and key sources of estimation uncertainty (note 3), trade and other receivables (note 21) and other current liabilities (note 28) in the Group financial statements.	We, alongside our US Component team, considered the Group's processes for making judgements in this area and performed the following procedures: – Assessed the revenue recognition policy and applicable controls in place around this process; – Tested controls over validation and approval of payment claims; – Tested chargebacks, returns, and rebates payments and credit memos throughout the year by agreeing selected transactions back to the underlying source documentation including customer claims and payment information; – Confirmed channel inventory with major wholesalers or performed alternative procedures where confirmations were not received; – Developed an independent expectation of the largest elements of the reserves at 31 December 2020 using assumptions and inputs based on contracted prices and rebate terms, historical rebates, discounts, validated channel inventory levels, and invoices received or payments made, as applicable, subsequent to year-end to validate reserves. We compared this expectation to the actual accrual recognised by the Group; and, – Considered the historical accuracy of the Group's estimates in previous years and the effect of any adjustments to prior years' accruals in the current year's results. Based on the procedures performed, we did not identify any material differences between our independent expectations and the reserves recorded. We also evaluated the disclosures in Note 2, Note 3, Note 21 and Note 28 which we considered appropriate.

Tax including completeness and valuation of provisions for uncertain tax positions (Group)

Key audit matter	How our audit addressed the key audit matter
The Group operates across many jurisdictions due to its geographic spread, resulting in complex cross-border tax arrangements. As a result, it is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business including transaction related tax matters and transfer pricing arrangements leading to uncertain tax positions. Judgement is required in assessing the outcome, and in estimating the level of provisions required, in respect of uncertain tax positions (UTPs). As of 31 December 2020, the Group has recorded provisions of $43 million in respect of uncertain tax positions (2019: $54 million). Refer to the Audit Committee's review of significant matters on page 79, significant accounting policies (note 2), critical accounting judgements and key sources of estimation uncertainty (note 3) and tax (note 12) in the Group financial statements.	In conjunction with our UK, US and international tax specialists, we evaluated and assessed the potential uncertainties and challenged management's judgements and estimation of the amount of tax provisions booked against the uncertain positions. In understanding and evaluating management's judgements relating to the level of provisioning for uncertain tax positions, and through discussions with management, we (including component teams, where relevant) assessed: – the status of ongoing, and outcome of previous, tax authority audits; – the integrity of management's detailed analysis and calculations of provisions recorded, amounting to $43 million; – the evidence provided by management to support its assumptions underpinning uncertain tax positions at 31 December 2020; – completeness of exposures for periods open to challenge and understanding new areas of enquiry from tax authorities; and, – developments in the tax environment and external tax advice received by the Group. Based on the procedures performed, we have not identified any issues with the completeness or valuation of management's provisions for UTPs and consider the level of provisioning to be acceptable.

Impact of COVID-19 (Group and Company)

Key audit matter	How our audit addressed the key audit matter
COVID-19 has had a significant impact on most businesses during 2020 and this continues into 2021. The Directors have considered the impact of COVID-19 on the Group's operations throughout the Annual Report but specifically seen on page 10. Although COVID-19 did not have a material impact on the financial statements, we have performed additional procedures in our audit work in order to adequately respond to risks related to COVID-19. The main areas that we considered included, but were not limited to: – Any potential impairment of assets (see separate KAM above for consideration of work on impairment of Goodwill and intangible assets). Consideration of other impairment is considered to the right; – Going concern and whether COVID-19 affected the ability of the Group and Company to prepare the financial statements on a going concern basis; – Management's ways of working, including the operation of controls. A large number of employees working remotely and using technology enabled working practices. For example, this has meant virtual review meetings, and electronic review processes (in place of hardcopy reviews); and – PwC's ways of working, including but not limited to impact of travel restrictions on our plans for component oversight and other physical aspects of the audit e.g. inventory counts.	We have considered the impact of COVID-19 in the following key areas: – We challenged management on the need for impairment in respect of the remaining assets (other than goodwill and intangible assets and fixed assets included within CGUs). In respect of non-quoted investments carried at fair value, we obtained evidence to support management's position that COVID-19 has not adversely impacted the future potential of these investments such that an impairment is needed. Also, we have challenged management, with the help of our component teams, on the level of provisioning for accounts receivables (expected credit losses) and inventories. No material issues have been noted in these areas; – As part of our work over the going concern and viability assessment, we have considered the impact of COVID-19 on future cash flows. Note that we have assessed going concern as a normal risk area for Hikma and COVID-19 did not result in a change in our risk assessment due to the insignificant impact on the financial statements. See 'Conclusions relating to going concern' section below for details of the procedures performed and our conclusions in respect of going concern; and – Where we relied on controls, we ensured beforehand that the change in management's ways of working did not impact the effectiveness of the controls. We also changed our way of working in response to COVID-19. Due to physical access restrictions and health and safety concerns, our US component team performed some of their inventory count observations using virtual technology tools. We have discussed the procedures and results of these with our US component team and reviewed their working papers and consider the procedures to be adequate and appropriate. We increased the oversight of our component teams, using video conferencing and remote workpaper reviews to satisfy ourselves as to the appropriateness of audit work performed at the significant and material components. Overall, we have been cognisant of the impact of COVID-19 on all areas of the financial statements and our audit plan. We have performed audit procedures to respond to all the risks in an appropriate way.

How we tailored the audit scope

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

Procedures were performed prior to year-end to evaluate component auditor procedures and controls, and oversight discussions were undertaken by senior team members with component auditors, to refine the audit approach and ensure sufficient oversight of component auditors. As at 31 December 2020, Hikma Pharmaceuticals PLC had in total 65 entities (subsidiaries) in the Group. These entities may operate solely in one segment but more commonly operate across two. Each territory (component) submits a Group reporting package to Hikma's central accounting team including its Income Statement and Statement of Financial Position prepared under Group accounting policies which are in compliance with IFRSs. We requested component teams in the US (Hikma USA), Jordan (Hikma Jordan), Algeria (Hikma Algeria) 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 a full scope audit of Hikma Pharmaceuticals PLC, central audit procedures performed over specific balances in Hikma International Ventures Limited and procedures performed centrally including the consolidation, taxation and testing of certain component auditor balances not covered by component auditors. Due to travel restrictions as a result of COVID-19, we have not been able to perform component oversight visits. Nevertheless, we have accordingly increased the frequency of communication with our component teams through conference calls both at the planning and execution stages including increasing the involvement from senior team members from both sides. We have attended meetings with local management alongside our component auditors, reviewed working papers for all components including those components which are not significant or material, attended component audit clearance meetings as part of interim and year-end audit work, and engaged in other forms of communication as considered necessary depending on the significance of the component and the extent of accounting and audit issues arising. Full scope components account for 73% of consolidated revenue, 76% of consolidated total assets and 75% of the adjusted profit measure we used as a basis for determining materiality.

Materiality

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

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

	Financial statements – Group	Financial Statements - Company
Overall materiality	$24 million (2019: $21.5 million).	$21.6 million (2019: $19.4 million).
How we determined it	5% of profit before tax after adjusting for all exceptional items and other adjustments except for amortisation of intangible assets other than software	1% of total assets, but capped at $21.6 million based on 90% of overall Group materiality.
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 the equivalent reported measure into account in determining our materiality but did not add back certain non-core items unless we deemed them to be non-recurring in nature. Our materiality would have been higher if we had adjusted for all non-core items.	The Company holds the Group's investments and performs treasury functions on behalf of the Group. The strength of the balance sheet is the key measure of financial health that is important to shareholders, since the primary concern for the Company is the payment of dividends and the servicing of debt. However, due to the Company being a component of the Group, we have capped Company materiality at 90% of overall Group materiality.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between $3 million and $21.6 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to $18 million for the Group financial statements and $16.2 million for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $1.2 million (Group audit) (2019: $1 million) and $1.08 million (Company audit) (2019: $1 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- agreeing the underlying cash flow projections to board approved forecasts, assessing how these forecasts are compiled, and assessing the accuracy of management's forecasts;
- evaluating the key assumptions within management's forecasts;
- considering liquidity and available financial resources;
- considering compliance with covenants in the current year and ability to comply with these at each future covenants reporting date in the going concern period;
- assessing whether the plausible downside scenario prepared by management appropriately considered the principal risks facing the business; and
- evaluating the feasibility of management's mitigating actions in the plausible downside scenario.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this 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 and the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and the Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and the Directors' report.

Directors' Remuneration

In our opinion, the part of the Annual report on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Corporate governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The Directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when 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.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibilities statement, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 Annual report on remuneration 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 five years, covering the years ended 31 December 2016 to 31 December 2020.

Darryl Phillips
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
24 February 2021

Consolidated income statement

For the year ended 31 December 2020

	Note	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Revenue	4	2,341	–	2,341	2,203	4	2,207
Cost of sales[1]		(1,128)	(12)	(1,140)	(1,108)	(11)	(1,119)
Gross profit/(loss)		1,213	(12)	1,201	1,095	(7)	1,088
Selling, general and administrative expenses		(464)	(45)	(509)	(453)	(41)	(494)
Net impairment loss on financial assets		(2)	–	(2)	–	–	–
Research and development expenses		(137)	–	(137)	(126)	(24)	(150)
Other operating income/(expenses), net[1]	9	(44)	70	26	(8)	57	49
Total operating (expenses)/income		(647)	25	(622)	(587)	(8)	(595)
Operating profit/(loss)	5	566	13	579	508	(15)	493
Finance income	10	9	38	47	7	60	67
Finance expense	11	(54)	(15)	(69)	(52)	(15)	(67)
Gain from investment at fair value through profit and loss (FVTPL)		1	–	1	2	–	2
Loss from investment divestiture		–	–	–	–	(4)	(4)
Profit before tax		522	36	558	465	26	491
Tax	12	(115)	(13)	(128)	(100)	96	(4)
Profit for the year		407	23	430	365	122	487
Attributable to:							
Non-controlling interests	33	(1)	–	(1)	1	–	1
Equity holders of the parent		408	23	431	364	122	486
		407	23	430	365	122	487
Earnings per share (cents)							
Basic	15	172.9		182.6	150.4		200.8
Diluted	15	171.4		181.1	149.8		200.0

1. Inventory related provisions have been reclassified under the cost of sales line item in order to align with industry practice. Previously the costs were reflected in other operating income/(expenses), net and hence the 2019 numbers have consequently been restated. See Note 2 for more details

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 Reported results $m	2019 Reported results $m
Profit for the year		430	487
Other comprehensive income			
Items that may subsequently be reclassified to the consolidated income statement, net of tax:			
Currency translation gain and hyperinflation movement		39	20
Items that will not subsequently be reclassified to the consolidated income statement, net of tax:			
Remeasurement of post-employment benefit obligations	27	(1)	–
Change in investments at fair value through other comprehensive income (FVTOCI)	19	2	(2)
Total comprehensive income for the year		470	505
Attributable to:			
Non-controlling interests		2	2
Equity holders of the parent		468	503
		470	505

Consolidated balance sheet

At 31 December 2020

	Note	2020 $m	2019 $m
Non-current assets			
Goodwill	16	**289**	282
Other intangible assets	16	**587**	552
Property, plant and equipment	17	**1,009**	912
Right-of-use assets	34	**59**	50
Investment in joint ventures	18	**9**	11
Deferred tax assets	13	**221**	243
Financial and other non-current assets	19	**39**	32
		2,213	2,082
Current assets			
Inventories	20	**757**	568
Income tax receivable		**36**	79
Trade and other receivables	21	**756**	719
Collateralised and restricted cash	22	**4**	1
Cash and cash equivalents	23	**323**	442
Other current assets	24	**46**	39
		1,922	1,848
Total assets		**4,135**	3,930
Current liabilities			
Short-term financial debts	25	**158**	569
Lease liabilities	34	**10**	9
Trade and other payables	26	**470**	473
Income tax payable		**72**	82
Other provisions	27	**28**	23
Other current liabilities	28	**290**	315
		1,028	1,471
Net current assets		**894**	377
Non-current liabilities			
Long-term financial debts	29	**692**	48
Lease liabilities	34	**72**	59
Deferred tax liabilities	13	**31**	20
Other non-current liabilities	31	**164**	203
		959	330
Total liabilities		**1,987**	1,801
Net assets		**2,148**	2,129
Equity			
Share capital	32	**41**	41
Share premium		**282**	282
Other reserves		**(80)**	(179)
Retained earnings[1]		**1,892**	1,973
Equity attributable to equity holders of the parent		**2,135**	2,117
Non-controlling interests	33	**13**	12
Total equity		**2,148**	2,129

1. Beginning in 2020, own shares are deducted from retained earnings. At 31 December 2019, own shares of $(1) million were included in other reserves (Note 32)

The consolidated financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 118 to 170 were approved by the Board of Directors on 24 February 2021 and signed on its behalf by:

Said Darwazah
Director
24 February 2021

Sigurdur Olafsson
Chief Executive Officer

Consolidated statement of changes in equity

For the year ended 31 December 2020

	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 2019 as adjusted[1]	38	(254)	(1)	(217)	1,582	40	282	1,687	12	1,699
Profit for the year[2]	20	–	–	20	466	–	–	486	1	487
Change in investments at FVTOCI (Note 19)	–	–	–	–	(2)	–	–	(2)	–	(2)
Currency translation gain and hyperinflation movement	–	19	–	19	–	–	–	19	1	20
Total comprehensive income for the year	20	19	–	39	464	–	–	503	2	505
Total transactions with owners, recognised directly in equity										
Cost of equity-settled employee share scheme (Note 37)	–	–	–	–	24	–	–	24	–	24
Exercise of employees share scheme	(1)	–	–	(1)	–	1	–	–	–	–
Dividends paid (Note 14)	–	–	–	–	(97)	–	–	(97)	(2)	(99)
Balance at 31 December 2019 and 1 January 2020	57	(235)	(1)	(179)	1,973	41	282	2,117	12	2,129
Reclassification[3]	–	–	1	1	(1)	–	–	–	–	–
Balance at 1 January 2020 as adjusted	57	(235)	–	(178)	1,972	41	282	2,117	12	2,129
Profit for the year[2]	62	–	–	62	369	–	–	431	(1)	430
Change in investments at FVTOCI (Note 19)	–	–	–	–	2	–	–	2	–	2
Remeasurement of post-employment benefit obligations (Note 27)	–	–	–	–	(1)	–	–	(1)	–	(1)
Currency translation gain and hyperinflation movement	–	36	–	36	–	–	–	36	3	39
Total comprehensive income for the year	62	36	–	98	370	–	–	468	2	470
Total transactions with owners, recognised directly in equity										
Cost of equity-settled employee share scheme (Note 37)	–	–	–	–	27	–	–	27	–	27
Dividends paid (Note 14)	–	–	–	–	(109)	–	–	(109)	(1)	(110)
Share buyback (Note 32 and 38)	–	–	–	–	(368)	–	–	(368)	–	(368)
Balance at 31 December 2020	**119**	**(199)**	**–**	**(80)**	**1,892**	**41**	**282**	**2,135**	**13**	**2,148**

1. The Group adopted IFRIC 23 as of 1 January 2019. The impact of adoption was a decrease of $2 million of the amount previously held for uncertain tax positions which was credited to retained earnings (Note 3)
2. A net Impairment reversal of $62 million (2019: $20 million) has been allocated from retained earnings to the merger and revaluation reserves in relation to the Generics segment (Note 6 and 16)
3. Beginning in 2020, own shares are deducted from retained earnings. At 31 December 2019, own shares of $(1) million were separately presented in other reserves (Note 32)

Consolidated cash flow statement

For the year ended 31 December 2020

	Note	2020 $m	2019 $m
Cash flows from operating activities			
Cash generated from operations	35	**525**	580
Income taxes paid		**(68)**	(125)
Income taxes received		**7**	17
Net cash inflow from operating activities		**464**	472
Cash flow from investing activities			
Purchases of property, plant and equipment		**(172)**	(119)
Proceeds from disposal of property, plant and equipment		**–**	2
Purchase of intangible assets		**(52)**	(67)
Increase in investment in financial and other non-current assets		**–**	(1)
Proceeds from sale of investment at FVTOCI		**–**	12
Additions of investments at FVTOCI		**(5)**	(5)
Acquisition of business undertakings net of cash acquired		**–**	(8)
Proceeds from investment divestiture		**2**	2
Contingent consideration (paid)/received		**(60)**	27
Interest income received		**7**	6
Investment related amounts held in escrow account		**(3)**	–
Net cash outflow from investing activities		**(283)**	(151)
Cash flow from financing activities			
Increase in collateralised and restricted cash		**–**	(1)
Proceeds from issue of long-term financial debts		**1,543**	19
Repayment of long-term financial debts		**(1,372)**	(11)
Proceeds from short-term borrowings		**430**	267
Repayment of short-term borrowings		**(367)**	(273)
Repayment of lease liabilities		**(14)**	(12)
Dividends paid		**(109)**	(97)
Dividends paid to non-controlling shareholders of subsidiaries		**(1)**	(2)
Interest and bank charges paid		**(39)**	(44)
Share buyback		**(375)**	–
Commitment fees received related to the share buyback		**7**	–
Payment to co-development and earnout payment agreement		**(1)**	(1)
Net cash outflow from financing activities		**(298)**	(155)
Net (decrease)/increase in cash and cash equivalents		**(117)**	166
Cash and cash equivalents at beginning of year		**442**	276
Foreign exchange translation movements		**(2)**	–
Cash and cash equivalents at end of year		**323**	442

Notes to the consolidated financial statements

1. Adoption of new and revised standards

The following revised Standards and Interpretations have been issued and are effective on annual periods beginning on or after 1 January 2020. These amendments had no impact on the consolidated financial statements of the Group but may impact the accounting for future transactions and arrangements.

IFRS 3 (Amendments)	Business Combinations
IFRS 7 (Amendments)	Financial Instruments: Disclosures
IFRS 9 (Amendments)	Financial Instruments
IFRS 16 (Amendments)	Leases
IAS 1 (Amendments)	Presentation of Financial Statements
IAS 8 (Amendments)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 39 (Amendments)	Financial Instruments: Recognition and Measurement
Conceptual Framework for Financial Reporting	

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 180.

