BUILDING FOR THE FUTURE

Hikma Pharmaceuticals PLC
Annual Report 2016

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Strategic report

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1. Core results are presented to show the underlying performance of the Group, excluding amortisation of intangible assets other than software and the exceptional items set out in note 5
2. Earnings before interest, tax, depreciation and amortisation

We are a leading global specialty pharmaceutical company, generating revenue of around $2.0 billion in 2016. We have a balanced business model, comprising three strong businesses that are well-diversified by geography and product. We have operations in more than 50 countries across three continents, employing 8,500 people globally.

Our primary objective is to improve lives by providing patients with high-quality, affordable medicines while creating long-term value for shareholders and building a sustainable business for our employees and communities.

Financial highlights 2016

Revenue
$1,950m

Core operating profit[1]
$419m

Reported operating profit
$302m

EBITDA[2]
$473m

Profit attributable to shareholders
$155m

Dividend per share
33 cents

Basic earnings per share
66.5 cents

A FOUNDATION FOR THE FUTURE

We develop, manufacture and market a broad range of branded and non-branded generic pharmaceutical products across the United States (US), the Middle East and North Africa (MENA) and Europe. We are also a leading licensing partner in MENA. Our operations span more than 50 countries and are conducted through three business segments.

Our business segments

Injectables

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

Highlights

- A leading global manufacturer of sterile injectables
- US Food and Drug Administration (FDA) approved facilities in the US, Portugal and Germany
- A range of manufacturing capabilities, including sterile liquid, powder, lyophilised and cytotoxic products
- Broad product portfolio including controlled substances, anti-infective, cardiovascular and oncology products
- 201 products in 571 dosage forms and strengths
- Key products include: fentanyl, glycopyrrolate, neostigmine, nicardipine, and thiotepa

Generics

Our Generics business sells non-injectable generic products in the US, with an increasingly differentiated portfolio and pipeline.

Highlights

- Seventh largest manufacturer of non-injectable generics in the US market
- Large portfolio of differentiated products
- State-of-the-art facilities in the US with a broad range of capabilities
- Utilises our lower-cost US FDA-approved facilities in Jordan and Saudi Arabia
- 109 products in 375 dosage forms and strengths
- Key products include: amoxicillin, buprenorphine, butalbital, acetaminophen & caffeine, colchicine, and fluticasone

Branded

Our Branded business sells branded generics and in-licensed innovative products across the MENA and other emerging markets.

Highlights

- Fifth largest pharmaceutical manufacturer in the MENA
- Nearly 2,000 sales people targeting physicians and pharmacists across the region
- Strong anti-infective franchise and increasing focus on cardiovascular, diabetes and central nervous system (CNS) products
- US FDA-approved manufacturing facilities in Jordan and Saudi Arabia
- 397 products in 1,235 dosage forms and strengths
- Key products include Amoclan®, Blopress®, Omnicef®, Prograf® and Suprax®

Find out more

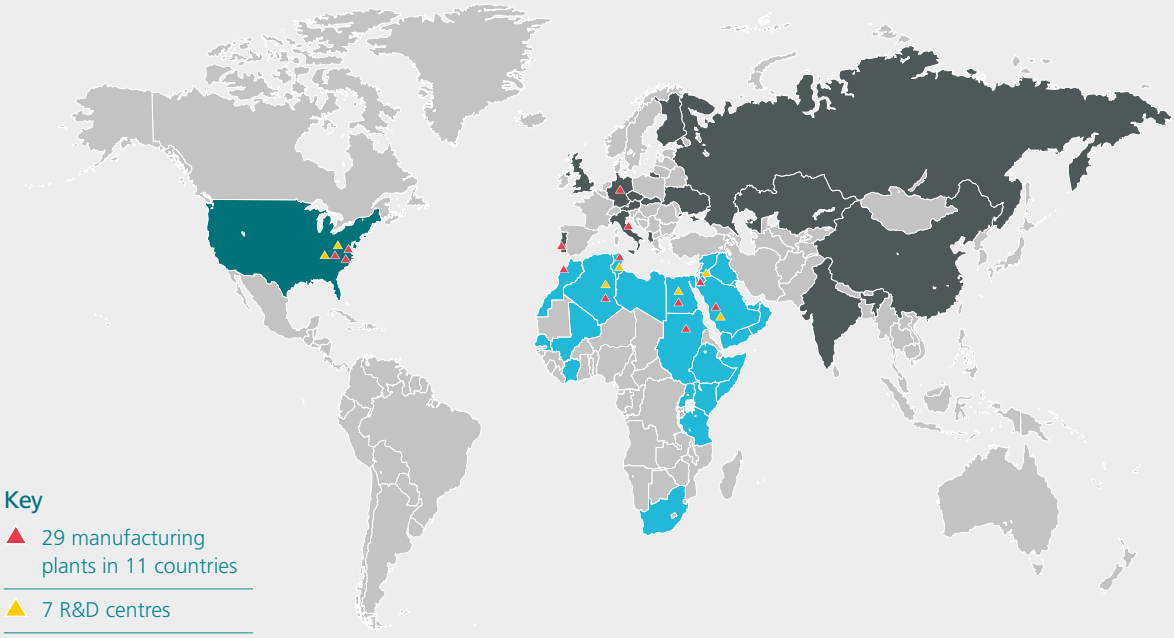
Business segments

To find out more about how we have performed in each of our businesses, go to the business and financial review.

Injectables 22

Generics 26

Branded 30



United States

62%

of Group revenue

In the US, we have more than 2,000 employees. Our large state-of-the-art manufacturing facilities – one for sterile injectables and two for oral solids – supply a broad range of products to patients in the US market.

MENA

33%

of Group revenue

Hikma has nearly 5,000 employees in the MENA. We have local manufacturing facilities in seven markets and sales and marketing teams detailing doctors and pharmacists across 17 markets.

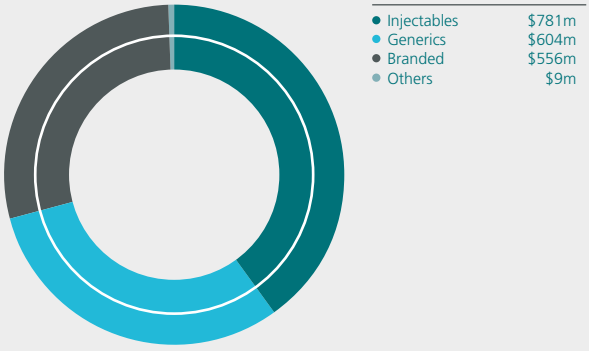
Europe and rest of the world

5%

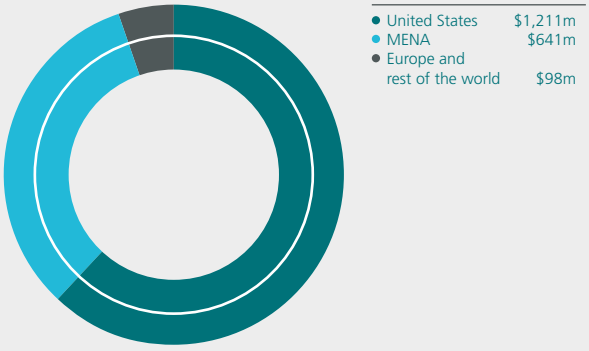
of Group revenue

Hikma has nearly 700 employees in Europe – primarily in Portugal, Germany and Italy – where we have injectable manufacturing facilities. These facilities supply injectable products to our global markets.

Revenue by business segment



Revenue by region



OUR STRONG INVESTMENT CASE

- Diversified business model
- Established commercial capabilities
- Strong global portfolio across diverse markets
- Experienced R&D teams and a large, differentiated pipeline
- High-quality global manufacturing footprint and efficient operations
- Experienced management teams with a proven track record

IS CREATING LONG-TERM SUSTAINABLE VALUE

BUILDING FOR THE FUTURE

We have a long history of improving lives by providing a reliable supply of high-quality, affordable medicines to doctors and patients. This was our founder's vision and I am pleased to be carrying this on today. To achieve this in a fast-changing world, we need to be extremely competitive, agile and entrepreneurial.

A year of transformation

2016 was a year of transformation as we re-balanced and strengthened our business to position ourselves for future growth. As a result of these actions, I am pleased to say that our business has never been in better shape strategically. Despite some challenging trading conditions in 2016, we grew by 35% to reach revenue of around $2.0 billion.

We have a clear strategy for growth, which centres on optimising our current portfolio, developing our people, deepening our investment in product development, expanding our manufacturing capabilities and looking for new M&A opportunities. As a well-diversified organisation, we are positioned to capture significant new opportunities and enter new markets, while continuing to grow in our traditional regions, the US and the MENA.

Strategic partnerships and M&A

We started the year with the completion of the Roxane Laboratories acquisition (now West-Ward Columbus), our largest and most significant acquisition to date, establishing us as a top ten US generics manufacturer. The integration of this acquisition and the successful ANDA filing for generic Advair were two of the key achievements of 2016.

In addition to this acquisition, we formed new strategic partnerships and expanded our relationship with some of our existing partners. This included broadening our agreement with Basilea Pharmaceutica International Ltd to be their exclusive licensing, supply and distribution partner in the MENA for their anti-infective Cresemba®. We also strengthened our partnership with Vectura with the signing of a US development and licence agreement for a generic long acting beta-agonist (LABA) for the treatment of asthma and COPD delivered using Vectura's proprietary dry powder inhalation technology and device.

In 2016, we also made investments through our venture capital arm, Hikma Ventures, in Propeller Health, the leading digital solution for respiratory medicine, and in Chrono Therapeutics for their wearable transdermal smoking cessation device.

These types of partnerships and selective investments in innovative new technologies, in addition to strategic M&A, will remain vital to the business as we move forward.

Strengthening our portfolio

Across the Group, we have continued to optimise our product portfolio, prioritising products with the greatest promise and rationalising those that have become less attractive. New product introductions have also enhanced our portfolio in 2016, as we launched more than 200 products in different dosage forms and strengths globally, including the re-introduction of the products that came with our acquisition of Bedford Laboratories in 2014.

We have large and exciting pipelines for all of our businesses, with approximately 1,000 products in different dosage forms and strengths pending regulatory approval and around 400 in our development pipeline globally. It is imperative that we continue to invest in pipeline replenishment to underpin sustainable long-term growth and the investments we have been making in R&D support this. The development of generic Advair, which we hope will be approved in 2017, is an excellent example of our strategic focus on differentiated products.

Adding capacity

With strong demand for our currently marketed products and a sizeable pipeline, we are investing to ensure we have the capacity to continue delivering as we grow. In particular, we have significantly increased our sterile injectables capacity, transferring high-quality machinery and equipment from the Bedford acquisition to our various sites in Portugal, Germany and the US.

This investment will enable us to quickly and efficiently execute our medium to long-term product launch programme and expand across all of our markets.