The Group's principal activities are the development, manufacturing, marketing and selling of a broad range of generic, branded and in-licensed pharmaceutical products in solid, semi-solid, liquid and injectable final dosage forms.

Reclassification of 2019 financial statements

Beginning in 2020, inventory related provisions are reported under the cost of sales line item for both 2020 and 2019 comparatives. In 2019 audited financial statements, inventory related provisions were included in other operating income/(expenses), net line item. The reason for reclassification is to be in line with industry practice. The effect of the adjustment on the operating profit was as follows:

	2019 results as previously reported $m	Adjustment $m	Adjusted 2019 reported results $m
Cost of Sales	(1,059)	(60)	(1,119)
Gross Profit	1,148	(60)	1,088
Other operating income/(expenses), net	(11)	60	49
Operating Profit	493	–	493

Basis of preparation

Hikma Pharmaceuticals PLC's consolidated financial statements are prepared in accordance with:

(i) International accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

(ii) International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation to fair value of certain financial assets and liabilities.

The accounting policies included in this note have been applied consistently other than where new policies have been adopted.

The Group's previously published consolidated financial statements were also prepared in accordance with IFRSs issued by the IASB and also in accordance with IFRSs adopted for use in the European Union.

The presentational and functional currency of Hikma Pharmaceuticals PLC is the US dollar as the majority of the Company's business is conducted in US dollars.

Going concern

The Directors believe that the Group is well diversified due to its geographic spread, product diversity and large customer and supplier base. Taking into account the Group's current position and its principal risks for a period longer than twelve months from the date of signing the consolidated financial statement, a going concern analysis has been prepared using realistic scenarios applying a severe but plausible downside which shows sufficient liquidity headroom and compliance with our debt covenants. Therefore, the Directors believe that the Group and its subsidiaries are adequately placed to manage its business and financing risks successfully, despite the current uncertain economic and political outlook. Having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements. (See page 59)

Basis of consolidation

The consolidated financial statements incorporate the results of Hikma Pharmaceuticals PLC (the Company) and entities controlled by the Company (together the Group). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The consolidated financial statements include:

— the assets and liabilities, results and cash flows of the Company and its subsidiaries, (entities that are controlled by the Group, through the power of governing the financial and operating policies to obtain benefits from its activities)
— the Group's share of the results and net assets of joint ventures

All subsidiaries and the Company financial statements consolidated are made up to 31 December each year.

Interests acquired in entities are consolidated from the date the Group acquires control and interests sold are de-consolidated from the date control ceases.

Goodwill is capitalised as a separate item in the case of subsidiaries and as part of the cost of investment in the case of joint ventures and associates.

Transactions and balances between subsidiaries are eliminated and no profit before tax is taken on sales between subsidiaries until the products are sold to customers outside the Group.

Transactions with non-controlling interests are recorded directly in equity.

Deferred tax relief on unrealised intra-group profit is accounted for only to the extent that it is considered recoverable.

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 the consolidated income statement in line with IFRS 9.

Subsequent changes to those fair values can only affect the measurement of goodwill, where they occur during the 'measurement period' and are as a result of additional information becoming available about facts and circumstances that existed at the acquisition date. All other changes are dealt with in accordance with relevant IFRSs. This will usually mean that changes in the fair value of consideration are recognised in the consolidated income statement.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (ie the date the Group attains control).

The resulting gain or loss, if any, is recognised in the consolidated income statement.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the aggregate of consideration, non-controlling interest and fair value of previously held equity interest over the fair values of the identifiable net assets acquired. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and acquired 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 acquired 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, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

Investment in joint ventures
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 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 joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and acquired contingent liabilities of the joint venture 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 a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture. The aggregate of Group's share of profit or losses after tax of joint ventures is shown on the face of the consolidated income statement below 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. On the disposal of foreign operation entities, the accumulated foreign exchange gains/losses are reclassified from OCI to the consolidated income statement.

2. Significant accounting policies continued

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. In territories where there are restrictions on the free access to foreign currency or multiple exchange rates, the applicable rates of exchange are regularly reviewed. Lebanon and Sudan were considered to be hyperinflationary economies in the year ended 31 December 2020 at which date the prevailing rates were 120.00 Sudanese pound per US dollar and 1,507.5 Lebanese pound per US dollar (see Note 30 for the rates in hyperinflationary economies). Gain or loss on net monetary asset/liability is recognised in the consolidated income statement. Inflation effect on non-monetary asset/liability is recognised in other comprehensive income within equity.

Revenue recognition
Under IFRS 15 revenue is recognised in the consolidated income statement when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services. The point at which control passes is determined by each customer arrangement, but generally occurs on delivery to the customer.

The Group manufactures certain medicines on behalf of some customers. The revenue from providing contract manufacturing services is recognised when these medicines are approved by the quality control department. There is no alternative use of these medicines and also the Group has enforceable right to payments once these medicines are quality approved.

The Group has generally concluded that it acts as principal in its revenue arrangements because it typically controls the goods before the transfer to customer.

Revenue represents the amounts receivable after the deduction of discounts, value added tax, other sales taxes, allowances given, provisions for chargebacks and accruals for estimated future rebates, returns and price adjustments. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in light of contractual and historical information.

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

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Variable consideration
The ultimate net selling price is calculated using variable consideration estimates for certain gross to net adjustments.

Chargebacks
The provision for chargebacks is the most significant and complex estimate used in the recognition of revenue. In the US, the Group sells its products directly to wholesale distributors, generic distributors, retail pharmacy chains and mail-order pharmacies. The Group also sells its products indirectly to independent pharmacies, managed care organisations, hospitals, and group purchasing organisations, collectively referred to as 'indirect customers'. The Group enters into agreements with its indirect customers to establish pricing for certain products. The indirect customers then independently select a wholesaler from which they purchase the products at agreed-upon prices. The Group will provide credit to the wholesaler for the difference between the agreed-upon price with the indirect customer and the wholesaler's invoice price. This credit is called a chargeback. The provision for chargebacks is based on historical sell-through levels by the Group's wholesale customers to the indirect customers, and estimated wholesaler inventory levels. As sales are made to large wholesale customers, the Group continually monitors the reserve for chargebacks and makes adjustments when it believes that actual chargebacks may differ from estimated reserves (see Note 21 for chargebacks sensitivity analysis).

Returns
The Group has a product return policy that allows customers to return the product within a specified period prior to and subsequent to the expiration date. Provisions for returns are recognised as a reduction of revenue in the period in which the underlying sales are recognised.

The Group estimates its provision for returns based on historical experience, representing management's best estimate. While such experience has enabled reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Group continually monitors the provisions for returns and makes adjustments when it believes that actual product returns may differ from established reserves (see Note 28 for return sensitivity analysis).

Rebates
In the US, rebates are granted to wholesaler distributors and direct customers. Rebates are also granted to healthcare authorities and under contractual arrangements with certain indirect customers. Products sold in the US are covered by various programmes (such as Medicaid) under which products are sold at a discount.

The Group estimates its provision for rebates based on current contractual terms and conditions as well as historical experience, changes to business practices and credit terms. While such experience has enabled reasonable estimations in the past, history may not always be an accurate indicator of future rebate liabilities. The Group continually monitors the provisions for rebates and makes adjustments when it believes that actual rebates may differ from established reserves. All rebates are recognised in the period in which the underlying sales are recognised as a reduction of revenue (see Note 21 and 28 for rebates sensitivity analysis).

Performance obligation
Free goods
Free goods are issued to certain customers as an alternative to discounts. Under IFRS 15 these free goods give rise to a separate performance obligation, which 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 then recognises revenue for the free goods when they are transferred to the customer.

2. Significant accounting policies continued

Share-based payments

At the Company's discretion and subject to the achievement of Group and personal performance criteria in the prior year, employees (including Executive Directors) of the Group receive performance based remuneration in the form of share-based payments, whereby employees render their services in exchange for shares or rights over shares (equity-settled transactions) under either the 2014 Executive Incentive Plans (EIP) or the 2009 and 2018 Management Incentive Plan (MIP) and the 2007 Long-Term Incentive Plan (LTIP), noting that the last grant was made in 2014). Refer to Note 37 for more details.

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 Black-Scholes methodology for nil-cost options using the share price as at the date of grant discounted by dividend yield. No account is taken of any performance conditions.

The cost of share-based payments is recognised, together with a corresponding increase in equity, on a straight-line basis over the year of performance and the vesting period after the grant date based on the Group's estimate of cost 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.

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 made 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 (Note 40).
- In certain countries and entities, the Group has post-employment defined benefit plans. Accordingly, valuations of the obligations under those plans are carried out and any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement gains or losses in other comprehensive income. Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognised immediately in the consolidated income statement as past service costs.
- End of service payments are provided for based on employees' final salaries and allowances and their cumulative years of service (Note 27).

Dividend income

Income from investments is recognised when the shareholders' rights to receive payment have been established.

Leases

In accordance with IFRS 16, the Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets:

- Right-of-use assets: The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain of obtaining ownership of a leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Right of use of assets are depreciated on a straight-line basis at the following depreciation rates:

Buildings	4% to 50%
Machinery and Equipment	25% to 50%
Vehicles	20% to 33%

- Lease liabilities: at the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option, payments for optional extension periods and payments of penalties for terminating a lease when these options are reasonably certain to be exercised by the Group. The discount rate used to calculate the lease liabilities is the incremental borrowing rate (IBR). The Group estimates it using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit profile)
- Short-term leases and leases of low-value assets: the Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e. below $5,000). Lease payments on short term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2. Significant accounting policies continued

Taxes

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.

Current Income Tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities within one year.

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

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 will reverse. To the extent the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, no deferred tax is provided.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Exceptional items and other adjustments

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

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

Core results

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

Our core results exclude the exceptional items and other adjustments set out in Note 6 in the notes to the consolidated financial statements.

Exceptional items

Exceptional items represent adjustments for costs and profits which management believes to be exceptional in nature by virtue of their size or incidence, or have a distortive effect on current year earnings, such as costs associated with business combinations, one-off gains and losses on disposal of businesses assets, reorganisation costs, write-down and impairment charges/reversal on assets and impairment of goodwill, and any exceptional items related to tax such as significant tax benefit/expense associated with previously unrecognised deferred tax assets/ liabilities.

Other adjustments

These include amortisation of intangibles excluding software and finance income and expense resulting from remeasurement of contingent consideration and co-development earnout payment agreement, financial liability and asset.

Both exceptional items and other adjustments are excluded from core results to improve comparability of our consolidated financial statements, consistent with our industry peers. We represent and discuss our Group and segmental financials reconciled between reported and core results. This presentation allows for full visibility and transparency of our financials so that shareholders are able to clearly assess the performance factors of the Group.

The basis of determining exceptional items and other adjustments did not change from the prior year.

Intangible assets

An intangible asset is recognised if all the below conditions are met:

- it is identifiable
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group
- the cost of the asset can be measured reliably

2. Significant accounting policies continued

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. The assets are amortised on a straight-line basis on the following amortisation rates:

Customer relationships	10%
Product related intangibles	5% to 33%
Trade names	10%
Marketing rights	7% to 33%
Software	5% to 33%

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

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

Also, the Group engages with third-party research and development companies to develop products on its behalf. Substantial payments made to such third parties to fund research and development efforts are recognised as intangible assets if the capitalisation criteria for an intangible asset are met, which typically is when licence fees and certain milestone payments are made, all other payments are charged to the consolidated income statement.

Principal intangible assets are:

(a) **Goodwill:** arising in a business combination and is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date fair value of the identifiable assets, liabilities and acquired contingent liabilities.

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 any profit or loss on disposal in the consolidated income statement.

(b) **Product related intangibles:**

(i) product files recognised on acquisition are amortised over the useful economic life once the asset is ready for use

(ii) Product files and in-licensed products recognised through acquisitions and partnerships are amortised over their useful economic lives once the asset is ready for use.

(c) **Purchased software:** is amortised over the useful economic life when the asset is ready for use.

Other identified intangibles

(d) **Customer relationships**: represent the value attributed to the long-term relationships held with existing customers that the group acquired on business combinations. Customer relationships are amortised over their useful economic life.

(e) **Trade names:** are amortised over their useful lives from the date of acquisition.

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

Property, plant and equipment

Property, plant and equipment have been stated at cost on acquisition and are depreciated on a straight-line basis except for land at the following depreciation rates:

Buildings	2% to 33%
Machinery and equipment	5% to 25%
Vehicles, fixtures and equipment	3% to 33%

A unit of production method of depreciation is applied to operations in their start-up phase, as this reflects the expected pattern of consumption of the future economic benefits embodied in the assets. When these assets are fully utilised, a straight-line method of depreciation is applied.

Projects under construction are not depreciated until construction has been completed and assets are considered ready for use.

Any additional costs that extend the useful life of property, plant and equipment are capitalised.

Whenever the recoverable amount of an asset is impaired, the carrying value is reduced to the recoverable amount and the impairment loss is taken to the consolidated income statement. Projects under construction are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Impairment of property, plant and equipment and intangible assets

At the same time each year, the Group carries out an impairment review for goodwill and intangible assets that are not yet ready for use. At the year end, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets that are subject 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).

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.

When an impairment loss for the asset, other than goodwill, subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. However, the increased carrying amount should not exceed the carrying amount that would have been determined had there been no impairment in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the assets' or CGU's recoverable amounts. A previously recognised impairment loss is reversed only if there has been a sustained and discrete change in the assumptions and indicators 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 and amortization, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement. In line with IAS 36, previously recognised impairment losses on goodwill are not reversed. see Note 16.

The Group's goodwill and intangible assets are tested as follows;

(a) Goodwill is allocated to each of the Group's cash-generating units. These cash-generating units are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

The assumptions used and sensitivity analysis in the impairment tests are set out in Note 16.

(b) Intangible assets that are not yet ready for use are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Inventories

Inventories are stated at the lower of cost and net realisable value. Purchased products are stated at acquisition cost including all additional attributable costs incurred in bringing each product to its present location and condition. The costs of own-manufactured products comprise 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 historical cost determined on a moving average basis, and this value is used to determine the cost of sales in the consolidated income statement. Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs necessary to make the sale. Inventory related provisions are made for net realisable value lower than cost, slow moving and short dated inventory.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and highly liquid investments with maturities within three months or less. Money market deposits comprise investment in funds that are subject to insignificant risk of changes in fair value and can be readily converted into cash.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group classifies its financial assets in the following measurements categories:

(i) Financial assets at FVTPL

Listed shares, debt instruments and investment portfolios held by the Group that are traded in an active market are classified as being financial assets at FVTPL and are stated at fair value. Gains and losses arising from changes in fair value are recognised in the consolidated Income Statement, see Note 24.

(ii) Financial assets at FVTOCI

The Group's investments in unlisted shares through its venture capital are stated at FVTOCI with no recycling of cumulative gains or losses upon de-recognition. These investments are measured at cost minus any impairment, and adjusted for observable price changes in orderly transactions for the identical or a similar investment of the same issuer, see Note 19.

(iii) Financial assets at amortised cost

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'Financial assets at amortised cost'. These receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured as FVTPL are held within a business model with the objective of both holding to collect contractual cash flows and selling.

2. Significant accounting policies continued

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

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

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit loss. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities
Financial liabilities are classified in two categories: financial liabilities 'at FVTPL' or 'financial debts' representing 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 at FVTPL 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. (Note 28 and 31)

(ii) Financial debts
Financial debts are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest method.

The effective interest method is used for calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The calculation of effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated income statement.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Restructuring provisions
Restructuring provisions are recognised only when the Group has a constructive obligation, which is when:

(i) There is a detailed formal plan that identifies the business or part of the business concerned, the location and number of employees affected, the detailed estimate of the associated costs, and the timeline;

(ii) The employees affected have been notified of the plan's main features

Own shares
— The Group provides finance to the trustee of the Employee Benefit Trust (EBT) which is Link Market Service Trustee 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. (Note 32)
— Treasury shares and any direct expenses associated with it are recognised at cost and deducted from equity. No gain or loss is recognised in consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. (Note 32)

Cash dividend
The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. In accordance with the laws of the United Kingdom, a final dividend is binding on the Company when it is approved by the shareholders and an interim dividend obtains this status when it is approved by the Board of Directors.

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the Directors are required to make judgements and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The Group's Directors believe that the following accounting policies that involve Directors' judgements and estimates are the most critical to understanding and evaluating the Group's financial results.

Revenue recognition estimate (Notes 4 and 5)
The Group's revenue recognition policies require Directors to make estimates of the net selling price, which is made complicated due to chargebacks, product returns and rebates. These arrangements vary by product arrangement and buying group. Refer to Note 2 for more details on each of the underlying estimates.

Impairment and reversal (Note 16)
Testing for impairment of goodwill and other assets included within a cash generating units (CGU) to establish the appropriate valuation of the CGU. The valuation used for comparison to the carrying value of the net assets of the CGU requires the following key judgements and estimates:

Critical judgement
— Determination of the CGU
— For reversal assessment of the Generics CGU, the Group assessed the events that indicated the impairment booked in 2017 and concluded that such indicators still existed, namely pricing pressures in the market, the increasing number of generic products and delays to approvals of more complex products. Existing headroom of Generics CGU has predominantly been created by marketed and pipeline products that were not reflected in the Group's plans at the time that the original impairment was booked, and as such did not reflect a reversal of the initial impairment indicators.

Critical estimate
— Estimating a five-year business plan for purposes of forecasting free cash flows which involves forecasting appropriate sales and operating expenses taking into considerations both internal and external information
— Estimating future capital expenditures and working capital requirements over the five-year period
— Estimating a discount rate that appropriately reflects the Group's weighted average cost of capital as adjusted for specific risk premiums reflecting risks inherent in achieving the projected future cash flows
— Estimate an appropriate terminal growth rate beyond the forecast period

Acquired intangible assets (Note 16)
Valuing intangible assets upon initial recognition as at the acquisition date and testing for impairment require the following judgements and estimates:

Critical judgement
— For pipeline products, establishing the launch date and probability of a successful product approval are critical judgements
— Determining whether an impairment indication has occurred for intangible assets. In such case the Group first assesses the qualitative factors to determine whether it is more likely than not that the fair value of the intangible asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test
— For previously impaired assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased, if such indication exists, the Group estimates the asset's or CGU's recoverable amount. Refer to Note 2 and 16 for more details

Critical estimate
— Estimating revenue forecasts (including market size, estimated expected market share, number of competitors and net selling prices)
— Estimating the expected economic useful lives of the product-related intangibles
— Estimating the sales and the allocation of marketing, research and development and other operating costs to the individual product-related intangibles
— Estimating a contributory asset charge (on working capital, fixed assets and workforce)
— Estimating a discount rate and specific risk premiums
— The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 16

Contingent consideration (Notes 28, 30 and 31)
The determination of the fair value of contingent consideration is based on discounted cash flows. The critical estimate and assumptions taken into consideration for contingent consideration fair valuation are the same as described in 'Acquired intangibles assets' above. (See Note 30 for sensitivity analysis).

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 (Note 13)
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.

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

Key sources of estimation uncertainty

The Group has made the following key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Tax audit risk

In common with most international organisations, the Group is subject to audit from revenue authorities from time to time. Where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability. These estimates take into account the specific circumstances of each dispute and relevant external advice, are inherently judgemental and could change substantially over time as new facts emerge and each dispute progresses. Hikma continues to invest in its financial systems to ensure the quality of the Group's financial data which reduces the risk of an adverse revenue authority audit. Furthermore, Hikma continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments and audits. Where open issues exist, the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of negotiations with the relevant tax authorities or, if necessary, litigation proceedings.

Other risks

In addition to tax audits, the Group faces other potential tax risks that could affect the sustainability of the Group's effective tax rate. The main risks are noted below. Hikma regularly takes professional advice to ensure the risks mentioned below are appropriately analysed and managed with any ultimate potential liability being adequately provided.

Transfer pricing risk

The transfer pricing risk can arise from a difference in view over the pricing of cross-border, intercompany product sales and services and of sales of assets. The standard by which most authorities, and the Group, assess the transfer price is whether it is set at arm's length. An upward adjustment by the tax authority of one territory will not necessarily result in the downward adjustment by the other territory, potentially leading to an increased estimated tax cost through a mismatch of tax deductions and taxable income, as well as a potential increase arising out of a rate arbitrage. The Group has considered the risk in detail and has provided for potential tax adjustments so does not believe that any adjustment will materially impact the rate going forward.

Valuation risk

As part of a reorganisation following the Columbus business acquisition in 2016 and the 2019 business restructuring, certain assets and liabilities were transferred intra-Group with external valuations obtained. If these valuations are successfully challenged by relevant tax authorities, it could adversely impact the tax recorded on the reorganisation.

Sensitivity (Note 12)

Where an uncertain tax position arises, the Group will assess what the probable outcome will be, assuming the relevant tax authority has full knowledge of the situation. Where it is assessed that an exposure will give rise to an uncertain tax position, a provision is booked for the best estimate of the liability. Hikma continues to re-evaluate existing uncertain positions to determine if a change in facts and circumstances has occurred that would make it necessary to adjust.

IFRIC 23

IFRIC 23 'Uncertainty over income tax treatments' was issued in June 2017. The interpretation clarifies that if it is considered probable that a tax authority will accept an uncertain tax treatment, the tax charge should be calculated on that basis. If it is not considered probable, the effect of the uncertainty should be estimated and reflected in the tax charge. In assessing the uncertainty, it is assumed that the tax authority will have full knowledge of all information related to the matter.

The Group adopted IFRIC 23 as of 1 January 2019 and reassessed the effect of uncertainty where applicable. The impact of adoption on the beginning balance in 2019 of the amount previously held for uncertain tax position was a decrease of $2 million.

Contingent liabilities

The promotion, marketing and sale of pharmaceutical products and medical devices is highly regulated and the operations of market participants, such as Hikma, are closely supervised by regulatory authorities and law enforcement agencies, including the FDA and the US Department of Justice. As a result, the Group is subject to certain investigations by governmental agencies, as well as other various legal proceedings considered typical to its business relating to employment, product liability and commercial disputes. (see Note 36).

The critical areas of judgement in relation to contingent liabilities are as follows:

- a possible obligation depending on whether some uncertain future event occurs in relation to legal proceedings and/or governmental agencies investigations
- a present obligation but payment is not probable where Hikma denies having engaged in conduct that would give rise to liability with respect to these civil suits and is vigorously pursuing defence of legal proceedings
- a present obligation but the amount cannot be measured reliably

4. Revenue from contracts with customers

Business and geographical markets

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

Year ended 31 December 2020	Injectables $m	Generics $m	Branded $m	Others $m	Total $m
United States	**662**	**744**	**–**	**–**	**1,406**
Middle East and North Africa	**160**	**–**	**605**	**5**	**770**
Europe and rest of the world	**149**	**–**	**8**	**2**	**159**
United Kingdom	**6**	**–**	**–**	**–**	**6**
	977	**744**	**613**	**7**	**2,341**

Year ended 31 December 2019	Injectables $m	Generics $m	Branded $m	Others $m	Total $m
United States	640	719	–	–	1,359
Middle East and North Africa	146	–	567	6	719
Europe and Rest of the World	101	–	16	5	122
United Kingdom	7	–	–	–	7
	894	719	583	11	2,207

The top selling markets in 2020 are as below:

	2020 $m	2019 $m
United States	**1,406**	1,359
Saudi Arabia	**223**	204
Egypt	**118**	114
	1,747	1,677

In 2020, included in revenue arising from the Generics and Injectables segments are sales the Group made to two wholesalers in the US of approximately $607 million (2019: $594 million). Each of these customers accounted for equal to or greater than 10% of Group's revenue in the period on an individual basis.

The following table provide contract balances related to revenue:

	2020 $m	2019 $m
Trade receivables (Note 21)	**662**	637
Contract assets (Note 24)	**3**	–
Contract liabilities (Note 28)	**162**	142

Trade receivables are non-interest bearing and typical credit terms in the US range from 30 to 90 days, in Europe 30 to 120 days, and in MENA 180 to 360 days.

Contract liabilities mainly relates to returns provisions and free goods balance.

5. Business segments

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

Core operating profit, defined as 'segment result', is the principal measure used in the decision-making and resource allocation process of the chief operating decision maker, who is the Group's Chief Executive Officer.

Information regarding the Group's operating segments is reported below:

Injectables	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Revenue	977	–	977	890	4	894
Cost of sales[1]	(414)	–	(414)	(385)	–	(385)
Gross profit	563	–	563	505	4	509
Total operating expenses[1]	(186)	(23)	(209)	(167)	(22)	(189)
Segment result	377	(23)	354	338	(18)	320

Generics	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Revenue	744	–	744	719	–	719
Cost of sales[1]	(403)	(12)	(415)	(419)	(5)	(424)
Gross profit	341	(12)	329	300	(5)	295
Total operating expenses[1]	(180)	54	(126)	(176)	32	(144)
Segment result	161	42	203	124	27	151

Branded	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Revenue	613	–	613	583	–	583
Cost of sales[1]	(306)	–	(306)	(296)	(6)	(302)
Gross profit	307	–	307	287	(6)	281
Total operating expenses[1]	(181)	(6)	(187)	(158)	(18)	(176)
Segment result	126	(6)	120	129	(24)	105

1. Inventory related provisions have been reclassified under the cost of sales line item in order to align with industry practice. Previously the costs were reflected in other operating income/(expenses), net and hence the 2019 numbers have consequently been restated. See Note 2 for more details

5. Business segments continued

Others[1]	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Revenue	7	–	7	11	–	11
Cost of sales	(5)	–	(5)	(8)	–	(8)
Gross profit	2	–	2	3	–	3
Total operating expenses	(2)	–	(2)	(3)	–	(3)
Segment result	–	–	–	–	–	–

1. Others mainly comprises Arab Medical Containers LLC and International Pharmaceutical Research Center LLC

Group	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Segment result	664	13	677	591	(15)	576
Unallocated expenses[1]	(98)	–	(98)	(83)	–	(83)
Operating profit/(loss)	566	13	579	508	(15)	493
Finance income	9	38	47	7	60	67
Finance expense	(54)	(15)	(69)	(52)	(15)	(67)
Gain from investment at FVTPL	1	–	1	2	–	2
Loss from investment divestiture	–	–	–	–	(4)	(4)
Profit before tax	522	36	558	465	26	491
Tax	(115)	(13)	(128)	(100)	96	(4)
Profit for the year	407	23	430	365	122	487
Attributable to:						
Non-controlling interests	(1)	–	(1)	1	–	1
Equity holders of the parent	408	23	431	364	122	486
	407	23	430	365	122	487

1. In 2020, unallocated corporate expenses mainly comprise employee costs, third-party professional fees and software impairments while in 2019, unallocated corporate expenses mainly comprise employee costs, third-party professional fees, IT and travel expenses

6. Exceptional items and other adjustments

Exceptional items and other adjustments are disclosed separately in the consolidated income statement to assist in the understanding of the Group's core performance.

	2020	Generics $m	Injectables $m	Branded $m	Others $m	Unallocated $m	Total $m
Exceptional Items							
Jordan warehouse fire incident	Other operating (expense)/income	4	–	7	–	–	11
MENA severance and restructuring costs	SG&A	–	–	(3)	–	–	(3)
Assets write off – PPE Impairment	Other operating (expense)/income	(3)	–	–	–	–	(3)
Assets write off – inventory related provisions	Cost of sales	(12)	–	–	–	–	(12)
Impairment reversal of product related intangibles, net	Other operating (expense)/income	62	–	–	–	–	62
Exceptional items		51	–	4	–	–	55
Other adjustments							
Intangible assets amortisation other than software	SG&A	(9)	(23)	(10)	–	–	(42)
Unwinding and remeasurement of contingent consideration and other financial liabilities, net	Finance expense	–	–	–	–	23	23
Exceptional items and other adjustments including in profit before tax		42	(23)	(6)	–	23	36
Tax expenses associated with previously unrecognised deferred tax assets	Tax	–	–	–	–	(3)	(3)
Tax effect on exceptional items and other adjustments	Tax	–	–	–	–	(10)	(10)
Impact on profit for the year		42	(23)	(6)	–	10	23

Exceptional items have been recognised in accordance with our accounting policy outlines in Note 2, the details are presented below:

Exceptional items

- Jordan warehouse fire incident: In 2020, Hikma recognised $11 million for insurance compensation related to a fire incident which took place in 2019 at one of Hikma's Jordan facilities. The Group received part of the insurance compensation of $4 million in 2019 and $1 million in March 2020
- MENA severance and restructuring costs: of $3 million related to one-off organisational restructuring in MENA that started in 2019 and finished in 2020
- Assets write off: In December 2020, Hikma submitted to the FDA a Prior Approval Supplement (PAS) relating to generic Advair Diskus®. The amendment reflects enhanced packaging controls to meet new industry standards adopted since the initial submission of its ANDA application. As a result, the launch has been temporarily paused and inventory amounting to $12 million is expected to expire before launch and has been written off. In addition, $3 million of property, plant and equipment was written off (Notes 9, 17)
- Impairment reversal of product related intangibles, net: $66 million net impairment reversal in respect of specific product related intangibles in the Generics segment which reflects a better than expected performance of certain marketed products acquired through business combination offset by $4 million impairment charge (Note 16)
- Tax (expense) benefit associated with previously unrecognised deferred tax assets: A prior year adjustment to the tax expense associated with previously unrecognised deferred tax assets of $3 million arose as a tax return to provision adjustment

In previous year, exceptional items and other adjustments were related to the following:

	2019	Generics $m	Injectables $m	Branded $m	Others $m	Unallocated $m	Total $m
Exceptional Items							
R&D cost	R&D	(24)	–	–	–	–	(24)
Jordan warehouse fire incident	Cost of sales	(5)	–	(6)	–	–	(11)
Jordan warehouse fire incident	Other operating (expense)/income	(1)	–	(1)	–	–	(2)
Proceeds from legal claim	Other operating (expense)/income	32	–	–	–	–	32
Contingent consideration adjustment	Other operating (expense)/income	7	–	–	–	–	7
MENA severance and restructuring costs	SG&A	–	–	(7)	–	–	(7)
Integration costs	Revenue	–	4	–	–	–	4
Loss from investment divestiture	Other expenses	–	–	–	(4)	–	(4)
Impairment reversal of product related intangibles, net	Other operating (expense)/income	20	–	–	–	–	20
Exceptional items		29	4	(14)	(4)	–	15
Other adjustments							
Intangible assets amortisation other than software	SG&A	(2)	(22)	(10)	–	–	(34)
Unwinding and remeasurement of contingent consideration, financial liability and asset, net	Finance income/(expense)	–	–	–	–	45	45
Exceptional items and Other adjustments including in profit before tax		27	(18)	(24)	(4)	45	26
Tax benefit associated with previously unrecognised deferred tax assets	Tax	–	–	–	–	49	49
Tax benefit associated with the internal reorganisation of intangible assets	Tax	–	–	–	–	48	48
Tax effect on exceptional items and other adjustments	Tax	–	–	–	–	(1)	(1)
Impact on profit for the year		27	(18)	(24)	(4)	141	122

6. Exceptional items and other adjustments continued

- R&D cost: Hikma incurred $24 million of research and development costs related to a repeat clinical endpoint study for generic Advair Diskus®. The study was completed in November 2019. The study and certain additional information was submitted to the US FDA for their review. In December 2020, Hikma has received the US FDA approval
- Jordan warehouse fire incident: During 2019, a fire broke out in a warehouse at one of Hikma's Jordan facilities which serves the Generics and Branded segments. Production was halted for a period of time and inventory was damaged. The associated loss was $17 million, mainly comprising damaged inventory and the cost to remediate property, plant and equipment. Up to 31 December 2019, the Group has received part of the insurance compensation of $4 million related to the fire incident resulting in a net exceptional expense of $13 million
- Proceeds from legal claim: Hikma received compensation proceeds of $32 million in relation to a litigation matter with an external party where one of Hikma's product's sales were halted by a temporary restraining order and an injunction. The litigation was resolved in Hikma's favour and a payment was received from the plaintiff representing lost profit over the affected time period
- Contingent consideration adjustment: The contingent consideration adjustment of $7 million relates to a change in estimate of the amount of expected contingent payments Hikma was entitled to receive under the terms of the Columbus acquisition agreement.
- MENA severance and restructuring costs: of $7 million related to one-off organisational restructuring in MENA
- Integration costs: A provision of $4 million in relation to integration costs of the Columbus business and the consolidation of the distribution centre in the US was released. This was previously provided for in 2018 as exceptional items
- Loss from investment divestiture: $4 million loss from divestiture of Medlac investment
- Impairment reversal of product related intangibles, net: $21 million impairment reversal of product related intangibles related to specific product related assets in Generics segment offset by $1 million impairment charge
- Tax (expense) benefit associated with previously unrecognised deferred tax assets: The Group has benefitted $49 million from the utilisation of previously unrecognised deferred tax assets following the internal reorganisation of intangible assets (Note 12)
- Tax benefit associated with the internal reorganisation of intangible assets: The Group has recorded a $48 million tax benefit associated with the internal reorganisation of intangible assets (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 and receivables in respect of contingent consideration recognised through business combinations and the financial liability in relation to the co-development earnout payment agreement (Notes 10,11, 28 and 31). The remeasurement is included in finance income and expense.

Intangible assets amortisation other than software of $42 million (2019: $34 million).

7. Audit remuneration

The Group auditor's remuneration on a worldwide basis is as below:

	2020 $m	2019[2] $m
Fees to the auditor for the audit of the annual accounts	0.9	0.8
Fees to the auditor and its associates for the audit of the Group's subsidiaries	1.9	1.9
Total audit fees	2.8	2.7
Audit related assurance services[1]	0.2	0.2
Other non-audit fees	0.2	–
Total audit and non-audit fees	3.2	2.9

1. Assurance services relate to review procedures in respect to the interim financial information
2. Amounts have been restated to reflect final amounts billed in relation to 2019

In 2020 non-audit fees of $0.2m were charged relating to bond offering. In 2019 nominal non-audit fees were charged relating to assurance engagement in connection with a statement of completeness of sales packaging brought to market in Germany.

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 77 to 80 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:

	2020 Number	2019 Number
Production	**4,918**	4,818
Sales and marketing	**2,232**	2,180
General and administrative	**1,050**	1,130
Research and development	**481**	450
	8,681	8,578

	2020 $m	2019 $m
Aggregate remuneration comprised:		
Wages, salaries and bonuses	**392**	356
Social security costs	**39**	36
Post-employment benefits	**14**	14
End of service indemnity	**9**	13
Share-based payments (Note 37)	**27**	24
Car and housing allowances	**21**	21
Health insurance	**36**	34
Other costs and employee benefits	**22**	22
	560	520

9. Other operating income/expense

Other operating expense[1]	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Impairment charge on intangible assets	**11**	**4**	**15**	2	1	3
Impairment charge on property, plant and equipment	**3**	**3**	**6**	–	–	–
Loss on disposal/damage of property, plant and equipment	**2**	**–**	**2**	–	3	3
Forex and net monetary hyperinflation losses, net	**30**	**–**	**30**	4	–	4
Others	**1**	**–**	**1**	5	–	5
	47	**7**	**54**	11	4	15

1. Inventory related provisions have been reclassified under the cost of sales in order to align with industry practice. Previously the costs were reflected in other operating income/(expenses),net line item and hence the 2019 numbers have consequently been restated. See Note 2 for more details

Exceptional items represent $4 million impairment charge in relation to certain marketed products acquired through business combination in addition to $3 million write off of property, plant and equipment (Note 6, 16 and 17).

Other operating income	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Impairment reversal on intangible assets	**–**	**66**	**66**	–	21	21
Others	**3**	**11**	**14**	3	40	43
	3	**77**	**80**	3	61	64

In 2020, the other operating income of $14 million mainly comprised $11 million for insurance compensation related to a fire incident (see Note 6). In 2019, the other operating income of $43 million mainly comprised $32 million related to a litigation matter with an external party, which was concluded in Hikma's favour and $7 million related to a change in estimate of the amount of expected contingent payments Hikma was entitled to receive under the terms of the Columbus acquisition agreement.

Exceptional items represent $66 million impairment reversal in relation to certain marketed products acquired through business combination (Note 6, and 16).