Driving better collaboration and efficiencies

We made good strides in 2016 to improve our operating processes and systems so we can do things better and faster. This includes the transfer of a number of members of our management team from across our geographies to our Group headquarters in London. This will enable greater collaboration between our businesses, as well as improving the speed and efficiency of decision making.

Across all of our markets we are focusing on efficiency. In HR and IT this has meant the introduction of new communications and management systems designed to improve connectivity and collaboration. At our 29 manufacturing facilities in 11 countries around the world, we are seeking to drive continuous manufacturing efficiencies while maintaining quality. Our sales teams have been effectively improving resource deployment and increasing productivity, enabling us to better and more cost-effectively meet the needs of doctors and patients.

Creating value for shareholders

We remain committed to creating value for our shareholders. Since Hikma listed on the London Stock Exchange in 2005 through to the end of 2016, we have delivered a total shareholder return of 343%. We are delighted with this performance, which exceeds that of the FTSE 250 index and the FTSE Pharmaceutical index, whose total shareholder return was 154% and 119% respectively over the same period. We have been able to achieve this in a manner that is transparent, ethical and sustainable. To that end, I am proud that we continue to be recognised by the FTSE4Good as a leader in good Environmental, Governance and Sustainability practices.

Looking ahead

As we look to 2017 and beyond, I believe that we have never been in a better position to deliver on the promise of our mission to provide high-quality, affordable medicines to people who need them. We've brought some excellent new talent into the business in 2016, and we continue to invest in the development and welfare of our people. I would like to thank my Hikma colleagues in all the parts of the world where we operate for their steadfast commitment and continued hard work.

Said Darwazah
Chairman and Chief Executive Officer

DIVERSIFIED BUSINESS MODEL

Our business is well-diversified by geography and product.

Our inputs

Financial
Capital investment in R&D, manufacturing facilities and M&A enable us to expand our product portfolio, technical capabilities, geographic reach and manufacturing capacity.

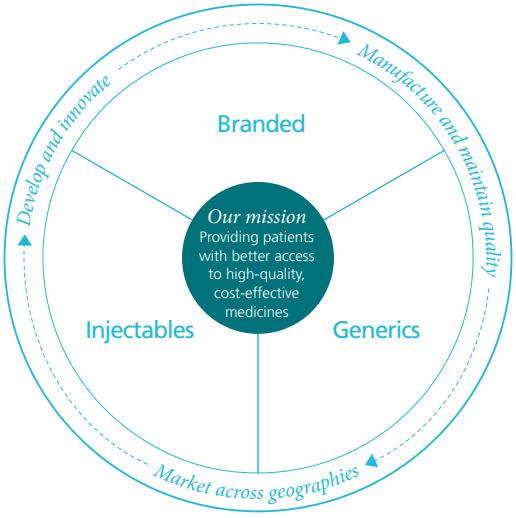
People
We have a highly skilled, diverse and effective workforce. Through continuous training of our people and by hiring new talent, we secure our future development.

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

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

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

Our activities



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

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

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

The value we create

Patient benefits
Our high-quality, affordable generic medicines benefit patients across our markets.

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

Shareholder returns
Economic and financial returns are reinvested for future growth.

Sustainable business
By conducting our business well and acting responsibly, we are benefiting our employees and our communities.

To find out more, see page 38 to 51.

How we are different

Our commitment to quality

Quality has been the founding principle of Hikma – our culture, people, processes and facilities reflect this commitment and enable us to ensure the safety of our products. Embedding the highest-possible quality standards within our business ensures our strategic priorities are delivered, while maintaining a transparent and ethical culture across the Group.

Our global footprint

Our presence today spans more than 50 countries across the globe. We have leading market positions in the US and the MENA, where our differentiated operating model, with strong, established local businesses in each of our markets, enables us to capture attractive growth opportunities.

Our differentiated portfolio

We are continuously developing our large and broad global product portfolio to address patients' evolving needs. Across our businesses we are increasing our focus on products with one or more layers of differentiation including innovative in-licensed products, first-to-market generics, hard-to-manufacture products and complex products.

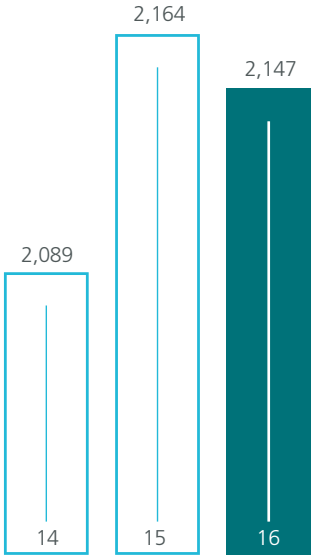
ESTABLISHED COMMERCIAL CAPABILITIES

Hikma operates in attractive markets with significant growth opportunities. Our strong commercial capabilities are enabling us to successfully leverage our global portfolio to drive growth.

Our sales and marketing team of close to 2,000 people across the MENA supports our position as the fifth largest pharmaceutical manufacturer in the region and the largest regional player. We are the seventh largest pharmaceutical manufacturer in the US, with nationwide sales coverage.

Sales and marketing employees

2,147



STRONG GLOBAL PORTFOLIO ACROSS DIVERSE MARKETS

We have a broad global product portfolio, with over 700 products in approximately 2,200 dosage forms and strengths, across multiple therapeutic categories. This is a competitive advantage, creating a leading presence in key markets and strategically positioning us to capture opportunities in a dynamic market environment.

Good momentum in new product launches, with an increasing focus on more differentiated and complex products, is enabling us to meet patient demand for a wider range of high-quality, affordable medicines.

Products on the market

707

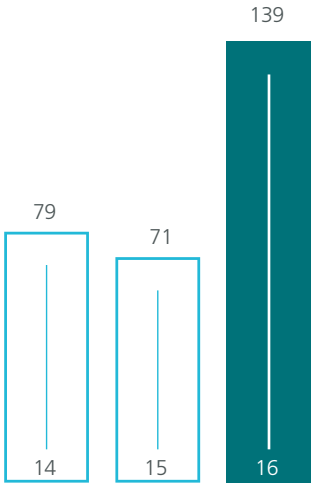
EXPERIENCED R&D TEAMS AND A LARGE, DIFFERENTIATED PIPELINE

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

We have close to 1,000 products pending approval from global regulatory authorities and approximately 400 products under active development. We have the expertise and resources to focus on more complex and differentiated products across a range of therapeutic categories, dosage forms and delivery systems.

R&D expenditure* and product-related investment ($) (million)

$139m



* R&D expenditure is stated before exceptional items

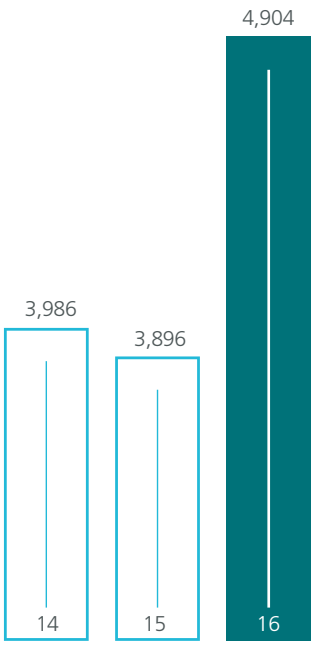
HIGH-QUALITY GLOBAL MANUFACTURING FOOTPRINT AND EFFICIENT OPERATIONS

Hikma has an extensive and well-established manufacturing footprint. We operate 29 facilities in 11 countries, across the US, Europe and the MENA, 12 of which are approved by the US FDA and nine of which are EU-approved. The strategic investment we have made in our manufacturing capabilities and capacity has created a strong competitive advantage and enabled us to capture significant market opportunities.

Quality is critical to our success and our excellent track record of regulatory compliance has made us a trusted partner to our customers.

Number of production employees

4,904



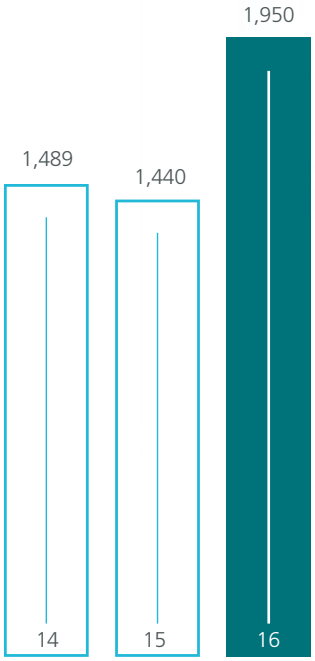
EXPERIENCED MANAGEMENT TEAMS WITH A PROVEN TRACK RECORD

Our experienced management teams have a long history of delivering strong growth. Since listing on the London Stock Exchange in 2005, we have grown revenue at a compound annual rate of 20%, from $262 million to around $2.0 billion in 2016. Over the same period, Hikma's market capitalisation has increased from $0.9 billion to $5.6 billion, firmly establishing Hikma as a leading global pharmaceutical company, and we have delivered a total shareholder return of 343%.

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

Revenue ($) (million)

$1,950m



UNDERSTANDING GLOBAL HEALTHCARE

The global pharmaceutical market continues to grow and is expected to reach $1.5 trillion by 2021, growing at between 4% and 7% per annum.[1] Despite a slowdown in economic growth worldwide, long-term demographic trends and changing lifestyles are continuing to drive increased demand for healthcare globally. At the same time, governments in both developed and emerging markets are focused on managing their healthcare budgets, which is increasing the generics' share of the pharmaceutical market. Strong demand for high-quality, affordable generics is expected to continue to grow.

Outlook in our markets

Hikma is present in over 50 countries, with the US and the MENA region being our largest markets. The US pharmaceutical market is expected to reach $612 billion by 2020, growing at a compound annual growth rate (CAGR) of approximately 7%.[2] The US generics market is the largest in the world and around 90% of drugs dispensed in the US are generics.[3] Generic uptake is being driven by patent expiries of branded drugs, pro-generic policy reforms and governments' focus on affordable healthcare.

At $32 billion,[4] the MENA region represents around 3% of the global pharmaceutical market. Growth in the MENA pharmaceutical market slowed in 2016 due to the impact of prolonged low oil prices and political instability. Whilst growth is forecast to pick up as oil prices continue on a gradual upward trajectory, this slow recovery is likely to impact pharmaceutical spending. Given the importance of healthcare access for maintaining social stability and economic diversification, the slowdown in expenditure is not expected to persist. Cutbacks in healthcare may also pave the way for more affordable and sustainable medical solutions in the coming years.

Below are the four key macro trends that we believe are having the most impact on the generic pharmaceutical markets where we operate.