10. Finance income

	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Interest income	**7**	**–**	**7**	6	–	6
Remeasurement of contingent consideration and financial liability and assets (Note 28 and 31)	**–**	**38**	**38**	–	60	60
Net foreign exchange gain	**–**	**–**	**–**	1	–	1
Other finance income	**2**	**–**	**2**	–	–	–
	9	**38**	**47**	7	60	67

11. Finance expense

	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Interest on bank overdrafts and loans	**22**	**–**	**22**	10	–	10
Interest on Eurobond	**15**	**–**	**15**	22	–	22
Unwinding of contingent consideration and other financial liabilities (Note 28 and 31)	**–**	**15**	**15**	–	15	15
Other bank charges	**13**	**–**	**13**	13	–	13
Lease accretion of interest	**4**	**–**	**4**	4	–	4
Other finance expense	**–**	**–**	**–**	3	–	3
	54	**15**	**69**	52	15	67

12. Tax

	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Current tax:						
UK corporation	**–**	**–**	**–**	16	32	48
Foreign tax	**99**	**(2)**	**97**	73	(3)	70
Adjustment to prior year	**(1)**	**3**	**2**	–	–	–
Deferred tax (Note 13)						
Current year	**19**	**12**	**31**	2	(125)	(123)
Adjustment to prior year	**(2)**	**–**	**(2)**	9	–	9
	115	**13**	**128**	100	(96)	4

UK corporation tax is calculated at 19.0% (2019: 19.0%) of the estimated assessable profit made in the UK for the year.

The Group incurred a tax expense of $128 million (2019: $4 million). The effective tax charge rate is 22.9% (2019: 0.8%). The reported effective tax rate is higher than the statutory rate primarily due to the earnings mix.

Taxation for all jurisdictions is calculated at the rates prevailing in the respective jurisdiction.

12. Tax continued

The charge for the year can be reconciled to profit before tax per the consolidated income statement as follows:

	2020 $m	2019 $m
Profit before tax	**558**	491
Tax at the UK corporation tax rate of 19.0% (2019: 19.0%)	**106**	93
Profits taxed at different rates	**7**	3
Permanent differences		
– Non-deductible expenditure	**7**	4
– Rate differential on unrealised intercompany profits on inventory sales	**–**	1
– Other permanent differences	**–**	2
– R&D benefit	**(3)**	(2)
State and local taxes	**8**	7
Temporary differences		
– Rate change tax losses and other deductible temporary differences for which no benefit is recognised	**6**	2
– Exceptional tax expenses/(benefit) associated with previously unrecognised tax losses (Note 6)	**3**	(49)
– Exceptional tax (benefit) associated with the internal reorganisation of intangible assets (Note 6)	**–**	(48)
Change in provision for uncertain tax positions	**(8)**	(14)
Unremitted earnings	**4**	(4)
Prior year adjustments	**(2)**	9
Tax expense for the year	**128**	4

Profits taxed at different tax rates relates to profits arising in overseas jurisdictions where the tax rate differs from the UK statutory rate.

Permanent differences relate to items which are non-taxable or for which no tax relief is ever likely to be due. The major items are expenses and income disallowed where they are covered by statutory exemptions, foreign exchange differences in some territories and statutory reliefs such as R&D. In 2020, the R&D benefit is now presented in a separate line item due to its increasing relevance to the effective tax rate. The comparative figures were reclassified to match the 2020 disclosure (in 2019, the R&D benefit of $2 million was split equally between the non-taxable income and the non-deductible expenditure line items).

Rate change tax losses and other deductible temporary differences for which no benefit is recognised includes items for which it is not possible to book deferred tax and comprise mainly unrecognised tax losses.

The exceptional tax benefit associated with previously unrecognised tax losses is a result of the internal reorganisation of intangible assets during 2019.

The exceptional tax benefit associated with the 2019 internal reorganisation of intangible assets is mainly due to a higher amortisable base resulting in a higher estimated future tax deduction.

The change in provision for uncertain tax positions relates to the provisions the Group holds in the event of a revenue authority successfully taking an adverse view of the positions adopted by the Group in 2020 and primarily relates to a transfer pricing adjustment. As at the consolidated balance sheet date, the Group held an aggregate provision in the sum of $43 million (2019: $53 million) in respect of liabilities likely to arise from estimation uncertainties. Hikma released $8 million in 2020 (2019: $9 million) due to the statute of limitations and released $4 million (2019: $12 million) following settlements. This was offset by new provisions and updates of $4 million booked in 2020 (2019: $7 million). The currency exchange differences for the year is a $2 million reduction to the aggregate provision. In 2021, up to $7 million could be released primarily on the same grounds. If all areas of uncertainty were audited and all areas resulted with an adverse outcome, management does not believe any material additional tax would be payable beyond what is provided.

Prior year adjustments include differences between the tax liability recorded in the tax returns submitted for previous years and estimated tax provision reported in a prior period's consolidated financial statements. This category also includes adjustments (favourable or adverse) in respect of uncertain tax positions.

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 2020 $m	2019 $m
Deferred tax liabilities	**(31)**	(20)
Deferred tax assets	**221**	243
	190	223

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
1 January 2019	3	1	117	(11)	(2)	1	109
Credit/(charge) to income	–	(1)	(3)	126	(8)	–	114
At 31 December 2019	**3**	**–**	**114**	**115**	**(10)**	**1**	**223**

The classification of the ending balances as of 31 December 2019 has been amended to enable more clarity and now presents more relevant categories as shown below. The reconciliation between the categories used in 2019 and in 2020 is as follows:

	Tax losses $m	Deferred R&D costs $m	Other short-term temporary differences $m	Amortisable assets $m	Fixed assets $m	Share-based payments $m	Total $m
Product related provision	–	–	96	–	–	–	96
Intangible assets	–	–	–	99	–	–	99
Other provisions and accruals	–	–	20	–	–	–	20
Unremitted earnings	–	–	(7)	–	–	–	(7)
Others	3	–	5	16	(10)	1	15
At 31 December 2019 and 1 January 2020	**3**	**–**	**114**	**115**	**(10)**	**1**	**223**

The below table represents the deferred tax movement in 2020 following the updated presentation:

	Product related provision $m	Intangible assets $m	Other provisions and accruals $m	Unremitted earnings $m	Others $m	Total $m
1 January 2020	96	99	20	(7)	15	223
Credit/(charge) to income	15	(22)	(1)	(4)	(17)	(29)
Currency translation (loss) and hyperinflation impact	–	(1)	(1)	–	(2)	(4)
At 31 December 2020	**111**	**76**	**18**	**(11)**	**(4)**	**190**

1. The other deferred taxes on short-term temporary differences in 2019 primarily relate to chargebacks and product returns in the US of $51 million, inventory related provisions in the US of $18 million and the unrealised intercompany profits of $17 million

The Group has a potential deferred tax asset of $258million (2019: $281 million), of which $221 million (2019: $243 million) has been recognised.

No deferred tax asset has been recognised on gross temporary differences totalling $171 million (2019: $170 million) mainly due to the unpredictability of the related future profit streams. $168 million (2019: $161 million) of these gross temporary differences relate to losses on which no deferred tax is recognised. In 2020 $nil million (2019: $92 million) of losses can no longer be carried forward under UK tax rules.

During 2020 an additional deferred tax liability has been recognised on temporary differences relating to the unremitted earnings of overseas subsidiaries of $4 million (2019: $3 million). No deferred tax liability has been recognised on the remaining unremitted earnings of $239 million (2019: $236 million), as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred taxes on intangible assets relate to differences between the tax deductions and book deductions for intangible assets in the Group. The credit to income in 2019 mainly arose as a result of the internal reorganisation of intangible assets which generated a higher amortisable base and therefore resulting in a higher estimated future tax deduction.

14. Dividends

	Paid in 2020 $m	Paid in 2019 $m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2019 of 30.0 cents (31 December 2018: 26.0 cents) per share	72	63
Interim dividend during the year ended 31 December 2020 of 16.0 cents (31 December 2019: 14.0 cents) per share	37	34
	109	97

The proposed final dividend for the year ended 31 December 2020 is 34.0 cents (2019: 30.0 cents).

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 23 April 2021 and has not been included as a liability in these consolidated financial statements. Based on the number of shares in free issue at 31 December 2020 (230,458,116), the unrecognised liability is $78 million.

15. Earnings per share (EPS)

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of Ordinary Shares. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders by the weighted average number of the Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on conversion of all dilutive potential Ordinary Shares into Ordinary Shares. The number of Ordinary Shares used for the basic and diluted calculations is shown in the table below. Core basic earnings per share and core diluted earnings per share are intended to highlight the core results of the Group before exceptional items and other adjustments.

	2020 Core results $m	2020 Exceptional items and other adjustments (Note 6) $m	2020 Reported results $m	2019 Core results $m	2019 Exceptional items and other adjustments (Note 6) $m	2019 Reported results $m
Earnings for the purposes of basic and diluted EPS being net profit attributable to equity holders of the parent	408	23	431	364	122	486

Basic earnings per share has been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the period after deducting shares held by the Employee Benefit Trust (EBT) and Treasury shares. The trustees have waived their rights to dividends on the shares held by the EBT and Treasury shares have no right to receive dividends.

The numbers of shares used in calculating basic and diluted earnings per share are reconciled below:

Number of shares	2020 Number m	2019 Number m
Weighted average number of Ordinary Shares for the purposes of basic EPS[1]	236	242
Effect of dilutive potential Ordinary Shares:		
Share-based awards	2	1
Weighted average number of Ordinary Shares for the purposes of diluted EPS	**238**	**243**

1. Weighted average number of ordinary shares has been calculated by the weighted average number of shares in issue during the period after deducting shares held by the EBT and Treasury shares (Note 32)

	2020 Core EPS Cents	2020 Reported EPS Cents	2019 Core EPS Cents	2019 Reported EPS Cents
Basic	172.9	182.6	150.4	200.8
Diluted	171.4	181.1	149.8	200.0

16. Goodwill and other intangible assets

The changes in the carrying value of goodwill and other intangible assets for the years ended 31 December 2020 and 31 December 2019 are as follows:

	Goodwill $m	Product-related intangibles $m	Software $m	Other identified intangibles $m	Total $m
Cost					
Balance at 1 January 2019	687	1,015	130	130	1,962
Additions	–	17	18	54	89
Translation adjustments	3	1	(1)	–	3
Balance at 1 January 2020	**690**	**1,033**	**147**	**184**	**2,054**
Additions	–	8	12	16	36
Disposals	–	–	(14)	–	(14)
Translation adjustments	7	–	–	5	12
Balance at 31 December 2020	**697**	**1,041**	**145**	**205**	**2,088**
Accumulated Amortisation & Impairment					
Balance at 1 January 2019	(408)	(658)	(66)	(64)	(1,196)
Charge for the year	–	(21)	(10)	(13)	(44)
Impairment reversal	–	21	–	–	21
Impairment charge	–	(2)	(1)	–	(3)
Translation adjustments	–	–	2	–	2
Balance at 1 January 2020	**(408)**	**(660)**	**(75)**	**(77)**	**(1,220)**
Charge for the year	–	(29)	(10)	(14)	(53)
Disposals	–	–	14	–	14
Impairment reversal	–	66	–	–	66
Impairment charge	–	(5)	(10)	–	(15)
Translation adjustments	–	(1)	–	(3)	(4)
Balance at 31 December 2020	**(408)**	**(629)**	**(81)**	**(94)**	**(1,212)**
Carrying amount					
At 31 December 2020	**289**	**412**	**64**	**111**	**876**
At 31 December 2019	282	373	72	107	834

Goodwill

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	As at 31 December 2020 $m	2019 $m
Branded	173	168
Injectables	116	114
Total	**289**	**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 indicators that goodwill may be impaired.

Details related to the discounted cash flow models used in the impairment tests of the CGUs are as follows:

Valuation basis	Value in use (VIU)				
Key assumptions	Sales growth rates, informed by pricing and volume assumptions				
	Profit margins and profit margin growth rates for marketed and pipeline products				
	Expected launch dates for pipeline products				
	Terminal growth rates				
	Discount rates				
Determination of assumptions	Growth rates are internal forecasts based on both internal and external market information, informed by historical experience and management's best estimates of the future				
	Margins reflect past experience, adjusted for expected changes in the future				
	Terminal growth rates are based on the Group's experience in its markets				
	Discount rates for CGU are derived from specific regions/countries, risk adjusted where appropriate				
Period of specific projected cash flows	5 years, to which a terminal growth rate is then applied				
Terminal growth rate and discount rate		Terminal growth rate (perpetuity)		Pre-tax discount rate	
		2020	2019	**2020**	2019
	Branded	**2.4%**	2.8%	**16.6%**	18.0%
	Injectables	**2.1%**	1.9%	**11.1%**	13.0%
	Generics	**2.3%**	1.6%	**12.7%**	15.0%
	generic Advair Diskus®	**–**[1]	–[1]	**13.7%**	17.7%

1. generic Advair Diskus® is expected to have a useful life of 11 years, as the asset is not in use, it is not currently being amortised

CGUs: The Group performed its annual goodwill and CGU impairment for the Branded, Injectables, Generics and generic Advair Diskus® CGUs. The Group's model is a VIU model based on the discounted value of the best estimates of the key assumptions to arrive at the recoverable value. This value is then compared to the carrying value of the CGU to determine whether an impairment is required. In addition, the Group models sensitivities on the VIU amounts calculated to determine whether reasonable changes in key assumptions could lead to a potential impairment. If such reasonable changes results in an impairment, then in accordance with IAS36 these are disclosed below. For the Branded, Injectables and Generics CGUs the Group has determined that sufficient headroom2 still exists under reasonable change scenarios. Specifically, an evaluation of the CGUs was made assuming an increase of 2% in the discount rate, or a 10% decline in the projected cash flows, or a 5% decline in the projected cash flows in the terminal year, or reducing the terminal growth rate by 2% and in all cases sufficient headroom exists.

The Group evaluated generic Advair Diskus® as a separate CGU, mainly due to its distinct assets and liabilities and its ability to generate largely independent cash flows. The generic Advair Diskus® VIU was calculated using a probability weighted average of three scenarios.

In December 2020, the Group received FDA approval of generic Advair Diskus®. Launch has been temporarily paused while the FDA reviews an amendment to the application, classified as a Prior Approval Supplement (PAS). The PAS does not affect the status of the Abbreviated New Drug Application (ANDA) for generic Advair Diskus® The amendment reflects enhanced packaging controls to meet new industry standards adopted since the initial submission of the ANDA application.

As of 31 December 2020, the Group performed sensitivity analysis over the valuation of the generic Advair Diskus® CGU. The sensitivity analysis assumed a further delay of three months to the projected launch date and a 15% reduction in the projected cash flows from lower conversion rates from the branded product and earlier competitor entries, which assumptions eroded the $26m of headroom. A further reduction of the cash flows by an additional 10% would imply an impairment of about $10m. As per the Group's policy, whilst approval has been obtained, generic Advair Diskus® has not been launched, meaning that none of the previously identified indicators of impairment have reversed.

As at 31 December 2020, the Group had entered into contractual commitments for the acquisition of intangible assets of $nil million (2019: $5 million).

2. Headroom is defined as the excess of the value in use, over the carrying value of a CGU

16. Goodwill and other intangible assets continued

Product-related intangible assets

In-Process Research and Development (IPR&D)
IPR&D consists of pipeline products of $170 million (2019: $182 million) mainly relating to generic Advair Diskus® of $138 million and Generics of $25 million CGUs with immaterial amounts allocated to the Branded and Injectables CGUs. These intangibles are not in use and accordingly, no amortisation has been charged against them. The Group performs an impairment review of IPR&D assets annually. The result of this test was an impairment charge of $4 million (2019: $2 million).

Product rights
Whenever impairment indicators are identified for definite life intangible assets, Hikma reconsiders the asset's estimated life, calculates the value of the individual assets or asset group's cash flows and compares such value against the individual asset's or asset group's carrying amount. If the carrying amount is greater, the Group records an impairment loss for the excess of book value over the valuation which is based on the discounted cash flows by applying an appropriate pre-tax WACC rate that reflects the risk factors associated with the cash flows and the CGUs under which these products sit. The more significant estimates and assumptions inherent in the estimate of the value in use of identifiable intangible assets include all assumptions associated with forecasting product profitability. Furthermore, if there is an indication that previously recognised impairment losses no longer exist or have decreased, the Group estimates the assets' recoverable amounts. A previously recognised impairment loss is reversed only if there has been a sustained and discrete change in the assumptions and indicators 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 and amortisation, had no impairment loss been recognised for the asset in prior years. As at 31 December 2020, the result of this testing was an impairment charge of $1 million (2019: $nil) and an impairment reversal of $66 million (2019: $21 million) related to specific product related assets (Generics segment) due to improved performance and forecasted profitability, as a result of events including, but not limited to, improved commercial terms, favorable market conditions and the speed of regulatory approvals.

A net reversal of $62 million was considered as an exceptional item related to product related intangibles acquired through a business combination (Note 6 and 9).

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 2020, the Group recorded an impairment charge of $10 million related to software (2019: $1 million).

Other identified intangibles

The Group has performed an impairment indicators on other identified intangibles and did not identify any issues.

Customer relationships
Customer relationships represent the value attributed to existing direct customers that the Group acquired on the acquisition of subsidiaries. The customer relationships have an average estimated useful life of 15 years.

Trade names
Trade names were mainly recognised on the acquisition of Hikma Germany GmbH (Germany) and Promopharm with estimated useful lives of ten years.

Marketing rights
Marketing rights are amortised over their useful lives commencing in the year in which the rights are ready for use with estimated useful lives varying from two to ten years.

17. Property, plant and equipment

Cost	Land and buildings $m	Machinery and equipment $m	Vehicles, fixtures and equipment $m	Projects under construction $m	Total $m
Balance at 1 January 2019	**560**	**625**	**117**	**231**	**1,533**
Additions	7	12	7	88	114
Disposals	(10)	(3)	(4)	–	(17)
Transfers	34	48	3	(85)	–
Translation adjustment	6	3	2	(1)	10
Balance at 1 January 2020	**597**	**685**	**125**	**233**	**1,640**
Additions	6	20	8	136	170
Disposals	(4)	(34)	(7)	–	(45)
Transfers	28	83	3	(114)	–
Translation adjustment	9	7	1	–	17
Balance at 31 December 2020	**636**	**761**	**130**	**255**	**1,782**
Accumulated depreciation & impairment					
Balance at 1 January 2019	**(189)**	**(391)**	**(80)**	**(13)**	**(673)**
Charge for the year	(16)	(30)	(18)	–	(64)
Disposals	6	2	3	–	11
Translation adjustment	–	(1)	(1)	–	(2)
Balance at 1 January 2020	**(199)**	**(420)**	**(96)**	**(13)**	**(728)**
Charge for the year	(18)	(36)	(17)	–	(71)
Disposals	4	32	7	–	43
Impairment	(2)	(4)	–	–	(6)
Translation adjustment	(4)	(6)	(1)	–	(11)
Balance at 31 December 2020	**(219)**	**(434)**	**(107)**	**(13)**	**(773)**
Carrying amount					
At 31 December 2020	**417**	**327**	**23**	**242**	**1,009**
At 31 December 2019	398	265	29	220	912

Land is not subject to depreciation.

As at 31 December 2020, the Group had pledged property, plant and equipment with a carrying value of $9 million (2019: $8 million) as collateral for various long-term loans. This amount includes both specific items around the Group and the net property, plant and equipment of the Group's businesses in Tunisia (2019: Tunisia).

Depreciation of $57 million (2019: $48 million) is included in the cost of sales, $10 million (2019: $12 million) in selling general and administrative expenses and $4 million (2019: $4 million) in research and development expenses.

As at 31 December 2020, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $60 million (2019: $21 million).

As at 31 December 2020, the Group booked an impairment charge of $6 million (2019: $nil), impairment charge of $3 million was considered as exceptional item related to property, plant and equipment write off (Note 6 and 9).

18. Investments in joint ventures

The Group's share in Hubei Haosun Pharmaceutical Co Ltd (China) was 49% at 31 December 2020 (31 December 2019: 49%) with an investment balance of $9 million at 31 December 2020 (31 December 2019: $9 million). The Group's share of the results of Hubei Haosun Pharmaceutical Co Ltd is $nil (2019: $nil).

In 2017, Hikma and MIDROC Group agreed not to proceed with the HikmaCure Limited joint venture and to liquidate it. As part of the liquidation process the joint venture granted two loans of $2 million each to the Group and MIDROC Group. In 2020, the liquidation process progressed and the loans were settled against the initial investment amounts, liquidation is expected to be finalised in 2021.

Total investment in joint ventures including Hubei Haosun Pharmaceuticals Co Ltd and HikmaCure adds up to $9 million (2019: $11 million).

	For the year ended 31 December 2020		For the year ended 31 December 2019	
	Joint ventures $m	**Total $m**	Joint ventures $m	Total $m
Balance at 1 January	**11**	**11**	11	11
Liquidation of HikmaCure	(2)	(2)	–	–
Balance at 31 December	**9**	**9**	11	11

Summarised financial information in respect of the Group's interests in Hubei Haosun Pharmaceuticals Co Ltd is set out below:

	As at 31 December 2020 $m	As at 31 December 2019 $m
Total assets	**19**	17
Total liabilities	**(2)**	(2)
Net assets	**17**	15
Group's share of net assets of joint ventures	**8**	7

	For the year ended 31 December 2020 $m	For the year ended 31 December 2019 $m
Total revenue	**6**	5
Net profit	**1**	1
Group's share of profit of joint ventures	**–**	–

19. Financial and other non-current assets

	As at 31 December 2020 $m	2019 $m
Investments at FVTOCI	25	18
Other non-current assets	14	14
	39	32

Investments at FVTOCI include investments in 11 venture-backed start-up companies through the Group's venture capital arm, Hikma International Ventures and Developments LLC and Hikma Ventures Limited. During 2020, the venture arm invested $3 million in a new company, and increased investment in existing ventures by $2 million. These investments are unlisted shares without readily determinable fair values that fall under level 3 valuation (Note 30), its value is measured at cost minus any impairment, and adjusted for observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Other non-current assets mainly represent long term receivables and a sublease arrangement in US. In 2019 the amount mainly represented inventory that was expected not to be sold within one year.

20. Inventories

	As at 31 December 2020 $m	2019 $m
Finished goods	283	224
Work-in-progress	95	94
Raw and packing materials	394	279
Goods in transit	44	27
Spare parts	33	29
Provision against Inventory[1]	(92)	(85)
	757	568

Inventories are stated net of provisions as follows:

	As at 1 January $m	Additions $m	Utilisation $m	As at 31 December $m
Provisions against inventory in 2020	85	57	(50)	92
Provisions against inventory in 2019	72	60	(47)	85

1. The cost of inventory related provisions recognised as an expense in the cost of sales in the consolidated income statement was $57 million (2019: $60 million)

21. Trade and other receivables

	As at 31 December 2020 $m	2019 $m
Trade receivables	662	637
Prepayments	58	49
VAT and sales tax recoverable	35	31
Employee advances	1	2
	756	719

The fair value of receivables is estimated to be equal to the carrying amount.

Trade receivables are stated net of provisions for chargebacks and expected credit loss allowance as follows:

	As at 31 December 2019 $m	Additions/ (Releases), net $m	Utilisation $m	Translation adjustments $m	As at 31 December 2020 $m
Chargebacks and other allowances	280	1,865	(1,889)	–	256
Expected credit loss allowance[1]	55	2	(1)	(1)	55
	335	1,867	(1,890)	(1)	311

1. Includes additions of $5 million and release of $2 million

More details on the Group's policy for credit and concentration risk are provided in Note 30.

At 31 December 2020, the provision balance relating to chargebacks was $184 million (2019: $179 million) within what management believes is a reasonable range for the provision of $181 million to $185 million. The key inputs and assumptions included in calculating this provision are estimations of 'in channel' inventory at the wholesalers (including processing lag) of 40 days (2019: 38 days) and the estimated chargeback rates as informed by average historical chargeback credits adjusted for expected chargeback levels for new products and estimated future sales trends. Based on the conditions existing at the balance sheet date an increase/decrease in the estimate of in channel inventory by 1 day increases/ decreases the provision by $5million and if the overall chargeback rate of 55% increases/decreases by one percentage point the provision would increase/ decrease by $3 million.

At 31 December 2020 the provision balance relating to customer rebates was $57 million (2019: $88 million) within what management believes is a reasonable range for the provision of $55 million to $57 million. The key inputs and assumptions included in calculating this provision are historical relationships of rebates and payments to revenue, past payment experience, estimate of 'in channel' inventory at the wholesalers and estimated future trends. Based on the conditions existing at the balance sheet date, a one percentage point increase/decrease in the rebates rate of 7.8% would increase/decrease this provision by approximately $7 million.

22. Collateralised and restricted cash

Collateralised and restricted cash amounted to $4 million (2019: $1 million) and mainly represent investment related amounts held in an escrow account in relation to the US business (2019: mainly represent restricted cash retained against short-term bank transactions granted to the Group's Sudanese and Algerian operations).

23. Cash and cash equivalents

	As at 31 December 2020 $m	2019 $m
Cash at banks and on hand	85	94
Time deposits	203	309
Money market deposits	35	39
	323	442

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 2020 $m	2019 $m
Investment at FVTPL	24	23
Others	22	16
	46	39

Investment at FVTPL represents the agreement the Group entered into with an asset management firm in 2015 to manage a $20 million portfolio of underlying debt instruments. The investment comprises a portfolio of assets that are managed by an asset manager and is measured at fair value; any changes in fair value go through the consolidated income statement. These assets are classified as level 1 as they are based on quoted prices in active markets.

Others balance at 31 December 2020, mainly represent insurance compensation receivable of $10 million (Note 6) and revenue contract asset of $3 million.

25. Short-term financial debt

	As at 31 December 2020 $m	2019 $m
Bank overdrafts	3	6
Import and export financing	67	52
Short-term loans	47	2
Current portion of long-term loans (Note 29)[1]	41	509
	158	569

1 At April 2020, the Group settled a $500 million five-year Eurobond that was issued in 2015. The Group used the revolving credit facility (refer to Note 29) to settle the outstanding Eurobond

	2020 %	2019 %
The weighted average effective interest rates incurred are as follows:		
Bank overdrafts	4.25	5.35
Bank loans (including the non-current bank loans)	3.04	5.82
Eurobond[2]	4.17	4.25
Import and export financing[3]	5.70	6.17

2. In 2020, the Eurobond effective interest comprised the 4.25% 2015 $500 million Eurobond settled in April 2020, and the 3.25% $500 million Eurobond issued in July. Noting that the Eurobond effective interest rate includes unwinding of discount amount and upfront fees
3. 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 2020 $m	2019 $m
Trade payables	279	286
Accrued expenses	175	173
Other payables	16	14
	470	473

The fair value of payables are estimated to be equal to the carrying amount.

27. Other provisions

Other provisions represent the end of service indemnity provisions for employees of certain Hikma Group subsidiaries including some defined benefit plans. This provision is calculated based on relevant laws in the countries where each Group company operates, in addition to their own policies. For defined benefit plans changes in net liability due to actuarial valuations and changes in assumptions resulted in remeasurement loss of $1 million (2019: $nil).

Movements on the provision for end of service indemnity:

	2020 $m	2019 $m
1 January	23	23
Additions	10	6
Remeasurement of post-employment benefit obligations	1	–
Utilisation	(6)	(6)
At 31 December	28	23

28. Other current liabilities

	As at 31 December 2020 $m	2019 $m
Contract liabilities	162	142
Co-development and earnout payment (Note 30 and 31)	2	1
Supply manufacturing agreement	–	5
Acquired contingent liability (Note 31)	18	15
Contingent consideration (Note 30 and 31)	13	63
Indirect rebate and other allowances	74	61
Others	21	28
	290	315

Contract liabilities: the Group allows customers to return products within a specified period prior to and subsequent to the expiration date. In addition, free goods are issued to customers as sale incentives, reimbursement of agreed upon expenses incurred by the customer or as compensation for expired or returned goods.

At 31 December 2020, the provision balance relating to returns was $154 million (2019: $116 million) within what management believes is a reasonable range for the provision of $153 million to $156 million. The key assumptions included in calculating this provision are estimations of revenue estimated to be subject to returns and the estimated returns rate of 1.47% (2019: 1.3%) as informed by both historical return rates and consideration of specific factors like product dating and expiration, new product launches, entrance of new competitors, and changes to contractual terms. Based on the conditions existing at the balance sheet date, a ten basis point increase/decrease in the returns and allowances rate would increase/decrease this provision by approximately $8 million.

	As at 31 December 2019 $m	Additions $m	Utilisation $m	As at 31 December 2020 $m
Contract liabilities	142	127	(107)	162

Supply manufacturing agreement: the balance held in 2019 is related to the acquisition of the Columbus business, the Group entered into supply and manufacturing contracts with the seller, Boehringer Ingelheim.

Indirect rebate and other allowances: mainly represents rebates granted to healthcare authorities and other parties under contractual arrangements with certain indirect customers.

At 31 December 2020, provision balance relating to the indirect rebates was $55 million (2019: $42 million) within what management believes is a reasonable range for the provision of $53 million to $56 million. Included within this balance are provisions for non-customer rebates of $14 million and government rebates of $31 million. The key inputs and assumptions included in calculating this provision are historical relationships of rebates and payments to revenue, past payment experience, estimate of 'in channel' inventory at the wholesalers and estimated future trends. Based on the conditions existing at the balance sheet date, a one percentage point increase/decrease in rebates rate of 2.7% would increase/decrease this provision by approximately $20 million.

29. Long-term financial debt

	As at 31 December 2020 $m	2019 $m
Long-term loans	**242**	57
Long-term borrowings (Eurobond)	**491**	500
Less: current portion of long-term loans (Note 25)	**(41)**	(509)
Long-term financial loans	**692**	48
Breakdown by maturity:		
Within one year	**41**	509
In the second year	**48**	12
In the third year	**44**	12
In the fourth year	**36**	15
In the fifth year	**522**	6
In the sixth year	**21**	2
Thereafter	**21**	1
	733	557
Breakdown by currency:		
US dollar	**642**	508
Euro	**54**	16
Jordanian dinar	**13**	12
Algerian dinar	**14**	20
Saudi riyal	**9**	-
Tunisian dinar	**1**	1
	733	557

The loans are held at amortised cost.

Long-term loans amounting to $1 million (31 December 2019: $1 million) are secured on certain property, plant and equipment.

Major arrangements entered by the Group during the year were:

a) A syndicated revolving credit facility of $1,175 million was entered into on 27 October 2015. From the $1,175 million, $175 million matured on 24 December 2019, $130 million mature in January 2021 and the remaining $870 million was renewed until December 2023. At 31 December 2020 the facility has an outstanding balance of $nil (2019: $nil) and a $1,000 million unused available limit (2019: $1,000 million). The facility can be used for general corporate purposes

b) A ten-year $150 million loan from the International Finance Corporation was entered into on 21 December 2017. There was full utilisation of the loan since April 2020. Quarterly equal repayments of the long-term loan will commence on 15 March 2021. The loan was used for general corporate purposes. The facility matures on 15 December 2027

c) At April 2020, the Group settled a $500 million five-year Eurobond that was issued in 2015

d) Hikma issued a $500 million (carrying value of $491 million, and fair value of $521 million) 3.25%, five-year Eurobond on 9 July 2020 with a rating of (BBB-/Ba1) which is due in July 2025. The proceeds of the issuance were $494 million which were used for general corporate purposes

e) An eight-year $200 million loan from the International Finance Corporation and Managed Co-lending Portfolio program was entered into on 26 October 2020. There was no utilisation of the loan as of December 2020. The facility matures on 15 September 2028 and can be used for general corporate purposes

At 31 December 2020, there were two covenants in place on the Group's revolving and banking facilities with which the Group was in compliance. The Group also expects to be in compliance in the future.

30. Financial policies for risk management and their objectives

Credit and concentration of risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables, and investments.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the consolidated balance sheet are net of allowances for expected credit loss, 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 2020, the Group's largest two customers in the MENA region represented 6.2% of Group revenue, 4.1% from one customer in Saudi Arabia, and 2.1% from another customer in Saudi Arabia. At 31 December 2020, the amount of receivables due from all customers based in Saudi Arabia was $78 million (2019: $70 million).

During the year ended 31 December 2020, three key US wholesalers represented 35% of Group revenue (2019: 37%). The amount of receivables due from all US customers at 31 December 2020 was $285 million (2019: $280 million).

The Group manages this risk through the implementation of stringent credit policies, procedures and certain credit insurance agreements.

Trade receivable exposures are managed locally in the operating units where they arise. Credit limits are set as deemed appropriate for the customer, based on a number of qualitative and quantitative factors related to the creditworthiness of a particular customer. The Group is exposed to a variety of customers ranging from government-backed agencies and large private wholesalers to privately owned pharmacies, and the underlying local economic risks vary across the Group. Typical credit terms in the US range from 30 to 90 days, in Europe 30 to 120 days, and in MENA 180 to 360 days. Where appropriate, the Group endeavours to minimise risk by the use of trade finance instruments such as letters of credit and insurance.

Trade receivables aged over one year increased compared to 31 December 2019, this reflects increased trade receivables due from governments and public sectors which carry lower credit risk.

The following table provides a summary of the age of trade receivables (Note 21):

At 31 December 2020	**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**
Expected credit loss rate	**0%**	**4%**	**6%**	**13%**	**58%**	**6%**
Total trade receivables as at 31 December 2020	**780**	**75**	**17**	**16**	**85**	**973**
Related allowance for expected credit loss	**–**	**(3)**	**(1)**	**(2)**	**(49)**	**(55)**
Chargebacks and other allowances	**(256)**	**–**	**–**	**–**	**–**	**(256)**
Net receivables	**524**	**72**	**16**	**14**	**36**	**662**

At 31 December 2019	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
Expected credit loss rate	0%	0%	0%	14%	70%	6%
Total trade receivables as at 31 December 2019	788	71	12	28	73	972
Related allowance for expected credit loss	–	–	–	(4)	(51)	(55)
Chargebacks and other allowances	(280)	–	–	–	–	(280)
Net receivables	508	71	12	24	22	637

30. Financial policies for risk management and their objectives continued

Market risk
The Group is exposed to foreign exchange and interest rate risks. The Group's objective is to reduce, where it is appropriate to do so, fluctuations in earnings and cash flow associated with changes in interest rates and foreign currency rates. Management actively monitors these exposures to manage the volatility relating to these exposures by entering into a variety of derivative financial instruments, if needed.

Capital risk management
The Group manages its capital and monitors its liquidity to have reasonable assurance that the Group will be able to continue as a going concern and deliver its growth strategy objectives, whilst reducing its cost of capital and maximising the return to shareholders through the optimisation of the debt and equity mix. The Group regularly reviews the capital structure by considering the level of available capital and the short to medium-term strategic plans concerning future capital spend, as well as the need to meet dividends, banking covenants, and borrowing ratios.

The Group defines capital as equity plus net debt which includes long and short-term financial debts (Note 25 and 29), lease liabilities (Note 34), net of cash and cash equivalents (Note 23) and collateralised and restricted cash (Note 22). Group net debt excludes co-development and earnout payments, acquired contingent liabilities and contingent consideration (Notes 28 and 31).

During the year, the Group continued its strategy of obtaining debt financing at both the Group level and at the operating entities level. This enables the Group to borrow at competitive rates and to build relationships with local, regional and international banks and is therefore deemed to be the most effective means of raising finance, while maintaining the balance between borrowing cost, asset and liability management, and consolidated balance sheet currency risk management.

In order to monitor the available net funds, management reviews financial capital reports on a monthly basis, in addition to the continuous review by the Group treasury function.

At 31 December 2020, the Group's gearing ratio (total debt/equity) was 43% (2019: 32%). The increase in the Group's gearing ratio is due to the share buyback which resulted in a reduction in equity and an increase in borrowing in order to finance the share buyback (Note 32).

Cash management
The Group manages the deployment of cash balances to predefined limits approved by the Board of Directors under the cash/risk management policy. Per the policy, the Group's excess cash should be held with highly rated global and regional financial institutions. The aim of the policy is to mitigate the risk of holding cash in certain currencies, countries and financial institutions, through a specific threshold. The Group reviews the policy periodically to meet its risk appetite.