1. An ageing population and shifting behaviours

Scientific advances and improved access to healthcare are contributing to a rise in life expectancy and increasing the proportion of elderly people worldwide. According to United Nations' projections, the world's population is expected to grow by more than 1 billion people by 2030, with the number of people over the age of 60 expected to rise by 500 million to 1.4 billion. At the same time, changes in diet and activity patterns over the last 20 years, with lifestyles becoming more sedentary, have contributed to a doubling of global obesity rates among adults and tripling among children. These changes in demographics and lifestyles are contributing to an increase in chronic illnesses such as cancer, diabetes, heart disease and respiratory conditions.

"Hikma's strategy in the MENA is aligned to the market trends. Over the last few years, we have been rapidly developing our product portfolio in the fast growing chronic disease categories, while maintaining our large portfolio of anti-infective products. Our diverse product range, strong R&D capabilities and extensive commercial presence will ensure we are well positioned to meet the changing needs of patients."

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

The shift in disease patterns is especially marked in the MENA region. Whilst infectious diseases remain more prevalent, chronic illnesses are expected to rise disproportionately fast. Diabetes is expected to be the fastest growing disease in MENA, with cancer and cardiovascular diseases also forecast to grow rapidly.[5]

2. Global rise in healthcare spending and increased generic uptake

The increased demand for high-quality healthcare around the world as a result of ageing populations and changing behaviours has translated into rising healthcare costs. Due to the need for governments to contain these costs, generics are expected to continue taking a larger share of the total global pharmaceutical spend, increasing from 27% ($261 billion) in 2012 to 36% ($421 billion) by 2017, at a CAGR of 10%.[6]

In the US, patent expiries, pro-generic healthcare reforms and increased acceptance of generic drugs by patients and healthcare professionals will continue to grow the generic pharmaceutical market. Generics already account for the vast majority of prescription medicine usage and the percentage of all dispensed prescriptions is expected to rise from 90% to 92% by 2021.[7]

While many of the growth economies are improving access to healthcare, governments, healthcare insurers and consumers in both developed and developing countries will continue to look for ways to control spending.

"In an increasingly cost-conscious environment, we are well-positioned to meet patient needs as one of the largest suppliers of high-quality, affordable medicines. At the same time, we are working to address significant medical needs by focusing our development activities on complex generic products that require advanced manufacturing technology."

Riad Mishlawi
EU Vice President and Global Head of Injectables

3. Increasing pressure on pharmaceutical pricing in the US

Pricing pressure continued to increase across global pharmaceutical markets in 2016, and in particular in the US, as a result of customer and competitor consolidation and the political environment. Against a broader backdrop of steadily rising healthcare costs, there has also been increased scrutiny on drug pricing in the US by the government, media and consumers. We expect this scrutiny to continue in 2017 as political pressures mount and healthcare payers step up initiatives to impose price cuts.

"The current market environment in the US is creating an opportunity for companies that can provide high-quality medicines at affordable prices. This dynamic is also increasing the importance of scale and differentiation. It is more important than ever to have a large and differentiated product offering, quality assurance and a competitive cost structure; all of which allow for long-term value creation."

Mike Raya
Chief Executive Officer, West-Ward Pharmaceuticals

4. Economic uncertainty in MENA

Many markets in the MENA region continue to be impacted by political and economic instability. In the Gulf Cooperation Council (GCC) markets, the effects of a weakened oil sector have become increasingly visible and markets in North Africa have seen their currencies weaken substantially. The long-term growth outlook is nonetheless still positive with the gradual rebalancing of oil prices, governments' prioritisation of healthcare expenditure and government initiatives to improve pricing and speed up product registrations expected to underpin growth.

1. Quintiles IMS: Outlook for Global Medicines through 2021 (December 2016)
2. Quintiles IMS: Strategic Market Review for Hikma Pharma (November 2016)
3. Quintiles IMS: Outlook for Global Medicines through 2021 (December 2016)
4. BMI Research: Pharmaceuticals and Healthcare outlook for 2017: MENA (November 2016)
5. PWC: Pharma Emerging Markets 2.0 2013
6. Deloitte: Global Life Sciences Outlook 2016
7. Quintiles IMS: Outlook for Global Medicines through 2021 (December 2016)

DELIVERING ON OUR STRATEGY

Our strategy is to deliver high-quality and affordable generic and branded generic medicines to patients by:

- strengthening our position as a leading non-injectable generics company in the US;
- maintaining our position as a top three generic injectables company in the US and expanding in existing and new markets; and
- maintaining our position as the leading regional player in the MENA and expanding in new emerging markets.

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

Find out more

Our strategy and key performance indicators

To find out more about how we have performed in each of our business segments, go to the business and financial review.

Injectables 22

Generics 26

Branded 30

Strategic priorities

Maximise portfolio potential across our markets

We are maximising the potential of our marketed products, leveraging our skilled sales and marketing teams and building on our strong customer relationships.

Optimise operations and drive efficiencies

We are investing in high-quality manufacturing facilities to improve the efficiency of our processes, while maintaining tight control of overheads, general and administrative and other operating expenses.

Develop a differentiated product portfolio by building best-in-class R&D capabilities

We are enhancing our product offering and strengthening our competitive position by investing in our in-house R&D capabilities and external partnerships to develop differentiated products.

Attract and develop talent across the Group

We are investing in the training and development of our people, while hiring talented new employees to support our future growth plans.

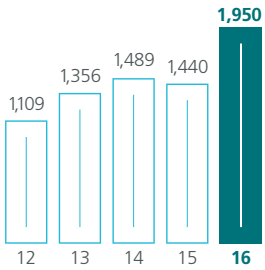
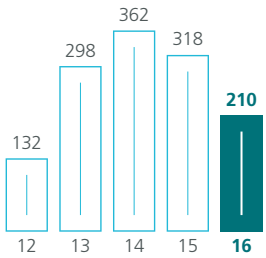
Use M&A and capital investment to accelerate organic growth opportunities

We are investing to expand our product portfolio, technological capabilities, geographic reach and manufacturing capacity through capital investment and M&A.

2016 highlights	KPIs	Principal risks	Outlook
• Group revenue of around $2.0 billion • Injectables revenue growth of 10% • Branded revenue down 2%, and up 5% in constant currency • Generics revenue of $604 million, including the consolidation of ten months of West-Ward Columbus	Group revenue ($m) $1,950	• Product quality: risk of not meeting required quality standards • Operating in the MENA and emerging markets: risk of business disruptions	• Group revenue of $2.2 billion in constant currency • Injectables revenue of $800 million to $825 million • Branded revenue growth in the mid-single digits in constant currency • Generics revenue of around $800 million
• Good control of overheads and operating costs across the Group • Strong growth in Injectables profit • Significantly improved Branded profitability in constant currency • Began programme to review MENA facilities to improve efficiencies • Achieved significant cost savings of over $35 million within West-Ward Columbus	Group profit before tax ($m) $210	• Product quality: risk of regulatory action • Industry earnings: risk of regulatory interventions, unpredictable drug approval timings and difficult to anticipate competitor strategies and pricing	• Continue to invest in quality across our facilities • Ongoing implementation of cost control programmes across the Group
• Total investment of $139 million in R&D and product-related investments (7% of revenue) • Significantly strengthened in-house R&D capabilities with West-Ward Columbus acquisition • First-generic-to-market for key products in Algeria, Egypt, GCC and US • Launched a first-to-file injectable generic, levoleucovorin, in the US • Six approvals of former Bedford products • Launched first biosimilar monoclonal antibody in Saudi Arabia, Remsima™	Product approvals 343 Product submissions 188	• API sourcing: risk of difficulty obtaining and/or maintaining adequate levels of API • Industry earnings: risk of unpredictable drug approval patterns	• Continued execution and replenishment of our product pipeline across our markets • Targeting $170 million of R&D investment across the Group
• Progressed our 'Women Empowerment' programme • Launched talent reviews across the Group to identify high-performers at all levels • Initiated a succession planning process across key Group functions • Transferred a number of key employees from across the Group to our London headquarters to enhance global collaboration	Number of employees with length of service of more than five years 4,598	• Organisational growth: risk of not maintaining adequate talent acquisition strategies, organisation structure and/or management processes	• Conduct development programmes across the Group as part of succession planning • Implement various modules in the new Human Capital Management System in some regions • Recruit across our businesses to support growth
• Completed acquisition of West-Ward Columbus • Completed acquisition of EUP in Egypt • Invested $122 million of capital expenditure across the Group • Progressed expansion of injectables facility in Portugal	Return on invested capital (%) 10.6	• Acquisitions: risk of misjudging key elements of an acquisition, failing to integrate assets, financing-related risks and operating expenses	• Continue to evaluate investment opportunities in new and existing markets • Complete new oncology facility in Portugal

To find out more about our principal risks, go to page 54.

MEASURING OUR PROGRESS

	Group revenue ($m)	Group profit before tax ($m)
	$1,950	$210
		
Description	Total annual revenue generated across all businesses within the Group	Total annual profit before tax generated by the Group
Why is it a KPI?	This measures our ability to extract value from our product portfolio across our global markets	This measures our ability to grow revenue, deliver efficiencies and ensure cost control, while maintaining high-quality manufacturing facilities
2016 Performance	Group revenue growth of 35% primarily reflects a good performance by the Injectables business and the consolidation of ten months of revenue from West-Ward Columbus	The decrease in Group profit before tax reflects growth in core Group operating profit, offset by a significant increase in exceptional items, primarily related to the West-Ward Columbus acquisition

Find out more

Our strategy and key performance indicators

To find out more about how we've performed in each of our business segments, go to the business and financial review.