Foreign exchange risk and currency risk
The Group uses the US dollar as its reporting currency and is therefore exposed to foreign exchange movements primarily in the Euro, Algerian dinar, Sudanese pound, Japanese yen, Egyptian pound, Tunisian dinar, Lebanese pound and Moroccan dirham. Consequently, where possible, the Group enters into various contracts, which change in value as foreign exchange rates change, to hedge against the risk of movement in foreign denominated assets and liabilities. Due to the lack of open currency markets, the Algerian dinar, the Sudanese pound, the Tunisian dinar, the Moroccan dirham and the Egyptian pound cannot be hedged at reasonable cost. Where possible, the Group uses financing facilities denominated in local currencies to mitigate the risks. The Jordanian dinar and the Saudi riyal had no impact on the consolidated income statement as those currencies are pegged against the US dollar.

Lebanon and Sudan were considered to be hyperinflationary economies in the year ended 31 December 2020. When translating their results of operations into US dollars, assets, liabilities, income statement and equity accounts are translated at the rate prevailing on the balance sheet date. For the Lebanese pound, the rate at 31 December 2020 was 1,507.5 Lebanese pound per US dollar. For Sudanese pound, the official exchange rate as at 31 December 2020 was 55.275 Sudanese pound per US dollar, however due to lack of exchangeability of foreign currencies in Sudan during 2020 the Group has determined the rate of 120.0 instead of the official rate for translating Sudanese operations, being the rate to which the Group had access to settle certain transactions at the end of the reporting period through the legal exchange mechanism with the Sudanese government.

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.

30. Financial policies for risk management and their objectives continued

The currencies that have a significant impact on the Group accounts and the exchange rates used are as follows:

	Period-end rates		Average rates	
	2020	2019	**2020**	2019
US dollar /Euro	**0.8239**	0.8915	**0.8760**	0.8936
US dollar /Sudanese pound[1]	**120.000**	45.2284	**–[1]**	–[1]
US dollar /Algerian dinar	**132.2116**	119.1468	**126.7988**	119.3798
US dollar /Saudi riyal	**3.7495**	3.7495	**3.7495**	3.7495
US dollar /Pound sterling	**0.7313**	0.7551	**0.7792**	0.7833
US dollar /Jordanian dinar	**0.7090**	0.7090	**0.7090**	0.7090
US dollar /Egyptian pound	**15.6643**	15.9770	**15.7452**	16.7280
US dollar /Japanese yen	**103.200**	109.0193	**106.770**	108.6500
US dollar /Moroccan dirham	**8.9048**	9.5932	**9.5017**	9.6176
US dollar /Tunisian dinar	**2.7047**	2.7988	**2.8124**	2.9360
US dollar /Lebanese pound	**1,507.5000**	1,507.5000	**–[2]**	1,507.5000

1. In both years, Sudan has been a hyperinflationary economy and Sudanese operations were translated using period end rate
2. In 2020, Lebanon has been a hyperinflationary economy and Lebanese operations were translated using period end rate

	Net foreign currency financial assets/(liabilities)			
2020	**US dollar $m**	**Euro $m**	**Japanese yen $m**	**Others[1] $m**
Functional currency of entity:				
– Jordanian dinar	279	12	(6)	7
– Euro	32	–	–	–
– Algerian dinar	(5)	–	–	–
– Saudi riyal	7	(5)	–	–
– Sudanese pound	(26)	–	–	–
– Egyptian pound	(14)	–	–	–
– Tunisian dinar	1	1	–	2
– Moroccan dirham	(4)	(5)	–	–
– Lebanese pound	(4)	(1)	–	3
– US dollar	–	3	–	2
	266	5	(6)	14

1. Others include Saudi riyal, Jordanian dinar and Pound sterling

	Net foreign currency financial assets/(liabilities)			
2019	US dollar $m	Euro $m	Japanese yen $m	Others[1] $m
Functional currency of entity:				
– Jordanian dinar	151	21	(5)	13
– Euro	26	–	–	–
– Algerian dinar	(4)	(1)	–	–
– Saudi riyal	29	(2)	(1)	–
– Sudanese pound	(2)	–	–	–
– Egyptian pound	(11)	–	–	–
– Tunisian dinar	(1)	2	–	1
– Moroccan dirham	(4)	(5)	–	–
– Lebanese pound	(3)	–	–	(4)
– US dollar	–	1	–	1
	181	16	(6)	11

1. Others include Saudi riyal, Jordanian dinar and Pound sterling

30. Financial policies for risk management and their objectives continued

A sensitivity analysis based on a 10% movement in foreign exchange rates would result in a $28 million translational increase/decrease on the Group results.

The Group sets certain limits on liquid funds per currency (other than the US dollar) and per country.

Interest rate risk

	As at 31 December 2020 Fixed rate $m	Floating rate $m	Total $m	As at 31 December 2019 Fixed rate $m	Floating rate $m	Total $m
Financial liabilities						
Interest-bearing loans and borrowings	**704**	**146**	**850**	513	104	617
Lease liabilities	**82**	**–**	**82**	68	–	68
Financial assets						
Cash and cash equivalents	**–**	**238**	**238**	–	348	348

An interest rate sensitivity analysis assumes an instantaneous 1% change in interest rates in all currencies from their levels at 31 December 2020, with all other variables held constant. Based on the composition of the Group's net debt portfolio as at 31 December 2020, a 1% increase/decrease in interest rates would result in $1 million decrease/increase in net finance cost per year (2019: $2 million increase/decrease).

As at 31 December 2020, approximately 5% ($47 million) of the Group's utilised debt portfolio as well as $1,314million of the Group's unutilised debt facilities, have USD LIBOR as the benchmark interest rate. the unutilised debt facilities relates to the Group's syndicated revolving credit facility of $1,000 million. The Group has no outstanding interest rate hedges. The replacement of benchmark interest rates such as LIBOR and other interbank offered rates (IBORs) is a priority for global regulators and is expected to be largely completed in 2021. Further amendments (Phase 2) were issued on 27 August 2020 and the Group will apply these in 2021. We are currently in the process of fully identifying the Group's USD LIBOR exposure, and we are following the market developments surrounding LIBOR's replacement.

Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following financial assets/liabilities are presented at their carrying value which approximates to their fair value:

- Cash at bank and on hand, time deposit and collateralised and restricted cash – due to the short-term maturities of these financial instruments and given that generally they have negligible credit risk, management considers the carrying amounts to be not significantly different from their fair values
- Short-term loans and overdrafts approximates to their fair value because of the short maturity of these instruments
- Long-term loans –loans with variable rates are re-priced in response to any changes in market rates and so management considers the carrying amount to be not significantly different from their fair market value
- Loans with fixed rates relate mainly to the $500 million (carrying value of $491 million, and fair value of $521 million) Eurobond accounted through amortised cost. The fair value is determined with reference to a quoted price in an active market as at the balance sheet date (Note 29). For the remaining fixed loans exposures, fair value is estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities of such loans
- Receivables and payables – the fair values of receivables and payables are estimated to be not significantly different from the respective carrying amounts

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 $24 million (Note 24)
- Money market deposit (Note 23)

Financial assets and liabilities that fall under Level 3 are:

- Co-development and earnout payment liabilities (Note 28 and 31)
- Contingent consideration liability resulting from the acquisition of the Columbus business (Notes 28 and 31)
- Investment at FVTOCI (Note 19)

30. 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 2020 and the year ended 31 December 2019:

	Financial assets $m	Financial liabilities $m
1 January 2019	49	214
Received/settled, net	(40)	(1)
Remeasurement through income statement	7	(35)
Additions	4	–
Fair value adjustments recognised in equity	(2)	–
Balance at 31 December 2019 and 1 January 2020	**18**	**178**
Settled	**–**	**(61)**
Remeasurement through income statement	**–**	**(23)**
Additions	**5**	**–**
Fair value adjustments recognised in equity	**2**	**–**
Balance at 31 December 2020	**25**	**94**

The remeasurement through the income statement is included within the finance income/expense in the consolidated income statement.

The critical areas of judgement and estimates in relation to the contingent consideration are the probabilities assigned to reaching the success-based milestones and management's estimate of future sales (Note 28 and 31).

If the future sales were 5% higher or lower, the fair value of the contingent consideration will increase/decrease by $4 million (Note 28 and 31).

If the probability assigned to reaching the success-based milestones were 5% higher or lower, the fair value of the contingent consideration will increase/decrease by $1 million (Note 28 and 31).

Liquidity risk

2020	Less than one year $m	One to five years $m	More than five years $m	Total $m
Cash and cash equivalents	**323**	**–**	**–**	**323**
Trade receivables	**662**	**–**	**–**	**662**
Interest-bearing long term loans and borrowings[1]	**(64)**	**(728)**	**(42)**	**(834)**
Interest-bearing short term loans and borrowings[1]	**(47)**	**–**	**–**	**(47)**
Interest-bearing overdrafts[1]	**(2)**	**–**	**–**	**(2)**
Interest-bearing import and export loans[1]	**(69)**	**–**	**–**	**(69)**
Interest bearing finance lease[1]	**(10)**	**(49)**	**(49)**	**(108)**
Trade payables and accruals	**(454)**	**–**	**–**	**(454)**
	339	**(777)**	**(91)**	**(529)**

2019	Less than one year $m	One to five years $m	More than five years $m	Total $m
Cash and cash equivalents	442	–	–	442
Trade receivables	637	–	–	637
Interest-bearing long term loans and borrowings[1]	(522)	(48)	(3)	(573)
Interest-bearing short term loans and borrowings[1]	(2)	–	–	(2)
Interest-bearing overdrafts[1]	(2)	–	–	(2)
Interest-bearing import and export loans[1]	(57)	–	–	(57)
Interest bearing finance lease[1]	(9)	(52)	(26)	(87)
Trade payables and accruals	(459)	–	–	(459)
	28	(100)	(29)	(101)

1. As these are interest bearing liabilities, expected interest expense have been included in the balance

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30. Financial policies for risk management and their objectives continued

The Group regularly monitors all cash, cash equivalents and debt to maintain liquidity needs, this is done by analysing debt headroom and expected cash flows. The Group seeks to be proactive in its liquidity management to avoid any adverse liquidity effect.

At 31 December 2020, the Group had undrawn facilities of $1,549 million (2019: $1,544 million). Of these facilities, $1,286 million (2019: $1,230 million) were committed and the remainder were uncommitted.

31. Other non-current liabilities

	As at 31 December	
	2020 $m	2019 $m
Contingent consideration (Note 28 and 30)	**76**	111
Acquired contingent liability (Note 28)	**80**	83
Co-development and earnout payment (Note 28 and 30)	**3**	3
Others	**5**	6
	164	203

Contingent consideration and acquired contingent liability represent contractual liability to make payments to third parties in the form of milestone payments that depend on the achievement of certain US FDA approval milestones; and royalty payments based on future sales of certain products that are currently under development. These liabilities were recognised as part of the Columbus business acquisition. In 2020, $15 million (2019: $78 million) of this balance was reclassified to other current liabilities (See Note 30 for sensitivity analysis).

32. Share capital

Issued and fully paid – included in shareholders' equity:

	2020		2019	
	Number	**$m**	Number	$m
At 31 December	**243,332,180**	**41**	242,319,174	41

At 31 December 2020, of the issued share capital, 12,833,233 are held as Treasury shares, 40,831 shares are held in the Employee Benefit Trust (EBT) and 230,458,116 shares are in free issue.

Own Shares

Treasury Shares

On 23 June 2020, Hikma bought back 12,833,233 of its own shares previously held by Boehringer Ingelheim GmbH (BI) for £23.00/share ($28.76/share). These shares are held as 'treasury shares'. The voting rights attached to the treasury shares are not capable of exercise. Hikma also received a commitment fee of 2% of the aggregate value of the buyback shares acquired at the buyback price from BI. Hikma paid £295 million ($369 million) for the share buyback and received £5.9 million ($7.3 million) from BI for the commitment fees. Hikma also incurred $6 million of transaction costs related to legal fees, financial advisory fees and UK stamp duty bringing the total book value to $368 million, the market value at 31 December 2020 was $442 million. The buyback and related transaction costs and commitment fee were accounted for as equity transactions.

Shares held in EBT

EBT of Hikma holds 40,831 (2019: 40,831) Ordinary Shares in the Company. The trustee of the EBT is Apex Financial Services (Trust Company) Limited an independent trustee. The market value of the Ordinary Shares held in the EBT at 31 December 2020 was $1 million (2019: $1 million). The book value of the retained own shares at 31 December 2020 are $0.6 million (2019: $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.

33. Non-controlling interests

	2020 $m	2019 $m
At 1 January	**12**	12
Share of (losses)/profits	**(1)**	1
Dividends paid	**(1)**	(2)
Currency translation gain	**3**	1
At 31 December	**13**	12

34. Leases

The carrying amounts of right-of-use assets recognised and the movements during the year:

	Buildings $m	Vehicles $m	Machinery and Equipment $m	Total $m
As at 1 January 2019	50	3	2	55
Additions/Adjustments	(1)	5	–	4
Depreciation expense	(6)	(2)	(1)	(9)
As at 31 December 2019 and 1 January 2020	43	6	1	50
Additions	**19**	**6**	**–**	**25**
Sub-lease reclassification to financial and other non-current assets (Note 19)	**(4)**	**–**	**–**	**(4)**
Impairment charge	**(1)**	**–**	**–**	**(1)**
Depreciation expense	**(7)**	**(4)**	**–**	**(11)**
As at 31 December 2020	**50**	**8**	**1**	**59**

The carrying amounts of lease liabilities and the movements during the year:

	2020 $m	2019 $m
As at 1 January	**68**	72
Additions	**24**	4
Accretion of interest	**4**	4
Payments	**(14)**	(12)
As at 31 December	**82**	68
Current	**10**	9
Non-current	**72**	59

The maturity analysis of lease liabilities:

Breakdown by maturity:	**2020 $m**	2019 $m
Within one year	**10**	9
In the second year	**6**	8
In the third year	**6**	6
In the fourth year	**24**	5
In the fifth year	**4**	23
In the sixth year	**2**	3
Thereafter	**30**	14
	82	68

At 31 December 2020, lease liabilities included optional extension periods amounting to $13 million (2019: $8 million).

34. Leases continued

The following are the amounts recognised in the consolidated income statement:

	2020 $m	2019 $m
Depreciation expense of right-of-use assets	(11)	(9)
Impairment charge on right-of-use assets	(1)	–
Interest expense on lease liabilities	(4)	(4)
Expense relating to short-term leases	(1)	(1)
Total amount recognised in the consolidated income statement	**(17)**	(14)

35. Net cash generated from operating activities

	2020 $m	2019 $m
Profit before tax	**558**	491
Adjustments for:		
Depreciation, amortisation, impairment, and write-down of:		
Property, plant and equipment	77	64
Intangible assets	2	26
Right of Use of Assets	12	9
Gain from investment at FVTPL	(1)	(2)
Loss from investment divestiture	–	4
Loss on disposal/damage of property, plant and equipment	2	3
Movement on provisions	4	–
Cost of equity-settled employee share scheme	27	24
Finance income	(47)	(66)
Interest and bank charges	69	67
Foreign exchange loss and net monetary hyperinflation impact	30	4
Cash flow before working capital	**733**	624
Change in trade and other receivables	(47)	21
Change in other current assets	(14)	(2)
Change in inventories	(180)	(25)
Change in trade and other payables	6	(6)
Change in other current liabilities	41	50
Change in other non-current liabilities	(14)	(82)
Cash generated from operations	**525**	580

36. Contingent liabilities

Guarantees and letters of credit

A contingent liability existed at the balance sheet date in respect of external guarantees and letters of credit totalling $41 million (31 December 2019: $40 million) arising in the normal course of business. No provision for these liabilities has been made in these consolidated financial statements.

A contingent liability existed at the balance sheet date for a standby letter of credit totalling $8 million (2019: $9 million) for potential stamp duty obligation that may arise for repayment of a loan by intercompany guarantors. It's not probable that the repayment will be made by the intercompany guarantors.

Legal proceedings

The Group is involved in a number of legal proceedings in the ordinary course of its business, including actual or threatened litigation and actual or potential government investigations relating to employment matters, product liability, commercial disputes, pricing, sales and marketing practices, infringement of IP rights, the validity of certain patents and competition laws.

Most of the claims involve highly complex issues. Often these issues are subject to substantial uncertainties and, therefore, the probability of a loss, if any, being sustained and/or an estimate of the amount of any loss is difficult to ascertain. It is the Group's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable. Unless specifically identified below that a provision has been taken, the Group does not believe sufficient evidence exists at this point to make any provision.