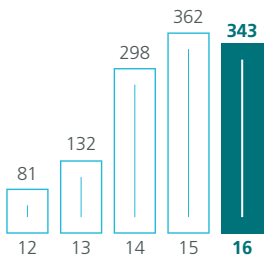
Injectables 22

Generics 26

Branded 30

Product approvals

343



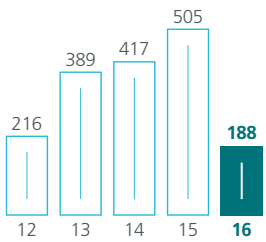
The number of products approved by regulatory authorities across the Group

This measures our ability to successfully execute our product pipeline across the Group

We are maintaining a high level of product approvals through increased investment in R&D and a continuous improvement in the quality of our filings

Product submissions

188



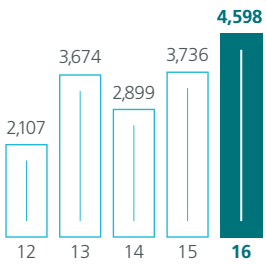
The number of products submitted to regulatory authorities for approval across the Group

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

The decrease in the number of product submissions is primarily due to lower submissions in Europe and MENA

Employees with more than five years' service

4,598



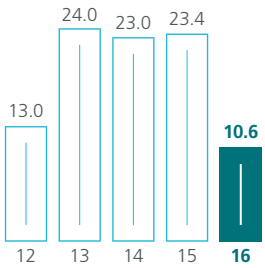
The number of employees who have been employed by the Group for more than five years

This measures our ability to retain a talented work force across the Group

An increase in the number of employees with a length of service above five years reflects the success of our initiatives to attract and retain talented employees

Return on invested capital (%)

10.6%



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

This measures our efficiency in allocating capital to profitable investments

The decrease in return on invested capital reflects the significant investment of $1.5 billion made to acquire West-Ward Columbus in 2016, which will drive returns over the longer term

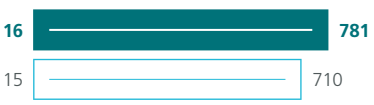
DELIVERING STRONG GROWTH AND INVESTING IN PIPELINE DEVELOPMENT

	Maximise portfolio potential across our markets	Optimise operations and drive efficiencies	Develop a differentiated product portfolio by building best-in-class R&D capabilities	Attract and develop talent across the Group	Use M&A and capital investment to accelerate organic growth opportunities
2016 Highlights	• Delivered Injectables revenue growth of 10% • US revenue up 11%, reflecting good demand across our broad portfolio and new product launches, including Bedford products • MENA revenue up 5% in constant currency • Europe revenue up 15%	• Maintained very strong operating margin through a focus on higher value products and increased operational efficiencies	• More than doubled investment in R&D • Launched 79 products in different dosage forms and strengths, including six former Bedford products • Submitted 86 products in different dosage forms and strengths across our markets	• Successfully integrated R&D employees across various locations	• Invested to expand capacity and capabilities in our facilities in the US and Europe
2017 Objectives	• Deliver global Injectables revenue in the range of $800 million to $825 million	• Continue to invest in quality and drive operating efficiencies	• Continue to increase investment in R&D and to focus on differentiated products	• Conduct behavioural competency assessments for senior leaders as part of our succession management process • Continue strengthening the Injectables team for future growth through new hires	• Evaluate potential to expand in new markets and invest in new technologies

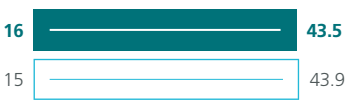
Ensuring sustainable long-term growth

Measuring our performance

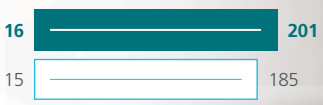
Revenue ($m)



Core operating margin[1] (%)



Marketed products



1. Core results are presented to show the underlying performance, excluding amortisation of intangible assets other than software and exceptional items set out in note 5


WEST-WARD
LEVOFLOX

Injectables continued

Summary financial highlights – Injectables

$ million	2016	2015	Change	Constant currency change
Revenue	**781**	710	+10%	+11%
Gross profit	**505**	449	+12%	+14%
Gross margin	***64.7%***	*63.2%*	*+1.5pp*	*+1.5pp*
Core operating profit	**340**	312	+9%	11%
Core operating margin	***43.5%***	*43.9%*	*-0.4pp*	–

Injectables revenue by region

	2016		2015	
US	**607**	**78%**	546	77%
MENA	**91**	**12%**	92	13%
Europe and ROW	**83**	**10%**	72	10%
Total	**781**		710	

2016 highlights:

- Global Injectables revenue of $781 million, up 10% from 2015 and up 11% in constant currency
- Strong core operating margin of 43.5%, even with a significant increase in R&D spend
- Launched 9 Bedford products by the end of 2016 and on target to launch a total of 20 Bedford products by the end of 2017
- Expect Injectables revenue to be in the range of $800 million to $825 million in 2017 and core operating margin to be in the high 30s after a further step-up in R&D investment

In 2016, global Injectables revenue grew by 10% to $781 million. In constant currency, global Injectables revenue increased by 11%.

Of this total, US Injectables revenue was $607 million, up 11% from $546 million in 2015. This strong growth reflected good demand across our broad product portfolio and new product launches, including former Bedford products, which more than offset increased competition on other products.

During 2016, MENA Injectables revenue was $91 million, compared with $92 million in 2015. In constant currency, revenue increased by 5%, reflecting good growth in most markets, which more than compensated for lower revenue in Algeria. In February 2016, we completed the acquisition of EIMC United Pharmaceuticals (EUP) in Egypt, adding a local injectables manufacturing facility and significantly enhancing our oncology business.

European Injectables revenue was $83 million in 2016, up 15% and up 17% in constant currency, reflecting strong growth in sales of our own products and good demand for our contract manufacturing services.

Injectables gross profit increased to $505 million in 2016, compared with $449 million in 2015. Gross margin increased to 64.7%, compared with 63.2% in 2015. The continued strong gross margin reflects a favourable product mix in the US due to the contribution from higher value products, an improvement in the sales mix in the MENA and operating efficiencies in Europe.

Core operating profit, which excludes the amortisation of intangible assets other than software and exceptional items, was $340 million in 2016, up from $312 million in 2015. Core operating margin was 43.5%, compared with 43.9% in 2015. The continued strength of the core operating margin is a result of the strong gross margin and operational efficiencies across the business. This margin was achieved even with a significant increase in R&D expense in 2016 as we invest in building our global injectables pipeline.

During 2016, the Injectables business launched a total of 79 products in different dosages and strengths across all markets, including 13 new products. The Injectables business also received a total of 127 regulatory approvals for products in different dosages and strengths across all regions and markets, 52 in the MENA, 54 in Europe and 21 in the US.

We expect the Injectables business to deliver continued growth in 2017, with strong demand across our global portfolio and new product launches more than offsetting the impact of increased competition. We expect Injectables revenue to be in the range of $800 million to $825 million. We expect core operating margin to be in the high 30s in 2017, which assumes a further step-up in R&D investment.

Generics

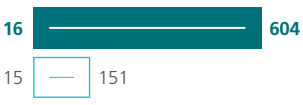
DELIVERING COST SAVINGS WHILST INVESTING IN PIPELINE DEVELOPMENT

	Maximise portfolio potential across our markets	Optimise operations and drive efficiencies	Develop a differentiated product portfolio by building best-in-class R&D capabilities	Attract and develop talent across the Group	Use M&A and capital investment to accelerate organic growth opportunities
2016 Highlights	• Delivered revenue of $604 million, including the consolidation of ten months of revenue from West-Ward Columbus	• Implemented cost savings of over $35 million	• Significantly strengthened our R&D capabilities, adding a large and experienced team from West-Ward Columbus • Launched 18 products in different dosage forms and strengths • Submitted 71 products in different dosage forms and strengths	• Successfully integrated employees from the newly acquired West-Ward Columbus business	• Completed the acquisition of West-Ward Columbus – adding a large portfolio, rich pipeline, experienced R&D team and state-of-the art manufacturing facility
2017 Objectives	• Deliver revenue of around $800 million through new product launches and portfolio optimisation	• Improve the mix of sales to increase profitability • Continue to focus on operating efficiencies	• Continue to launch products from our large and differentiated pipeline • Obtain an approval for generic Advair	• Position the business for future growth through new hires and/or reorganisational changes	• Continue to pursue product acquisitions and new partnerships to enhance our pipeline

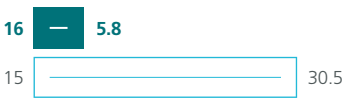
Ensuring sustainable long-term growth

Measuring our performance

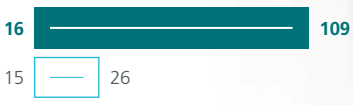
Revenue ($m)



Core operating margin (%)



Marketed products




ROLLER COMPACTOR 4

Generics continued

Summary financial highlights – Generics

$ million	2016	2015	Change
Revenue	**604**	151	+300%
Core Gross profit	**228**	89	+156%
Core Gross margin	***37.7%***	*58.9%*	*-21.2pp*
Core operating profit	**35**	46	-24%
Core operating margin	***5.8%***	*30.5%*	*-24.7pp*

2016 highlights:

- Generics revenue of $604 million, up from $151 million in 2015, primarily reflecting the consolidation of ten months of West-Ward Columbus
- Core operating profit of $35 million, in line with the most recent guidance, compared with $46 million in 2015, due to an anticipated reduction in the contribution from the legacy business and higher sales and marketing costs
- Good progress with the West-Ward Columbus integration, achieving cost savings of over $35 million
- Continue to expect Generics revenue of around $800 million in 2017 and a significant improvement in core operating profit

Generics revenue was $604 million in 2016. Our legacy Generics business contributed revenue of $130 million compared with $151 million in 2015. As expected, this was due to lower revenue from certain products and the required divestment of products in connection with the West-Ward Columbus acquisition, partially offset by steady growth in colchicine sales.

Following completion of the acquisition on 29 February 2016, West-Ward Columbus contributed revenue of $477 million. This was below our expectations at the start of year, primarily due to delays in new product launches. It also reflects slower than expected volume growth from marketed products.

Generics gross profit was $196 million in 2016, compared with $89 million in 2015. Excluding the impact of exceptional items, core gross profit was $228 million. Gross margin was 32.5%, and core gross margin was 37.7%, compared with 58.9% in 2015. The margin decline reflects the less favourable sales mix of the legacy business in 2016 and the high overhead costs of West-Ward Columbus.

Core Generics operating profit was $35 million in 2016, compared with $46 million in 2015, in line with our most recent guidance and after achieving over $35 million of cost savings. Core operating margin was 5.8%, compared with 30.5% in 2015, reflecting the lower gross margin, increased sales and marketing expenses and the high operating costs of the West-Ward Columbus business.

The Generics business reported an operating loss of $14 million in 2016 after the amortisation of intangible assets of $16 million and exceptional items of $33 million. The exceptional items primarily related to the West-Ward Columbus acquisition, comprising inventory-related adjustments of $27 million, integration and other costs of $9 million and the net gain from the divestment of certain legacy Generics products of $18 million. In addition, it reflects an adjustment of $15 million associated with the impairment and write-down of intangible assets related to co-development agreements entered into by our legacy business.

During 2016, the Generics business launched 18 new products in different dosages and strengths and received 18 approvals for products in different dosages and strengths. The Generics business also signed new licensing agreements for 4 new products.

We continue to expect revenue for the Generics business to be around $800 million in 2017, with an improvement in the mix of sales and new product launches more than offsetting the impact of increased competition on the marketed portfolio and a reduction in contract manufacturing revenue. Certain new launches are expected to contribute around 15% of Generics revenue in 2017, primarily generic Advair, which is assumed to be launched in the second half of the year.

We expect the profitability of the Generics business to significantly improve in 2017, driven by new product launches, an enhanced mix of sales and a continued focus on operating efficiencies.