- In 2018, the Group received a civil investigative demand from the US Department of Justice requesting information related to products, pricing and related communications. In 2017, the Group received a subpoena from a US state attorney general and a subpoena from the US Department of Justice. Hikma denies having engaged in any conduct that would give rise to liability with respect to these demands but is cooperating with all such demands. Management does not believe sufficient evidence exists at this point to make any provision for this currently.
- Starting in 2016, several complaints have been filed in the United States on behalf of putative classes of direct and indirect purchasers of generic drug products, as well as several individual direct purchasers opt-out plaintiffs (including two products). These complaints, which allege that the defendants engaged in conspiracies to fix, increase, maintain and/or stabilise the prices of the generic drug products named, have been brought against Hikma and various other defendants. The plaintiffs generally seek damages and injunctive relief under federal antitrust law and damages under various state laws. Hikma denies having engaged in conduct that would give rise to liability with respect to these civil suits and is vigorously pursuing defense of these cases. Management does not believe sufficient evidence exists at this point to make any provision for this currently.
- Starting in June 2020, several complaints have been filed in the United States on behalf of putative classes of direct and indirect purchasers of Xyrem® against Hikma and other defendants. These complaints allege that the Jazz Pharmaceuticals PLC and its subsidiaries entered into unlawful reverse payment agreements with each of the defendants, including Hikma, in settling patent infringement litigation over Xyrem®. The plaintiffs in these lawsuits seek treble damages and a permanent injunction. Hikma denies having engaged in conduct that would give rise to liability with respect to these lawsuits and is vigorously pursuing defence of these cases. Management does not believe sufficient evidence exists at this point to make any provision for this currently.
- Numerous complaints have been filed with respect to Hikma's sales and distribution of opioid products. Those complaints now total approximately 661 in number. These lawsuits have been filed against distributors, branded pharmaceuticals manufacturers, pharmacies, hospitals, generic pharmaceuticals manufacturers, individuals, and other defendants by a number of cities, counties, states, other governmental agencies and private plaintiffs in both state and federal courts. Most of the federal cases have been consolidated into a multidistrict litigation in the Northern District of Ohio. These cases assert in general that the defendants allegedly engaged in improper marketing and distribution of opioids and that defendants failed to develop and implement systems sufficient to identify suspicious orders of opioid products and prevent the abuse and diversion of such products. Plaintiffs seek a variety of remedies, including restitution, civil penalties, disgorgement of profits, treble damages, attorneys' fees and injunctive relief. Hikma denies having engaged in conduct that would give rise to liability with respect to these civil suits and is vigorously pursuing defense of these cases. Management does not believe sufficient evidence exists at this point to make any provision for this currently.
- In October 2020, Hikma received a voluntary request for information from the US Federal Trade Commission requesting information related to its investigation into whether Amarin Pharma, Inc. has engaged in, or is engaging in, anticompetitive practices or unfair methods of competition relating to the drug Vascepa®. In October 2020, Hikma also received a subpoena duces tecum from the State of New York, Office of the Attorney General, seeking information relevant and material to an investigation related to Amarin Pharma, Inc. Hikma is cooperating with all such demands.
- In March 2020, Hikma entered into an agreement settling a patent litigation between it and Micro Labs USA Inc. Hikma initiated the lawsuit against Micro Labs in the U.S. District Court for the District of Delaware after Micro Labs submitted a Paragraph IV Notice Letter advising that it has submitted an Abbreviated New Drug Application to the U.S. Food and Drug Administration seeking authorization from the FDA to manufacture, use or sell a generic version of Mitigare® colchicine 0.6 mg capsules in the United States. The specific terms of the settlement agreement are confidential.

Tax

On 25 April 2019, the European Commission released its decision that certain tax exemptions offered by the UK authorities could constitute State Aid and where this is the case, the relevant tax will need to be paid to the UK tax authorities. The UK Government has subsequently appealed against this decision. In common with other UK headquartered international companies whose arrangements were in line with current UK CFC legislation, Hikma may be affected by the outcome of this decision and has estimated the maximum potential liability to be approximately $2.4 million. Hikma has also filed it's own appeal at the CJEU and is in correspondence with HMRC. To data, based on management's understanding of legislation and professional advice taken on the matter, management does not believe that a provision is warranted.

37. Share-based payments

Executive incentive plan

The 2014 Executive Incentive Plan (EIP) was approved by shareholders at the 2014 Annual General Meeting. The EIP is a combined cash bonus (element A), deferred shares (element B) and restricted shares (element C) scheme. Under the EIP, the Company makes grants of conditional awards under elements B and C to the Executive Directors and senior executives of the Group. Awards under all elements are dependent on the achievement of individual and Group KPIs over one year prior to grant. The shares awarded under element B are not released for a period of two years during which they are subject to forfeiture conditions. The shares awarded under element C are not released for a period of three years, but are not subject to a forfeiture condition. Members of the Executives Committee must retain 100% of the shares received from elements B and C for a period of five years from the date of grant.

Year 2020	**2020 grants 27 Feb**	**2020 grants 27 Feb**	**2019 grants 17 May**	**2019 grants 12 March**	**2019 grants 12 March**	**2018 grants 7 June**	**2018 grants 16 May**	**2017 grants 11 May**	**2016 grants 11 May**	**2016 grants 17 March**	**2015 grants 10 April**	**Total Number**
Beginning balance	–	–	246,076	280,529	313,288	–	503,460	196,918	18,171	51,350	24,024	1,633,816
Granted during the year	184,355	561,994	–	–	–	–	–	–	–	–	–	746,349
Exercised during the year	–	(11,249)	(29,242)	–	–	–	(362,976)	(146,811)	(5,000)	–	(12,012)	(567,290)
Outstanding at 31 December	**184,355**	**550,745**	**216,834**	**280,529**	**313,288**	**–**	**140,484**	**50,107**	**13,171**	**51,350**	**12,012**	**1,812,875**
Exercisable at 31 December	–	–	–	–	–	–	26,982	50,107	13,171	51,350	12,012	153,622
Weighted average remaining contractual life (years)	2.16	1.16	0.38	1.19	0.19	–	7.38	6.36	5.36	5.21	4.28	1.80

Year 2019	2019 grants 17 May	2019 grants 12 March	2019 grants 12 March	2018 grants 7 June	2018 grants 16 May	2017 grants 11 May	2016 grants 11 May	2016 grants 17 March	2015 grants 10 April	Total Number
Beginning balance	–	–	–	28,818	553,741	548,046	30,115	212,403	24,024	1,397,147
Granted during the year	246,076	280,529	313,288	–	–	–	–	–	–	839,893
Exercised during the year	–	–	–	(28,818)	(50,281)	(351,128)	(11,944)	(161,053)	–	(603,224)
Outstanding at 31 December	246,076	280,529	313,288	–	503,460	196,918	18,171	51,350	24,024	1,633,816
Exercisable at 31 December	–	–	–	–	–	36,630	18,171	51,350	24,024	130,175
Weighted average remaining contractual life (years)	1.38	2.20	1.20	–	8.38	7.36	6.36	6.21	5.28	4.63

37. Share-based payments continued

The cost of the EIP of $18 million (2019: $15 million) has been recorded in the consolidated income statement as part of general and administrative and sales and marketing expenses.

The fair value per share is the face value of shares on the date of grant less the present value of dividends expected to be paid during the vesting period. Valuation is based on Black-Scholes methodology for nil-cost options.

The weighted average share price for 2020 is $30.24 (2019: $23.24).

	Date of grants	Number granted	The estimated fair value of each share option granted $	The share price at grant date $
EIP 1	10/04/2015	338,808	32.78	33.24216
EIP 2	15/05/2015	118,000	32.42	33.11449
EIP 3 B	17/03/2016	242,608	26.21	26.97918
EIP 3 C	17/03/2016	206,267	26.21	26.97918
EIP 4	11/05/2016	165,553	31.69	32.15333
EIP 5 B	13/04/2017	428,528	23.52	23.97771
EIP 5 C	13/04/2017	184,741	23.29	23.97771
EIP 6 B	16/05/2018	440,231	18.45	19.09082
EIP 6 C	16/05/2018	113,456	18.14	19.09082
EIP 7	07/06/2018	28,818	17.89	18.83410
EIP7 B	12/03/2019	313,288	21.00	21.75408
EIP7 C	12/03/2019	208,529	20.63	21.75408
EIP8	17/05/2019	246,076	21.41	22.17868
EIP9	12/03/2019	72,000	20.63	21.75408
EIP10 B	27/02/2020	561,994	24.10	24.91051
EIP10 C	27/02/2020	184,355	23.703	24.91051

The exercise price of the share award is $nil.

Management incentive plan

The 2009 Management Incentive Plan (MIP) was approved by shareholders at the 2010 Annual General Meeting and the 2018 MIP was approved by shareholders at the 2018 annual general meeting. Under the MIP, the Company makes grants of conditional awards to management across the Group below senior management level. Awards are dependent on the achievement of individual and Group KPIs over one year and are then subject to a two-year holding period.

Details of the grants under the plan are shown below:

Year 2020	**2020 grants 27 Feb Number**	**2019 grants 17 May Number**	**2018 grants 16 May Number**	**2017 grants 19 May Number**	**2016 grants 11 May Number**	**2015 grants 14 May Number**	**2014 grants 11 June Number**	**2013 grants 17 May Number**	**Total Number**
Outstanding at 1 January	–	408,243	400,870	36,990	8,254	8,854	5,890	3,013	872,114
Granted during the year	381,546	–	–	–	–	–	–	–	381,546
Exercised during the year	(776)	(6,832)	(376,560)	–	–	–	–	–	(384,168)
Expired during the year	(2,857)	(7,148)	(6,865)	–	–	–	–	–	(16,870)
Outstanding at 31 December	377,913	394,263	17,445	36,990	8,254	8,854	5,890	3,013	852,622
Weighted average remaining contractual life (years)	1.16	0.38	7.38	6.38	5.36	4.37	3.45	2.38	1.24

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37. Share-based payments continued

Year 2019	2019 grants 17 May Number	2018 grants 16 May Number	2017 grants 19 May Number	2016 grants 11 May Number	2015 grants 14 May Number	2014 grants 11 June Number	2013 grants 17 May Number	Total Number
Outstanding at 1 January	–	436,362	238,466	8,254	10,563	8,149	4,787	706,581
Granted during the year	436,107	–	–	–	–	–	–	436,107
Exercised during the year	(4,189)	(22,666)	(200,631)	–	(1,709)	(2,259)	(1,774)	(233,228)
Expired during the year	(23,675)	(12,826)	(845)	–	–	–	–	(37,346)
Outstanding at 31 December	408,243	400,870	36,990	8,254	8,854	5,890	3,013	872,114
Weighted average remaining contractual life (years)	1.38	8.38	7.39	6.36	5.37	4.45	3.38	4.97

The cost of the MIP of $9 million (2019: $9 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 the vesting period. Valuation is based on Black-Scholes methodology for nil-cost options.

The weighted average share price for 2020 is $30.24 (2019: $23.24).

	Date of grants	Number granted	The estimated fair value of each share option granted $	The share price at grant date $	Expected dividends yield %
MIP 1	19/03/2009	340,000	4.89	5.11	1.47
MIP 2	28/03/2010	147,561	9.15	9.36	1.15
MIP 3	11/05/2011	356,894	12.96	13.23	1.00
MIP 4	18/05/2012	412,056	9.47	9.72	1.29
MIP 5	17/05/2013	252,482	14.61	14.93	1.10
MIP 6	11/06/2014	225,904	27.73	28.33	0.71
MIP 7	11/05/2015	145,918	32.17	32.63	0.71
MIP 8	11/05/2016	196,373	31.73	32.20	0.73
MIP 9	19/05/2017	273,724	22.09	22.54	1.01
MIP 10	16/05/2018	443,288	18.45	19.09	1.71
MIP 11	17/05/2018	436,107	21.41	22.18	1.79
MIP 12	27/02/2020	381,546	24.10	24.91	1.67

The exercise price of the share award is $nil.

Long-term incentive plan

The 2007 long-term incentive plan (LTIP) was approved by shareholders at the 2007 Annual General Meeting and the last grant was made under the LTIP during the year ended 31 December 2014. The LTIP is settled by equity instruments, with 15 separate grant dates. Under the LTIP, conditional awards and $nil cost options were granted which vest after three years' subject to a total shareholder return (TSR), revenue growth, earnings per share and return on invested capital performance conditions. The TSR condition measures the Group's TSR relative to a comparator group of other pharmaceutical companies. The TSR vesting schedule dictates that 20% of awards vest for median performance and 100% for upper quartile performance with pro-rata vesting in between these points. No awards vest for performance, which is below the median.

37. Share-based payments continued

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 2020	**2014 grants 11 June Number**	**2013 grants 17 May Number**	**2012 grant 16 March Number**	**Total Number**
Outstanding at 1 January	14,220	21,275	–	35,495
Exercised during the year	(11,774)	(18,424)	–	(30,198)
Expired during the year	(2,446)	(2,851)	–	(5,297)
Outstanding at 31 December	**–**	**–**	**–**	**–**

Year 2019	2014 grants 11 June Number	2013 grants 17 May Number	2012 grant 16 March Number	Total Number
Outstanding at 1 January	19,470	26,630	22,220	68,320
Exercised during the year	(4,347)	(4,637)	(6,030)	(15,014)
Expired during the year	(903)	(718)	(16,190)	(17,811)
Outstanding at 31 December	14,220	21,275	–	35,495
Exercisable at 31 December	14,220	21,275	–	35,495
Weighted average remaining contractual life (years)	4.45	3.38	–	4.30

No costs for LTIPs were recognised in the consolidated income statement (2019: $nil credited to profit and loss).

The weighted average share price for 2020 is $30.24 (2019: $23.24).

38. Related parties

Transactions between Hikma Pharmaceuticals PLC (Hikma) and its subsidiaries (together, the Group) have been eliminated on consolidation and are not disclosed in this Note. Transactions between the Group and its joint ventures and other related parties are disclosed below.

Trading transactions:

During the year ended 31 December 2020, the Group entered into the following transactions with related parties:

Boehringer Ingelheim GmbH (BI): was previously a related party of Hikma as until 22 June 2020 it owned 16.5% of the share capital of Hikma, controlled 11.8% of the voting capital of Hikma and had the right to appoint an independent Director of Hikma. The independent Director appointed by BI was also a senior executive of BI.

On 22 June 2020, BI announced its intention to exit in full its investment in Hikma. BI sold all of its stake (40 million ordinary shares) in Hikma, Hikma bought back 12.8 million shares on 23 June 2020 and holds them in treasury (Note 32). As of 31 December 2020, BI did not hold any shares in Hikma.

On 25 June 2020, following the BI divestiture, the independent Director appointed by BI on Hikma's board resigned with immediate effect in accordance with the shareholder agreement between Hikma and BI.

The Group total sales to BI during the year amounted to $62.2 million (2019: $64.7 million) and the Group total purchases from BI during the year amounted to $1 million (2019: $1 million). As at the year end, the amount owed from BI to the Group was $12 million (2019: $7.3 million). Additionally, balances arising from the acquisition of the Columbus business from BI relating to contingent consideration are disclosed in Notes 24, 28 and 31.

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 24.66% (2019: 24.76%) of the share capital and 26.03% (2019: 24.76%) 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). In 2017, Hikma and MIDROC Group agreed not to proceed with the HikmaCure joint venture and to liquidate it. As part of the liquidation process the joint venture granted two loans of $2 million each to the Group and MIDROC Group. In 2020, the liquidation process progressed and the loans were settled against the initial investment amounts, liquidation is expected to be finalised in 2021.

HMS Holdings SAL (HMS): is a related party of Hikma because HMS is owned by the family of two Directors of Hikma and HMS held 1,350,000 Ordinary Shares (0.55% of the share capital and 0.59% of the voting capital) in Hikma until 13 May 2020 when it disposed of the entire holding. Other than the final dividend for 2019 (as paid to all eligible shareholders on 7 May 2020), there were no transactions between the Group and HMS during the year.

Hubei Haosun Pharmaceutical Co. Ltd (Haosun): is a related party of Hikma because the Group holds a non-controlling interest of 49% in the joint venture (JV) with Haosun (2019: 49%). During 2020, total purchases from Haosun were $1 million (2019: $3 million). At 31 December 2020, the amount owed from Haosun to the Group amounted to $nil (2019: $0.2 million) and the amount owed from the Group to Haosun amounted to $0.1 million (2019: $nil).

Labatec Pharma (Labatec): is a related party of the Group because Labatec is owned by the family of two Directors of Hikma. During 2020, total Group sales to Labatec amounted to $3 million (2019: $2 million), and total Group purchases amounted to $0.6 million (2019: $0.3 million). As at the year end, the amount owed by Labatec to the Group was $0.7 million (2019: $0.4 million).

Al Tibbi; is a related party of the Group because its jointly controlled by a direct relation to a senior executive member of the Group and Dash Ventures, in which two Directors of the Group have a controlling interest, During 2020, the Group requested that Al Tibbi provide patient referral services in response to COVID measures in Jordan. Total transactions with Al Tibbi was $0.4 million (2019: $nil) and the amount owed by the Group to Al Tibbi was $0.2 million (2019: $nil).

Remuneration of key management personnel

The remuneration of the key management personnel (comprising the Executive Directors, Non-Executive Directors and the senior management as set out in the Governance 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 83 to 104.

	2020 $m	2019 $m
Short-term employee benefits	**19.9**	16.3
Share-based payments	**11.1**	9.5
Post-employment benefits	**0.3**	0.2
Other benefits	**0.7**	0.8
	32.0	26.8

39. Subsidiaries and joint ventures

The subsidiaries and joint venture of Hikma Pharmaceuticals PLC are as follows:

			Owned by the Group	
Company's name	**Incorporated in**	**Address of the registered office**	**Ownership% Ordinary shares At 31 December 2020**	Ownership% Ordinary shares At 31 December 2019
Al Jazeera Pharmaceutical Industry S.A.R.L	Algeria	Zone d'Activité, Propriété N° 379 Section N° 04 Staoueli, Algeria	99%	99%
Algerie Industrie Mediterraneene Du Medicament S.A.R.L.	Algeria	Zone d'Activité 16/15 Staoueli, Algeria	97%	97%
Hikma Pharma Algeria S.A.R.L.	Algeria	Zone d'Activité 16/15 Staoueli, Algeria	100%	100%
SPA Al Dar Al Arabia pour la Fabrication de Médicaments	Algeria	Zone d'Activité El Boustane N° 78, Sidi Abdellah, Al Rahmania, Algeria	100%	100%
Hubei Haosun Pharmaceutical Co Ltd	China	No 20 Juxian Road, Gedian Economic and Technology Development Area, Hubei, China	49%	49%
Hikma Canada Limited	Canada	Blaney McMurtry LLP, Suite 15000 2 Queen Street , Toronto ON M5C 3G5	100%	100%
Hikma Pharma S.A.E	Egypt	12 El-Esraa Street, El-Mohandeseen, Lebanon Square, Giza, Egypt	100%	100%
Hikma Pharmaceuticals Industries S.A.E	Egypt	16 Ahmed Hosny Street, First Zone, Naser City, Cairo, Egypt	100%	100%
Hikma Specialised Pharmaceuticals (S.A.E)	Egypt	10 D, 11 D, Industrial Zone, Badr City, Cairo, Egypt	98%	98%
Hikma Importation Co. LLC	Egypt	16 Ahmed Hosny Street, First Zone, Naser City, Cairo, Egypt	100%	100%
Hikmacure Pharmaceuticals Share Company	Ethiopia	Addis Ababa, Bole Sub City, Kebele 16, Woreda, Ethiopia	–	50%
Hikma Pharma GmbH	Germany	Lochhamer Strasse 13, 82152, Martinsried, Germany	100%	100%
Thymoorgan Pharmazie GmbH	Germany	Schiffgraben 23, DE-38690, Goslar, OT Vienenburg, Germany	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%
Arab Medical Containers LLC	Jordan	P.O. Box 80, Sahab Industrial Estate, 11512, Jordan	100%	100%
Arab Pharmaceutical Manufacturing PSC	Jordan	Al Buhaira – Salt, P.O. Box 42, Jordan	100%	100%
Future Pharmaceutical Industries LLC	Jordan	P.O. Box 80, Sahab Industrial Estate, 11512, Jordan	100%	100%
Hikma International Pharmaceuticals LLC (Exempt)	Jordan	122 Queen Zain AlSharaf Street, Bayader Wadi Al-Seer, Amman, Jordan	100%	100%
Hikma International Ventures and Development LLC (Exempt)	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%
Hikma Investment LLC*	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%
Hikma Pharmaceuticals LLC	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%
Hikma United Renewable Energy	Jordan	Bayader Wadi Al-Seer, Industrial Area, Saleem Bin Al-Hareth Street, Building 21, P.O. Box 182400, Amman, 11118, Jordan	100%	100%

The Group's subsidiaries principally operate in trading pharmaceuticals products and associated goods and services. Companies marked (*) were incorporated as holding companies.