Branded

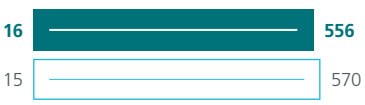
BUILDING ON OUR LEADING MARKET POSITIONS

	Maximise portfolio potential across our markets	Optimise operations and drive efficiencies	Develop a differentiated product portfolio by building best-in-class R&D capabilities	Attract and develop talent across the Group	Use M&A and capital investment to accelerate organic growth opportunities
2016 Highlights	• Revenue growth of 5% in constant currency • Strong performances in most markets, particularly Algeria and Egypt, partially offset by slowdown in the GCC	• Significant margin improvement in constant currency, reflecting an improved product mix and tight cost control	• Launched 109 products in different dosage forms and strengths across our MENA markets • Launched first generics in Algeria, Egypt and Saudi Arabia • Submitted 90 products in different dosage forms and strengths	• Launched the Hikma Young Professional Excellence (HYPE) programme for new graduates and junior Hikma employees • Conducted behavioural assessments for senior leaders as part of our succession management process	• Completed the acquisition of EUP in Egypt • Invested $31 million in maintaining and upgrading our plants across the MENA
2017 Objectives	• Deliver mid-single digit revenue growth in constant currency	• Continue improving core operating margin in constant currency	• Continue investing in new products, leveraging our local R&D centres to accelerate pipeline development • Continue to attract new licensing agreements	• Establish a Hikma Academy in Jordan for delivering learning and development activities and conducting competency assessments • Introduce a new performance management system within the new Human Capital Management System	• Continue to evaluate M&A opportunities in existing and new emerging markets

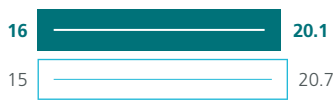
Ensuring sustainable long-term growth

Measuring our performance

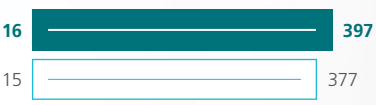
Revenue ($m)



Core operating margin (%)



Marketed products



Branded continued

Summary financial highlights – Branded

$ million	2016	2015	Change	Constant currency change
Revenue	**556**	570	-2%	+5%
Gross profit	**282**	277	+2%	+13%
Gross margin	***50.7%***	*48.6%*	*+2.1pp*	*+3.6pp*
Core operating profit	**112**	118	-5%	+31%
Core operating margin	***20.1%***	*20.7%*	*-0.6pp*	*+5.0pp*

2016 Highlights

- Branded revenue of $556 million, down 2% and up 5% in constant currency
- Gross profit up 2% and up 13% in constant currency
- Core operating profit of $112 million, down 5%, reflecting a negative impact of $42 million from adverse currency movements, primarily due to the devaluation of the Egyptian pound in November 2016
- Core operating profit up 31% in constant currency due an improvement in sales mix and tight cost control
- Core operating margin was 20.1% and 25.7% in constant currency, up 5.0 percentage points
- Expect Branded revenue growth in constant currency to be in the mid-single digits in 2017

Branded revenue increased by 5% in 2016, before the impact of adverse movements in the Egyptian pound, Sudanese pound, Algerian dinar, Tunisian dinar and Moroccan dirham against the US dollar. On a reported basis, Branded revenue decreased by 2% to $556 million, compared with $570 million in 2015. The growth on a constant currency basis reflected a good performance across most of our markets as we focus on higher value products and pipeline execution. This was partially offset by a slowdown in the Gulf Cooperation Council (GCC) markets.

In our key markets of Algeria and Egypt, our businesses performed extremely well, delivering strong double-digit constant currency growth. This was driven by underlying market growth, an improvement in the sales mix and new product launches. In the GCC, which includes Saudi Arabia and the UAE, revenue was lower than in 2015, primarily due to economic uncertainty in the region which has slowed market growth.

During 2016, the Branded business launched a total of 109 products in different dosages and strengths across all markets, including 19 new products. The Branded business also received 198 regulatory approvals across the region for products in different dosages and strengths.

Revenue from in-licensed products represented 39% of Branded revenue, compared with 40% in 2015. We launched 51 new in-licensed products during 2016, including three respiratory products and a number of OTC products licensed from Vitabiotics, which will help us to grow our portfolio of higher value products in key therapeutic categories.

On a reported basis, Branded gross profit increased by 2% to $282 million and gross margin was 50.7%, compared with 48.6% in 2015. In constant currency, gross profit increased by $36 million, or 13% and gross margin increased to 52.2%. This strong growth in profitability reflects an improvement in the mix of sales, through our focus on higher value products and tight cost control.

Core operating profit, which excludes the amortisation of intangibles of $8 million, decreased by 5% to $112 million and core operating margin was 20.1%, down from 20.7% in 2015. This primarily reflects a foreign exchange loss of $17 million, mainly as a result of the revaluation of the Group's monetary assets and liabilities in Egypt following the devaluation of the Egyptian pound against the US dollar after the floating of the Egyptian pound on 3 November 2016.

In constant currency, core operating profit grew by 31% and core operating margin increased to 25.7%. This significant improvement in profitability is primarily due to the increase in gross profit, as well as tight control of operating expenses, improved inventory management and the benefit of restructuring measures undertaken in recent years.

In 2017, we expect Branded revenue to grow in the mid-single digits in constant currency, driven by underlying market growth and our focus on strategic products.

Taking into account exchange rate movements since the beginning of 2017, and assuming these rates prevail, we would expect reported Branded revenue to grow in the low-single digits and core operating margin to be broadly in line with 2016. This adverse currency impact is primarily due to the devaluation of the Egyptian pound against the US dollar by approximately 46%[1].

Other businesses

Other businesses, which primarily comprise Arab Medical Containers, a manufacturer of plastic specialised medicinal sterile containers, International Pharmaceuticals Research Centre, which conducts bio-equivalency studies, and the API manufacturing division of Hikma Pharmaceuticals Limited Jordan, contributed revenue of $9 million in 2016, in line with 2015. These other businesses made an operating loss of $2 million, compared with an operating loss of $5 million in 2015.

1. On 3 March 2017, the Egyptian pound had devalued against the US dollar from its peg of 8.8 EGP:USD prior to 3 November 2016 to 16.2 EGP:USD (www.oanda.com)

Group performance

DELIVERING A SOLID FINANCIAL PERFORMANCE

Group revenue increased by 35% to $1,950 million in 2016 after the consolidation of ten months of revenue from West-Ward Columbus. Group gross profit was $986 million and Group core gross profit was $1,018 million, up from $818 million in 2015. Group gross margin was 50.6% and Group core gross margin was 52.2%, compared with 56.8% in 2015.

Group operating expenses increased by 57% to $684 million, compared with $437 million in 2015. Core Group operating expenses, excluding the amortisation of intangible assets other than software and exceptional items, increased by 46% to $599 million compared with $409 million in 2015. This increase was principally due to the consolidation of ten months of West-Ward Columbus, as well as an increase in R&D expenditure across the Group and a foreign exchange loss as a result of the devaluation of the Egyptian pound against the US dollar during 2016.

In 2016, amortisation of intangible assets other than software was $37 million, compared with $16 million in 2015. The increase primarily resulted from the acquisition of West-Ward Columbus. Exceptional items included within operating expenses were $48 million, compared with $12 million in 2015. In 2016, exceptional items comprised acquisition and integration costs of $36 million, the net gain on divestment of certain legacy Generics products of $18 million, impairment and write down of property, plant and equipment and intangible assets of $34 million and the release of a contingent liability of $4 million. The paragraphs below address the Group's main operating expenses in turn.

Sales and marketing expenses were $221 million compared with $172 million in 2015. Excluding the amortisation of intangible assets other than software, sales and marketing expenses were $184 million, or 9% of revenue compared with $156 million, or 11% of revenue in 2015. The increase of $28 million was primarily due to the consolidation of West-Ward Columbus and the increased sales and promotional costs related to the branded salesforce we established in the US from July 2015.

General and administrative expenses increased by $44 million to $244 million in 2016. Excluding exceptional items related to the acquisition and integration costs, general and administrative expenses increased by $28 million, or 16%, primarily due to the consolidation of West-Ward Columbus.

We have significantly increased our R&D investment from $36 million in 2015 to $150 million in 2016. Excluding exceptional items core R&D expense was $126 million. Around half of the Group's R&D expense was incurred in the development of our differentiated pipeline for the Generics business and we expect this investment to increase in 2017. R&D spend for the Injectables business was also higher in 2016 and will continue to grow as we increase our investment in new product development.

An additional $13 million of product-related investment was capitalised on the balance sheet in 2016. This related to the transfer of the Bedford products to our facilities and to product development investments with third party partners, primarily in the US where we are focusing on new therapeutic areas. The combined core R&D expense and product-related investment for the Group was $139 million (7% of Group revenue) compared with $71 million (5% of Group revenue) in 2015. We expect Group R&D expense to be around $170 million in 2017.

Other net operating expenses were $69 million in 2016, compared with $29 million in 2015. Excluding exceptional items of $12 million related to impairment losses, the divestment of certain products, and the release of a contingent liability, these expenses were $81 million in 2016, up from $37 million in 2015. The increase was due to a foreign exchange loss as a result of the devaluation of the Egyptian pound and to the consolidation of the West-Ward Columbus business.

Group operating profit decreased by 21% from $381 million to $302 million in 2016. Excluding the impact of amortisation and exceptional items, core Group operating profit increased by 2% to $419 million and core operating margin was 21.5% compared with 28.4% in 2015. This primarily reflects the lower contribution from certain products in the Generics business, the consolidation of West-Ward Columbus and higher R&D investment across the Group.

Research & development[1]

The Group's product portfolio continues to grow as a result of our product development efforts. During 2016, we launched 34 new compounds. The Group's portfolio now stands at 707 compounds in 2,181 dosage forms and strengths.[2] We manufacture and/or sell 94 of these compounds under licence from the licensor.

Across all businesses and markets, a total of 206 products were launched during 2016. In addition, the Group received 343 approvals.

To ensure the continuous development of our product pipeline, we submitted 188 regulatory filings in 2016 across all regions and markets. As of 31 December 2016, we had a total of 971 pending approvals across all regions and markets. At 31 December 2016, we had a total of 396 new products under development.

Net finance expense

In 2016, net finance expense was $92 million. Excluding non-cash expenses resulting from the remeasurement of contingent liabilities, net finance expense was $60 million, up from $52 million in 2015. This primarily reflects the increased interest and financing fees as a result of the West-Ward Columbus acquisition which was completed in February 2016 as well as the interest paid on the $500 million 4.25% Eurobond which was issued in April 2015.

In 2017, we expect the Group's net finance expense to be around $60 million. In addition, we expect non-cash expenses resulting from the remeasurement of contingent liabilities to be around $20 million in 2017.

Profit before tax

Profit before tax for the Group was $210 million in 2016, down from $318 million in 2015. Core profit before tax was $359 million, in line with 2015.

Tax

The Group incurred a tax expense of $52 million, compared with $64 million in 2015. Excluding the tax impact of exceptional items, core Group tax expense was $80 million in 2016, compared with $67 million in 2015. The core effective tax rate was 22.3%, compared with 18.9% in 2015. The increase in the effective tax rate reflects increased earnings in higher tax jurisdictions in 2016, particularly in the US. We expect the effective tax rate in 2017 to be around 26%.

Hikma product portfolio pipeline

	Total marketed products		Products launched in 2016			Products approved in 2016	Products pending approval as at 31 December 2016
	Compounds	Dosage forms and strengths	New compounds	New dosage forms and strengths	Total launches across all countries[3]	Total approvals across all countries[3]	Total pending approvals across all countries[3]
Injectables	201	571	13	23	79	127	620
Generics	109	375	2	3	18	18	71
Branded	397	1,235	19	38	109	198	280
Group	**707**	**2,181**	**34**	**64**	**206**	**343**	**971**

1. Products are defined as pharmaceutical compounds sold by the Group. New compounds are defined as pharmaceutical compounds being introduced for the first time during the period and existing compounds being introduced into a new segment. We are presenting details of the Group's product portfolio and pipeline to provide additional information in respect of the size and make-up of the marketed portfolio which is generating revenue and the pipeline opportunity which will drive future revenue growth
2. Totals include 71 dermatological and cosmetic compounds in 282 dosage forms and strengths that are only sold in Morocco
3. Totals include all compounds and formulations that are either launched or approved or pending approval across all markets, as relevant

Group performance continued

Profit attributable to shareholders

Profit attributable to shareholders decreased by 38% to $155 million, compared with $252 million in 2015. Core profit attributable to shareholders decreased by 3% to $276 million, compared with $286 million in 2015.

Earnings per share

Earnings per share was impacted by the issuance of 40 million new shares to Boeringher Ingelheim on 29 February 2016 as part of the consideration for the West-Ward Columbus acquisition, as well as the reduction in profit attributable to shareholders in 2016 compared with 2015. Basic earnings per share decreased by 47% to 66.5 cents in 2016, compared to 126.6 cents in 2015. Core basic earnings per share decreased by 18% to 118.5 cents, compared with 143.7 cents in 2015. Core diluted earnings per share decreased by 17% to 117.9 cents, compared with 142.3 cents in 2015.

Dividend

The Board is recommending a final dividend of 22 cents per share (approximately 18 pence per share) for 2016, bringing the total dividend for the full year to 33 cents per share (approximately 27 pence) for 2016, a slight increase from the total dividend of 32 cents per share paid in 2015. The proposed dividend will be paid on 25 May 2017 to shareholders on the register on 7 April 2017, subject to approval at the Annual General Meeting on 19 May 2017.

Net cash flow, working capital and net debt

The Group generated operating cash flow of $293 million in 2016, compared with $366 million in 2015. Excluding acquisition and integration costs related to the West-Ward Columbus acquisition, Group operating cash flow was $329 million in 2016, a decrease of 10% from $366 million in 2015. This primarily reflects an investment in working capital following the acquisition of West-Ward Columbus. Group working capital days were 240 days at December 2016, up from 177 days at December 2015.[1] This primarily reflects the consolidation of West-Ward Columbus, which has higher working capital days, and an increase in inventory levels in the US and the MENA at the end of the year. We expect to achieve an improvement in Group working capital days in 2017.

Capital expenditure was $122 million, compared with $82 million in 2015. Of this, around $76 million was spent in the US to expand the manufacturing capacity and capabilities of our Injectables and Generics businesses. In the MENA, around $30 million was spent to maintain and upgrade our equipment and facilities across a number of markets. The remaining $16 million was spent in Europe, expanding our Injectables manufacturing capacity for lyophilised and oncology products. We expect Group capital expenditure to be around $160 million in 2017.

The Group's net debt[2] (excluding co-development agreements and contingent liabilities) stood at $697 million at the end of December 2016, compared with $135 million at the end of December 2015. On 29 February 2016, we completed the acquisition of West-Ward Columbus and the net cash consideration of $575 million (net of certain working capital and other adjustments) was paid to Boehringer Ingelheim. In addition, 40 million new shares were issued to Boehringer Ingelheim at a price of 1881p, bringing the combined net consideration paid at closing to $1.6 billion, using the USD:GBP exchange rate of 1.3879:1. Post completion, further adjustments to the cash consideration have been made which reduced the total consideration to $1.5 billion. Should certain targets be met, further payments could be triggered.[3] The cash consideration was funded through a combination of cash and the utilisation of the Group's existing debt facilities.

Balance sheet

Net assets at 31 December 2016 were $2,411 million, compared to $1,352 million at 31 December 2015. The significant increase in net assets reflects the consolidation of the West-Ward Columbus business. Net current assets were $530 million, compared to $768 million at 31 December 2015.

During the period, shareholder equity was negatively impacted by an unrealised foreign exchange translation loss of $90 million, primarily reflecting movements in the Egyptian pound, Sudanese pound, Algerian dinar, Tunisian dinar and Moroccan dirham against the US dollar and the translation of net assets denominated in these currencies.

1. Group working capital days are calculated as Group receivable days plus Group inventory days, less Group payable days. Group receivable days are calculated as Group trade receivables x 365, divided by trailing 12 months Group revenue. Group inventory days are calculated as Group inventory x 365, divided by trailing 12 months Group cost of sales. Group payable days are calculated as Group trade payables x 365, divided by trailing 12 months Group cost of sales. We believe Group working capital days provides a useful measure of the Group's working capital management and liquidity
2. Group net debt is calculated as Group total debt less Group total cash. Group total debt excludes co-development agreements and contingent liabilities. We believe Group net debt is a useful measure of the strength of the Group's financing position
3. Further detail regarding the West-Ward Columbus acquisition is provided in note 43 to the set of financial statements

Summary and outlook

The Group delivered a solid performance in 2016 whilst making excellent strategic progress, including the transformational acquisition of West-Ward Columbus.

We expect the Injectables business to deliver continued growth in 2017, with strong demand across our global portfolio and new product launches more than offsetting the impact of increased competition. We expect Injectables revenue to be in the range of $800 million to $825 million. We expect core operating margin to be in the high 30s in 2017, which assumes a step-up in R&D investment.

We continue to expect revenue for the Generics business to be around $800 million in 2017, with an improvement in the mix of sales and new product launches more than offsetting the impact of increased competition on the marketed portfolio and a reduction in contract manufacturing revenue. Certain new launches are expected to contribute around 15% of Generics revenue in 2017, primarily generic Advair, which is assumed to be launched in the second half of the year. We expect the profitability of the Generics business to significantly improve in 2017, driven by new product launches, an enhanced mix of sales and a continued focus on operating efficiencies.

In 2017, we expect Branded revenue to grow in the mid-single digits in constant currency, driven by underlying market growth and our focus on strategic products. Taking into account exchange rate movements since the beginning of 2017, and assuming these rates prevail, we would expect reported Branded revenue to grow in the low-single digits and core operating margin to be broadly in line with 2016. This adverse currency impact is primarily due to the devaluation of the Egyptian pound against the US dollar.

Overall, we expect Group revenue in 2017 to be around $2.2 billion in constant currency.

OUR APPROACH TO SUSTAINABILITY

Our engagement process

Through regular contact with our stakeholders, we are able to understand and cater for their needs, while improving how we operate our business.

Recognising our stakeholders	*How we engage*
Patients The sustainability of our business relies on meeting the needs of our patients, both now and in the future.	We engage with our patients, our key stakeholder, through marketing and communications campaigns, focus groups and multiple customer feedback channels to meet their personal and collective healthcare needs.
Practitioners Doctors and other medical practitioners are both a crucial route to market and, when supported, true advocates of Hikma.	We have strong sales and marketing teams who work closely with healthcare professionals to better understand the needs of both the practitioner and the patient.
People The lifeblood of our Group, it's imperative that our people are motivated to drive Hikma forward to achieve our common goals.	As the driving force behind our success, we empower and encourage our employees to lead innovative initiatives and maintain a healthy work-life balance.
Shareholders We rely on the support and engagement of our shareholders, in order to deliver our strategic objectives.	We continuously engage with our shareholders through our investor relations and executive teams, who share our corporate story and investment case.
Communities The success and wellbeing of the communities in which we are present are vital to maintaining our business.	We are committed to supporting the communities in which we operate, through charitable social engagement, spreading health awareness and local volunteering.

Our primary objective is to provide patients with high-quality, affordable medicines tailored to their needs. We aim to do this in a sustainable way, working to ensure that our products deliver the maximum benefit, while managing the impact of our operations.

Our focused approach

We have prioritised the sustainability issues of greatest significance and relevance to our business and stakeholders. This sustainability report focuses on these key areas, providing examples of initiatives we have undertaken across the Group. Additional information can be found on our website.

Our focus areas	*Material issues*
Meeting healthcare needs Our patients are at the heart of everything we do. We are focused on meeting patient needs and improving the quality of healthcare across our markets.	• Treating major health issues • Providing affordable quality products • Enhancing health awareness
Promoting good business ethics Through stringent internal controls and a healthy ethical culture, we ensure the future prosperity of our business and stakeholders.	• Responsible business initiatives • Transparency & anti-bribery and corruption
Supporting our communities We have built strong local businesses, which sustainably support and contribute to the local communities in which we operate.	• Global volunteering activities • Improving health and wellbeing • Charitable community engagement
Enabling our people Investing in the development and wellbeing of our employees is key to building a successful and sustainable business.	• Professional and personal employee development • Women empowerment initiatives • Employee health and safety
Minimising our environmental impact We aim to limit our environmental impact by closely monitoring, reporting on and improving our operations.	• Disclosing and improving our carbon emissions • Waste reduction and recycling • Environmental preservation efforts

MEETING HEALTHCARE NEEDS

Since our founding nearly 40 years ago, we have been committed to our mission of improving the lives of people through the provision of high-quality, affordable medicines.

Treating major health issues

In 2016 we were able to reach more doctors and patients than ever before with more high-quality treatment options. Our reach was strengthened this year through the significant expansion of our oncology capabilities in MENA and the acquisition of West-Ward Columbus in the US, which makes us a top ten US generics company, providing more affordable medicines to doctors and patients.

In addition to meeting the needs of doctors and patients through our core business, we believe we have a responsibility to encourage health awareness and education, as well as helping those who might find themselves in crisis and unable to access care through traditional healthcare systems.

Improving cancer care

Hikma aims to support patients, oncologists, nurses and hospitals in improving cancer care, and in establishing long-term partnerships with healthcare providers to meet their pressing needs in this area. In Egypt, we launched our new business unit "Hikma Specialized Egypt" which aims to improve our ability to meet the unique and urgent needs of cancer patients and healthcare providers in Egypt. Hikma is committed to making a difference by providing a broad range of affordable added-value medications for patients battling cancer.

Reaching people in crisis

Over the course of 2016, we continued our legacy of donating much-needed medical products to local communities and charity organisations throughout the MENA and the US where we operate. This included essential medicines such as anti-infectives, as well as cardiovascular, nervous system and alimentary tract products. Our businesses in the US work with various organisations and donate short-dated medicines. Our US partner organisations include, but are not limited to: Americares, Kingsway, Project Hope and Direct Relief. We also donated medical supplies for use at Jordanian military field hospitals abroad under our long-term partnership with the Jordan Hashemite Charity Organization for Relief and Development (JHCO). In total, the value of in-kind and cash donations across the Group in 2016 was $2.6 million.