39. Subsidiaries and joint venture continued

Company's name	Incorporated in	Address of the registered office	Owned by the Group Ownership% Ordinary shares At 31 December 2020	Ownership% Ordinary shares At 31 December 2019
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 Pharmaceuticals Co. Ltd., Almaty (Kazakhtan) Representative Office	Kazakhstan	Apt. 1, House 7, Building-28, "Keremet" Microdistrict, Bostandykskiy District, Almaty,A15C8X2, Kazakhstan	100%	100%
Al Jazeera Pharmaceutical Industries Ltd	KSA	P.O. Box 106229 11666 Riyadh, Saudi Arabia	100%	100%
Hikma Liban S.A.R.L.	Lebanon	Saria Building, Ground Floor, Embassies Street, Bir Hassan, Beirut, Lebanon	67%	67%
Société de Promotion Pharmaceutique du Maghreb (Promopharm S.A.)	Morocco	Zone Industrielle du Sahel, Rue N. 7, Had Soualem, Province de Settat, Morocco	94%	94%
Hikma Pharma Benelux B.V	Netherlands	Nieuwe Steen 36, 1625 HV, Hoorn, Netherlands	100%	100%
Hikma Farmaceutica, (Portugal) S.A	Portugal	Estrada Rio Da Mo no.8, 8a, 8B-Fervenca, 2705-906, Terugem SNT, Portugal	100%	100%
Lifotec Farmaceutica S.G.P.S S.A*	Portugal	Estrada Nacional 9, Fervença, São João das Lampas e Terrugem, Sintra, Portugal	100%	100%
Hikma Shefaa for Pharmaceuticals and Medical Supplies PSC	Palestine	West Bank Al Birah, Ramallah	51%	51%
Hikma Pharmaceuticals	Palestine	West Bank Al Birah, Ramallah	100%	100%
Hikma Slovakia s.r.o	Slovakia	Seberíniho 1 821 03 Bratislava, Slovakia	100%	100%
Hikma Espana S.L	Spain	CALLE MALDONADO, 4 – BJ D 28006, MADRID Spain	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.[1]	Switzerland	Rue des Battoirs 7, 1205 Genève, Switzerland	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*	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%

39. Subsidiaries and joint venture continued

Company's name	Incorporated in	Address of the registered office	Owned by the Group Ownership% Ordinary shares At 31 December 2020	Ownership% Ordinary shares At 31 December 2019
Hikma Emerging Markets and Asia Pacific FZ-LLC[1]	United Arab Emirates	Premises 202-204, Floor 2, Building 26, Dubai, United Arab Emirates	100%	100%
Hikma International Trading Limited[1]	United Arab Emirates	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%
Hikma MENA FZE*[1]	United Arab Emirates	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	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%
Hikma Holdings (UK) Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%
Hikma UK Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%
Hikma Ventures Limited[1]	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%
Hikmacure Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	50%	50%
West-Ward Holdings Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%
Hikma Pharmaceuticals International Limited*	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	100%
Hikma Iintelligence Limited	United Kingdom	1 New Burlington Place, London, W1S 2HR, United Kingdom	100%	–
Eurohealth (U.S.A.) Inc	United States	200 Connell Drive, 4th Floor Berkeley Heights, NJ 07922	100%	100%
Hikma Speciality USA, Inc.	United States	200 Connell Drive, 4th Floor Berkeley Heights, NJ 07922	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	200 Connell Drive, 4th Floor Berkeley Heights, NJ 07922	100%	100%
Hikma Finance USA LLC	United States	200 Connell Drive, 4th Floor Berkeley Heights, NJ 07922	100%	100%

1. Owned by PLC 'the company'

The investments in subsidiaries are all stated at cost in Hikma Pharmaceuticals PLC and are consolidated in line with IFRS 10.

The investments in joint ventures are accounted for using the equity method in the Group (Note 18).

The Group's subsidiaries principally operate in trading pharmaceuticals products and associated goods and services. Companies marked (*) were incorporated as holding companies.

40. Defined contribution retirement benefit plan

Hikma Pharmaceuticals PLC has defined contribution retirement plans in four of its subsidiaries: Hikma Pharmaceuticals PLC – United Kingdom, Hikma Pharmaceuticals Limited (Jordan), Arab Pharmaceutical Manufacturing Co and Hikma Pharmaceuticals USA Inc.. The details of each contribution plan are as follows:

Hikma Pharmaceuticals PLC

Hikma Pharmaceuticals PLC currently has a defined contribution pension plan available for staff working in the United Kingdom whereby Hikma Pharmaceuticals PLC contributes 10% of basic salary. Employees are immediately entitled to 100% of the contributions. Hikma Pharmaceuticals PLC contributions for the year ended 31 December 2020 were $0.3 million (2019: $0.3 million).

Hikma Pharmaceuticals LLC

Hikma Pharmaceuticals LLC currently has an employee savings plan whereby Hikma Pharmaceuticals LLC fully matches employees' contributions, which are fixed at 10% of basic salary. Employees are entitled to 100% of Hikma Pharmaceuticals LLC contributions after three years of employment with the Company. Hikma Pharmaceuticals LLC contributions for the year ended 31 December 2020 were $3 million (2019: $3 million).

Arab Pharmaceutical Manufacturing PSC

Arab Pharmaceuticals Manufacturing PSC currently has an employee savings plan whereby Arab Pharmaceuticals Manufacturing PSC fully matches employees' contributions, which are fixed at 10% of basic salary. Employees are entitled to 100% of Arab Pharmaceuticals Manufacturing PSC contributions after three years of employment with the Company. Arab Pharmaceuticals Manufacturing PSC contributions for the year ended 31 December 2020 were $0.5 million (2019: $0.6 million).

Hikma Pharmaceuticals USA Inc.: (401 (k) Retirement Plan)

Hikma Pharmaceuticals USA Inc. had a 401(k)-defined contribution plan, which allows all eligible employees to defer a portion of their income through contributions to the plan. Eligible employees can begin contributing to the Plan after being employed for 90 days. Employees can defer up to 95% of their eligible income into the Plan, not to exceed $19,500 (2019: $19,000), 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 2020 were $8.9 million (2019: $8.7 million). The assets of this Plan are held separately from those of the Group. The only obligation of the Group with respect to this Plan is to make specified contributions.

Company balance sheet

At 31 December 2020

	Note	2020 $m	2019 $m
Non-current assets			
Property, plant and equipment		**2**	2
Right-of-use assets		**9**	11
Intangible assets	3	**27**	33
Investments in subsidiaries	4	**3,332**	3,331
Due from subsidiaries	5	**100**	383
		3,470	3,760
Current assets			
Trade and other receivables		**20**	10
Due from subsidiaries	5	**49**	87
Cash and cash equivalents	7	**156**	176
Other current assets	6	**24**	24
		249	297
Total assets		**3,719**	4,057
Current liabilities			
Other payables		**2**	3
Due to subsidiaries	8	**29**	32
Short-term financial debts	9	**21**	500
Other current liabilities		**12**	16
		64	551
Net current assets		**185**	(254)
Non-current liabilities			
Long-term financial debts	9	**129**	–
Due to subsidiaries	8	**48**	59
Lease liabilities		**11**	13
		188	72
Total liabilities		**252**	623
Net assets		**3,467**	3,434
Equity			
Share capital	11	**41**	41
Share premium	12	**282**	282
Other reserves[1]		**1,746**	1,746
Profit for the year	13	**483**	470
Retained earnings[1]		**915**	895
Equity attributable to equity holders of the parent		**3,467**	3,434

1. Beginning in 2020, own shares are deducted from retained earnings. At 31 December 2019, own shares of $(1) million were included in other reserves

The financial statements of Hikma Pharmaceuticals PLC, registered number 5557934, on pages 171 to 178 were approved by the Board of Directors on 24 February 2021 and signed on its behalf by:

Said Darwazah
Director
24 February 2021

Sigurdur Olafsson
Chief Executive Officer

Company statement of changes in equity

For the year ended 31 December 2020

	Share capital $m	Share premium $m	Own shares $m	Merger reserve $m	Retained earnings $m	Total $m
Balance at 31 December 2018 and 1 January 2019	40	282	(1)	1,746	970	3,037
Profit for the year	–	–	–	–	470	470
Total comprehensive income for the year					**470**	**470**
Cost of equity settled employee share scheme	–	–	–	–	24	24
Exercise of employees share scheme	1	–	–	–	(1)	–
Dividends paid	–	–	–	–	(97)	(97)
Balance at 31 December 2019 and 1 January 2020	**41**	**282**	**(1)**	**1,746**	**1,366**	**3,434**
Reclassification[1]	–	–	1	–	(1)	–
Balance at 1 January 2020 as adjusted	41	282	–	1,746	1,365	3,434
Profit for the year	–	–	–	–	483	483
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**483**	**483**
Cost of equity settled employee share scheme	–	–	–	–	27	27
Dividends paid	–	–	–	–	(109)	(109)
Share buyback	–	–	–	–	(368)	(368)
Balance at 31 December 2020	**41**	**282**	**–**	**1,746**	**1,398**	**3,467**

1. Beginning in 2020, own shares are deducted from retained earnings. At 31 December 2019, own shares of $(1) million were separately presented in other reserves

Notes to the Company financial statements

For the year ended 31 December 2020

1. Adoption of new and revised standards

The nature of the impact on the Company of new and revised standards is the same as for the Group. Details are given in Note 1 of the Group consolidated financial statements.

2. Significant accounting policies

Basis of accounting

These financial statements, for the year ended 31 December 2020 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:

- Paragraph 10(d) of IAS 1 'Presentation of Financial Statements' (statement of cash flows)
- Paragraph 16 of IAS 1 'Presentation of Financial Statements' (statement of compliance with all IFRS)
- Paragraph 38A of IAS 1 'Presentation of Financial Statements' (requirements for minimal of two primary statements, including cash flow statements)
- Paragraph 45B and 46 to 52 of IAS 1 'Presentation of Financial Statements' (Share based payment)
- Paragraph 111 of IAS 1 'Presentation of Financial Statements' (cash flow statement information)
- IFRS 7 financial instruments disclosure
- Paragraph 17 of IAS 24 'Related Parties Disclosures'
- Paragraph 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- IAS 7 'Statement of cash flows'

No individual profit and loss account is prepared as provided by section 408 of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in Note 2 of the Group consolidated financial statements with the addition of the policies noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provision for impairment.

The carrying value of investments are reviewed for impairment when there is an indication that the investment might be impaired. Any provision resulting from an impairment review is charged to the Company income statement.

Intercompany receivable are classified as financial assets at amortised cost and are measured at amortised cost using the effective interest method less any impairment.

The Company applies a simplified approach in calculating expected credit loss. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Equity-settled employee share schemes are accounted for in accordance with IFRS 2 'Share based payment'. The current charge relating to the subsidiaries' employees is recharged to subsidiary companies.

3. Intangible assets

Cost	Software $m	Total $m
Balance at 1 January 2019	27	27
Additions	12	12
Balance at 1 January 2020	**39**	**39**
Additions	11	11
Disposals (charged to subsidiaries)	(10)	(10)
Balance at 31 December 2020	**40**	**40**
Amortisation		
Balance at 1 January 2019	(4)	(4)
Charge for the year	(1)	(1)
Impairment	(1)	(1)
Balance at 1 January 2020	**(6)**	**(6)**
Charge for the year	(2)	(2)
Impairment	(5)	(5)
Balance at 31 December 2020	**(13)**	**(13)**
Carrying amount		
At 31 December 2020	**27**	**27**
At 31 December 2019	33	33

Details of useful lives are included in Note 16 of the Group consolidated financial statements.

4. Investments in subsidiaries

The details of Investment in subsidiaries are mentioned in Note 39 of the Group consolidated financial statements.

The following table provides the movement of the investments in subsidiaries:

	2020 $m	2019 $m
Beginning balance	3,331	3,328
Additions to subsidiaries	1	3
Ending balance	**3,332**	3,331

5. Due from subsidiaries

Non-current assets

	2020 $m	2019 $m
Hikma MENA FZE	43	–
Hikma Pharmaceuticals LLC	40	–
Hikma Pharmaceuticals USA Inc.	8	343
Hikma Emerging Markets and Asia Pacific FZ-LLC	5	6
Hikma UK Limited	4	34
	100	383

Current assets

	2020 $m	2019 $m
Hikma Pharma-GmbH	1	–
Hikma MENA FZE	–	33
Hikma Pharmaceuticals USA Inc.	31	38
Hikma Pharma S.A.E	2	1
Hikma Farmaceutica, (Portugal) S.A.	–	3
Hikma Pharmaceuticals International Limited	1	2
Hikma Emerging Markets and Asia Pacific FZ-LLC	7	7
Others	7	3
	49	87

The Company does not expect any material credit losses from inter group receivables.

6. Other current assets

	2020 $m	2019 $m
Investments at FVTPL	24	23
Others	–	1
	24	24

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. These assets are classified as level 1 as they are based on quoted prices in active markets.

7. Cash and cash equivalents

	2020 $m	2019 $m
Cash at banks and on hand	11	13
Time deposits	145	163
	156	176

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.

8. Due to subsidiaries

Non-current liabilities

	2020 $m	2019 $m
Hikma MENA FZE	48	59
	48	59

Current liabilities

	2020 $m	2019 $m
Hikma Investment LLC	17	17
Hikma Farmaceutica, (Portugal) S.A.	4	–
Hikma Pharma Limited	3	2
Hikma UK Limited	1	1
Hikma Pharmaceuticals LLC	2	11
Other	2	1
	29	32

9. Financial debts

A syndicated revolving credit facility of $1,175 million was entered into on the 27 of October 2015. From the $1,175 million, $175 million matured on 24 December 2019, $130 million mature in January 2021 and the remaining $870 million was renewed until December 2023. At 31 December 2020 the facility has an outstanding balance of $nil (2019: $nil) and a $1,000 million unused available limit (2019: $1,000 million). The facility can be used for general corporate purposes (Note 29) of the Group consolidated financial statements.

A ten-year $150 million loan from the International Finance Corporation was entered into on 21 December 2017. There was full utilisation of the loan as of April 2020. Quarterly equal repayments of the long-term loan will commence on 15 March 2021. The loan was used for general corporate purposes. The facility matures on 15 December 2027 (Note 29) of the Group consolidated financial statements. In April 2020, the Group settled a $500 million five-year Eurobond that was issued in 2015 (Note 29) of the Group consolidated financial statements.

An eight-year $200 million loan from the International Finance Corporation and Managed Co-lending Portfolio program was entered into on 26 October 2020. There was no utilisation of the loan as of December 2020. The facility matures on 15 September 2028 (Note 29) of the Group consolidated financial statements.

10. Staff costs

Hikma Pharmaceuticals PLC currently has an average of 35 employees (2019: 37 employees) (excluding Executive Directors); total compensation paid to them amounted to $12 million (2019: $10 million), of which salaries and bonuses comprise an amount of $8 million (2019: $8 million) the remaining balance of $4 million (2019: $2 million) mainly represents national insurance contributions and other employee benefits.

11. Share capital

Issued and fully paid – included in shareholder's equity:

	2020		2019	
	Number	$m	Number	$m
At 31 December	243,332,180	41	242,319,174	41

At 31 December 2020, of the issued share capital, 12,833,233 are held as Treasury shares, 40,831 shares are held in the Employee Benefit Trust (EBT) and 230,458,116 shares are in free issue (Note 32) of the Group consolidated financial statements.

12. Share premium

	Share premium $m
Balance at 31 December 2020	282

13. Profit for the year

The net profit in the Company for the year is $483 million (2019: $470 million). Included in the net profit for the year is an amount of $510 million (2019: $509 million) representing dividends received. The remaining income statement components largely represent general and administrative expenses and net financing expenses. Audit fees for the Company are disclosed in Note 7 of the Group consolidated financial statements.

14. Contingent liabilities

A contingent liability existed at the balance sheet date for a standby letter of credit totalling $8 million (2019: $9 million) for potential stamp duty obligation that may arise for repayment of a loan by intercompany guarantors. It's not probable that the repayment will be made by the intercompany guarantors.

In addition, the Company guaranteed Hikma Finance USA LLC $500million, 3.25%, five year Eurobond issued in July 2020 (Note 29 of the Group consolidated financial statements) and guaranteed Hikma Pharmaceuticals USA Inc. contingent consideration related to the Columbus business acquisition (Note 28 and 31 of the Group consolidated financial statements). It's not probable that any of the guaranteed entities will default on the guaranteed obligations.

2021 financial calendar

18 March	2020 final dividend ex-dividend date
19 March	2020 final dividend record date
23 April	Annual General Meeting
26 April	2020 final dividend paid to shareholders
6 August*	2021 interim results and interim dividend announced
19 August*	2021 interim dividend ex-dividend date
20 August*	2021 interim dividend record date
20 September*	2021 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 Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL
- 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.
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