Providing affordable quality products

West-Ward Pharmaceuticals, our wholly-owned subsidiary in the US, is a leading generic manufacturer in the competitive US market. With an ever-expanding portfolio of products, investments in state-of-the-art manufacturing facilities and a family of committed employees, West-Ward delivers quality pharmaceuticals to a variety of customers within the healthcare industry including major wholesalers, retailers and hospitals. West-Ward is committed to being a responsible partner and reliably supplying affordable, high-quality generic medicines to meet today's diverse healthcare needs.

West-Ward's operations are carried out at three FDA-approved manufacturing facilities located in Eatontown and Cherry Hill, both in New Jersey, and Columbus in Ohio. We also have an R&D centre in Bedford, Ohio and a distribution centre in Memphis, Tennessee.

Enhancing health awareness

The health and wellbeing of our employees and those in the communities in which we operate is very important to us. Throughout the year, we organised several activities and campaigns to raise disease awareness and promote healthy lifestyles. On World Cancer Day in February, we supported the 'Talking Hands' social media campaign which encouraged people to spread messages of support. We also hosted several sessions for employees to learn more about the disease, including visits from cancer survivors who shared their personal experiences and inspirational stories on how they overcame the disease, and a talk given by a leading consultant hematologist and medical oncologist. In October, we collaborated with the King Hussein Cancer Foundation's Breast Cancer Program in Jordan sponsoring an employee cycling trip to raise awareness about breast cancer.

Our employees supported other activities throughout the year, including a social media competition to raise awareness of breast cancer; fundraising for Macmillan Cancer Support through its 'The World's Biggest Coffee Morning'; and a donation to DKMS, a global organisation dedicated to the fight against blood cancer.

On World Obesity Day, Hikma's marketing team organised a campaign to raise awareness of the dangers of obesity. Hikma's employees in Jordan were given the chance to measure their weight, BMI, fat percentage and muscle percentage. They were also offered tips on how to stay healthy and maintain an ideal weight and they were served nutritious meals at lunchtime, encouraging them to eat well.

Hikma's oncology plant in Jordan (Sahab), the first plant in MENA to receive MENA, EU and US FDA approval

In 2016 we were proud that our Sahab facility in Jordan became the first oncology facility in the MENA to receive US FDA approval. This state-of-the-art oncology facility, which manufactures various oncology products including tablets and hard gelatin capsules, opened its doors in 2010 and is now helping us achieve our aim of improving lives where there is limited access to high-quality therapies.

PROMOTING GOOD BUSINESS ETHICS

Quality and excellence sit at the heart of Hikma, and we believe that a strong commitment to ethical values – such as integrity, honesty and transparency – is vital to our reputation and success. Building trust in our people and our business creates long-term value by helping to ensure our business remains relevant and sustainable.

Responsible business initiatives

World Economic Forum (WEF)

Hikma is constantly seeking to develop and strengthen its global partnerships and initiatives to stay at the forefront of advancing healthcare and human wellbeing. The WEF engages political, business and other leaders of society to shape global, regional and industry agendas. Our participation with international organisations from the public and private sectors is motivated by an ambition to act towards advancing global welfare. In 2016, Hikma became one of the WEF's Health Industry Partners, with the objective of exploring new and improved ways of developing the standard of healthcare offered to patients around the world.

As a partner, we participated in the WEF Industry Strategy Meeting which explored how to improve the level of healthcare offered to patients by global pharmaceutical and healthcare companies. In the session, participants engaged with policy makers, focusing on industry challenges and collaborations to enhance the quality of and access to healthcare. We also participated in the WEF Global Healthcare meetings, which engage healthcare leaders worldwide to explore and develop new solutions that move the global healthcare industry forward. Our participation in these events supports our aim to build stronger partnerships worldwide to reinforce our vision of improving people's lives around the globe.

WORLD ECONOMIC FORUM

United Nations Global Compact (UNGC)

Members since 2007, we remain committed to the United Nations Global Compact. We continue to support and align our global operations with the ten UNGC principles, regularly reporting our alignment with the principles in the areas of human rights, labour standards, environment and anti-corruption. In 2016, we renewed our UNGC membership by submitting a Communication on Progress report for 2015. Participating in the UNGC's Communication on Progress Report demonstrates our commitment to employees, our customers, our communities and patients. As a multinational business, we are committed to conducting our business ethically and to being an active partner in shaping a sustainable future.

THE GLOBAL COMPACT
WE SUPPORT

Transparency & anti-bribery and corruption

B20 Anti-Corruption Working Group

As we continue working to promote responsible business through collective action, we joined the Business 20 (B20) Anti-Corruption Working Group (ACWG), which operates under the umbrella of the G20 international forum of governments. The ACWG focuses on helping companies to improve their ethical conduct. As part of this, Hikma co-chaired the Public Procurement Work Stream, which seeks to promote ethical practices across the governmental and private sectors, and we joined the Beneficial Ownership Team.

Partnering Against Corruption Initiative (PACI)

Hikma remains a founding member of the Partnering Against Corruption Initiative (PACI), an off-shoot of the WEF. PACI is a leading business voice on anti-corruption and transparency and is one of the WEF's strongest cross-industry collaborative efforts. Driven by interests of member companies, PACI undertakes initiatives to address global issues in anti-corruption and compliance. We renewed our commitment in 2016 for zero tolerance of corruption or bribery across any and all of our operations.

Modern Slavery Act (MSA)

Hikma is committed to ensuring that 'modern slavery' in the form of forced or compulsory labour and human trafficking does not take place in any of its businesses or supply chains across the globe. Key measures in support of this goal include training Hikma staff on labour standards and how to recognise and respond to any incidences of modern slavery, undertaking periodic analysis and management of any modern slavery risk in Hikma's businesses or supply chains, carrying out appropriate due diligence and engaging on the issue with supply chain partners.

Anti-bribery and corruption

Hikma does not tolerate corruption or bribery and it applies strict processes to ensure that our employees do not participate in any form of corrupt practices. Hikma is publicly listed on the London Stock Exchange and thus abides by the UK Anti-Bribery Act 2010 and the Share Dealing Code and Disclosure policies. The Code of Conduct sets the tone for all business activities, ensuring an ethical approach runs across the Group.

The Compliance Department is developing the Anti-Bribery and Corruption e-learning programme to be launched in 2017. This e-learning programme will provide all Board members, management and employees with comprehensive and interactive training on this important issue including:

- Hikma's Code of Conduct
- Anti-bribery and corruption compliance
  - Introduction to ABC Compliance
  - Interactions with public officials
  - Interactions with HCPs
  - Gifts, hospitality and entertainment
  - Grants, sponsorships and donations
- Interactions with third parties
- Conflicts of interest
- Insider dealing
- Speak-up

The e-learning module will initially launch in three languages (English, Arabic and French) at the beginning of 2017 to employees in MENA and Europe, and will be introduced to US employees later in the year.

In addition to the e-learning module, we will also make available, via a shared internal platform, the compliance policies and procedures that are essential to all employees across all levels such as:

- Hikma's Code of Conduct
- Anti-bribery and corruption
- Gifts, hospitality and entertainment
- Conflict of interest
- Speak-up

FTSE4Good Recognition

Hikma continued to be recognised as a constituent member of the FTSE4Good index series in 2016, and we are proud to maintain our commitment to high corporate business standards and ethics. Stakeholders such as NGOs, governmental bodies, consultants, academics and the investment community help to shape the criteria for inclusion in the indices, which include: anti-corruption, climate change, health and safety, and customer responsibility to name a few. Our continued inclusion means our environmental, social and governance practices meet globally recognised standards.

FTSE4Good

SUPPORTING OUR COMMUNITIES

We believe we have a role to play in helping the communities in which we live and work. This takes the form of sharing our skills, providing opportunities, and promoting health and wellbeing.

Global volunteering activities

Since 2001, we have had a Group-wide sponsored Annual Volunteering Day to promote community service among employees and give back to our communities. The events, which allow employees to 'donate' a day's work in service to the community, took place around the world over the course of a week in Jordan, Saudi Arabia, Egypt, Lebanon, Tunisia, Algeria, Portugal, Germany, Italy and the US. In total, 300 employees participated in the 2016 volunteering activities in collaboration with different NGOs across the globe.

Activities included a clothing drive in Amman for those in need; a cleanup of the Al-Zara area near the Dead Sea, organised in co-operation with the Royal Society for the Conservation of Nature (RSCN); collecting children's shoes in the US for orphans; collecting non-perishable food items for Emergency Assistance Centres in Ohio; raising funds for the Children's Hospital of Philadelphia (CHOP) and Unforgotten Haven, a charitable organisation supporting the homeless; running a blood drive to benefit the Lisbon Bone Marrow Centre in Portugal; and in Egypt, organising a blanket distribution campaign for "Giza" villages outside Cairo.

Improving health and wellbeing

Promoting healthy lifestyles

In 2016, we renewed our agreement with the Royal Health Awareness Society (RHAS) to support two of its projects which aim to enhance the school life of students across Jordan: The "Healthy Kitchen Project", which supports the delivery of healthy meals for school children; and the "Generations Project", an anti-drug and tobacco initiative for school children.

As part of RHAS' Healthy Kitchen Project, several of our employees volunteered to distribute meals to students at one of our sponsored schools. This is a continuation of a project that was launched in 2015 in collaboration with the Ministry of Education, Ministry of Health and the World Food Program, to provide healthy and nutritious meals to school students. The project seeks to raise health and nutrition awareness and promote healthier eating patterns by disseminating comprehensive nutrition information and educational resources within school communities.

We are also now sponsoring a new RHAS project launched in 2016 designed to protect young people in Jordan from drug and tobacco addiction. The project focuses on providing relevant social and life skills through training programmes, and focuses on enabling children and young people to become more resilient and dissuade them from peer pressure. The programme is adapted for middle and high schoolers and implemented through the Ministry of Education in addition to youth centres and local NGOs.

Local blood drives & heart health

We conducted our annual "You Are Hikma" campaign in 2016, a week-long initiative to provide assistance to our local communities. The campaign activities included a blood donation drive to aid the National Blood Bank of Jordan, whom Hikma has partnered with for over a decade. In our US locations, we united with the Central Jersey Blood Centre, for our semi-annual "Have a Heart" blood drive held around Valentine's Day in February. The team also partnered with the American Heart Association for the "Go Red for Women's Heart Health Month", where more than 150 colleagues fundraised for the entire month of February to support community education programmes for women's heart health.

Charitable community engagement

Our Eatontown site in New Jersey received a special thank you message from Monmouth, New Jersey's Family and Children Service's centre, for their generous donations in "Operation Sleighbells", an annual event, which distributes gifts of new coats, hats, gloves, toys, books, gift cards and infant necessities to local children in need. More than 500 employees 'adopted' five families and donated toys and gifts for 125 children. They also raised more than $5,000 to purchase coats, hats and gloves for children in need in the area.

Aiding refugees with skills and employment

The crisis of refugees fleeing conflict and persecution is a global humanitarian phenomenon, and in 2016, our team in Portugal collaborated with the Portuguese Refugee Committee to put in place a programme to help train and employ refugees in Europe. Last year we hired and trained our first programme participant, Amir Hamad, a Sudanese refugee who arrived from Egypt and is now thriving at work and reunited with his family. Amir arrived in Portugal in 2015 and was received by the Portuguese Refugee Commission (PRC) which provides refugees with housing, legal and financial support for the first 12 to 18 months. We contacted the PRC and supported this international project, and adopted Amir as an employee inside our plant. Although there were some challenges, including a language barrier, Amir is now fully integrated and thriving within the Hikma team, and his family has successfully assimilated in Portugal.

ENABLING OUR PEOPLE

Employees are our most important asset and the driving force behind our success. At Hikma, we are committed to maintaining supportive and enriching environments in which our employees can thrive and succeed.

Professional and personal employee development

Hikma Young Professionals Excellence (HYPE) Programme

At Hikma we aim to enhance the communities in which we are located, as well as invest in the young people within our communities. In 2016 we created a programme called HYPE (Hikma Young Professionals Excellence), which is a two-year rotational programme developed for high-potential and high-performing recent graduates. It aims to attract talented individuals and instill in them Hikma leadership values through a series of rotations in finance, operations and commercial roles. The programme is currently being run in Jordan and the inaugural HYPE class included seven individuals with backgrounds in finance, operations, sales, regulatory affairs and R&D. In 2017 we are increasing the number of rotations and including programme participants in the US, EU and other MENA countries.

Music classes at Hikma

As part of our ongoing efforts to contribute to the wellbeing of our colleagues, employees in Jordan were offered some unique opportunities to enhance their musicality through free music lessons. We partnered with a specialist musical instruction website called 'Izif' and offered lessons to anyone with an interest in exploring their musical side.

Over the course of ten weeks, participants attended 90-minute weekly workshops during which they developed their artistic skills by taking singing classes, piano sessions and guitar, oud or drum classes. The programme featured a combination of online and offline sessions.

Women empowerment initiatives

We are proud to be an equal opportunity employer. We aim to support and empower women in the workplace and strengthen their positions in society.

In 2016, we conducted various activities under the umbrella of 'women's empowerment', including sponsoring and participating in the Women's Entrepreneurship Day, MENA 2016 Conference, in Jordan. Our executives took part in several panel discussions, under the topics of supporting women in the workplace, the importance of gender equality, providing equal opportunities and inspiring women empowerment initiatives.

As part of our Women Empowerment and Motivational Programme, we have been holding monthly women empowerment sessions in our corporate locations, entitled 'Dare to Dream Big', which aim to empower and inspire our employees.

Employee health and safety

Safeguarding the health and safety of our people is integral to our commitment to remain a responsible organisation. Our Health, Safety, Environment and Energy (HSEE) policy, which is communicated to all our people, ensures that the highest standards are maintained across the organisation in line with industry best practices. All our employees are rigorously trained with the highest safety and security standards to minimise hazardous risks to the employees themselves as well as their surroundings. We consider our employees to be our most valuable asset and as such make significant efforts to ensure they are fully equipped and prepared to respond to potentially harmful situations.

Going forward, we plan to enhance our measurement of certain health and safety indicators, enabling the organisation to identify areas for potential improvement to health and safety and further optimise our processes and procedures in this regard.

Find out more
Diversity
To find out more about diversity across the Group, see page 94.

Innovation & Leadership Advisory Board (I-LAB)

In April 2016, our CEO formed the Innovation & Leadership Advisory Board (I-LAB), with the aim of maintaining an innovative culture across the Hikma Group and fostering younger talent. The I-LAB is a committee of 17 employees under the age of 35, who are tasked with advising the CEO on cutting-edge technology initiatives and ideas that will introduce and encourage innovation in the workplace. The committee meets regularly to keep our top management up-to-date with developments in digital health and proposals on how to incorporate these advancements within Hikma.

MINIMISING OUR ENVIRONMENTAL IMPACT

At Hikma, we consider environmental stewardship to be a key aspect of our sustainability strategy. We take active steps to track and reduce our adverse environmental impacts and promote awareness about responsible environmental practices both internally and amongst the public. Efficiency improvements in 2016 contributed to sizeable reductions in our emissions versus the previous year.

GHG emissions disclosure

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

The table below shows our emissions performance for the years ended 31 December 2014, 2015 and 2016.

GHG Source	2014	2015	**2016**
Scope 1 – Combustion of fuel and operation of facilities (tCO_2e)	20,506 tCO_2e	26,422 tCO_2e	**24,114 tCO_2e**
Scope 2 (location-based) – Electricity (tCO_2)	57,459 tCO_2	79,061 tCO_2	**78,279 tCO_2**
Scope 2 (market-based) – Electricity (tCO_2)	n/a	n/a	**81,140 tCO_2**
Total Scope 1 and 2 emissions (location-based)	77,965 tCO_2e	105,483 tCO_2e	**102,393 tCO_2e**
tCO_2e per FTE employee (Scope 1 & 2 location-based)	13.38 tCO_2e	17.11 tCO_2e	**16.17 tCO_2e**

Data notes:

- Emissions from the consumption of electricity are reported in tCO_2 rather than tCO_2e since the International Energy Agency emission factors for electricity currently account for carbon dioxide emissions only.
- The full time equivalent (FTE) employee figures used to calculate the reported intensity metric cover the sites for which emissions data was provided rather than the total FTE figure for the organisation as a whole.

Total tCO_2e by category

- Purchased electricity for own consumption 76%
- Natural gas combustion 12%
- Diesel combustion 8%
- Vehicle emissions 2%
- Refrigerants 1%
- Petrol combustion <1%
- LPG/Propane combustion <1%

Disclosing and improving our carbon emissions

Performance

Between 2015 and 2016 we have seen an overall absolute decrease in emissions by 2.9% and a decrease in emissions per full time equivalent employee of 5.5%. This is in part due to the divestment of the Ben Venue manufacturing facility in the US during the reporting year.

Methodology

We quantify and report our organisational greenhouse gas emissions using the WRI's Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard.

This year, we have reported in accordance with the GHG Protocol's new Scope 2 Guidance, which requires that we dual report our Scope 2 emissions using two different methodologies: the location-based method and the market-based method.

Under the location-based method, we have utilised the UK Government and the International Energy Agency country-specific emission factors for electricity generation.

Under the market-based method, for our European operations, we have utilised the residual mix electricity emission factor published by RE-DISS as we have been unable to obtain tariff-specific emission factors from our suppliers, and for all non-European suppliers we have utilised the location-based grid electricity emission factors as residual emission factors have yet to be calculated outside Europe. This approach is in line with the data hierarchy outlined in the GHG Protocol Scope 2 Guidance.

For the majority of our operations outside the United States and Europe there is currently no option to purchase electricity generated from renewable sources, and therefore our market-based Scope 2 figure is higher than our location-based figure.

However, there is significant progress being made in the renewable energy sector in the MENA region as consumer demand is shifting to a preference for clean energy and governments are looking to decarbonise their economies and meet commitments set out in the United Nations Convention on Climate Change (UNFCCC) Paris Agreement to avoid dangerous climate change.

Therefore, in 2017, we will be engaging with our electricity suppliers to understand how we can purchase cleaner energy, reduce our climate impact through our purchasing power, and support the necessary shift to a low carbon economy.

Reporting boundaries and exclusions

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

Joint ventures with less than 50% holding have been excluded from our GHG disclosure as it is considered that we do not have operational control over these emissions sources. In addition, non-manufacturing facilities with less than 100 staff at the end of the reporting period are not included within our emissions disclosure on the grounds of materiality.

Assumptions and estimations

In some cases, missing information has been estimated using data from the nearest reporting period as a proxy. Furthermore, due to the availability of additional data, we have decided to restate the 2015 emissions figures. This allows us to make a more accurate performance comparison between 2015 and 2016.

Intensity ratio

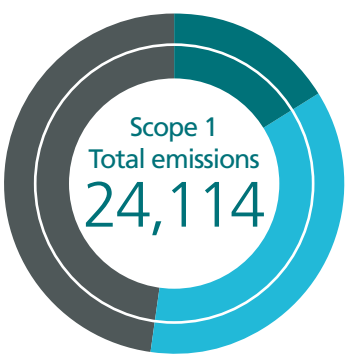
In order to express our reported emissions in relation to a quantifiable factor that will act as a useful comparator for performance analysis over time, we have chosen to adopt full time equivalent (FTE) employee for sites reported in our organisational boundary as our chosen intensity metric, as it is considered that this factor both influences our overall energy consumption and is reflective of business growth/decline.

Hikma's Carbon Disclosure Project 2016 (CDP)

Hikma incorporated a water policy into its Global Climate Change Report, and filled out the Carbon Disclosure Project (CDP) water programme questionnaire to ensure the protection of the environment by monitoring, reporting on and reducing waste emissions in water. Hikma scored (B-) on the CDP's water programme questionnaire this year, a good score in our first reporting cycle for the water programme. This year we achieved B level for our climate change report; defined as a 'Management' rating: where the company has assessed environmental issues, risks and implemented actions, policies and strategies to address them, in addition to providing the relevant data.

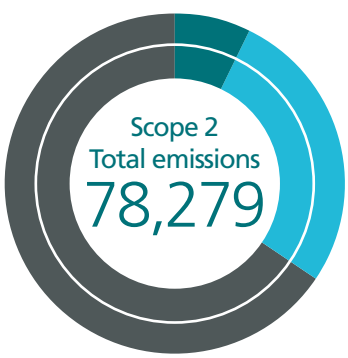
Total emissions and segmental reporting

Scope 1 (tCO_2e)



Europe	3,928
USA	8,680
MENA	11,506

Scope 2 (tCO_2e)



Europe	5,812
USA	21,266
MENA	51,201

Waste reduction and recycling

We continuously seek to minimise our impact on the environment through pollution prevention, resource conservation and waste minimisation initiatives. This year our various sites have proactively taken steps towards preserving the environment by working with waste disposal partners, launching awareness campaigns with our employees and participating in local level environmental sustainability programmes. An emphasis on recycling and beneficial use programmes has become a standard within Hikma and future expansion of these programmes will remain a focus in the years to come.

Drug take back

For the past five years, our team in Columbus, Ohio has participated in biannual 'Drug Take Back' events which are designed to provide a safe, convenient and responsible way for disposing of all types of medicines, including prescription, OTC, liquids, ointments and inhalers. The team's efforts in 2016 resulted in a record total of 4,946 pounds, equivalent to over six million tablets, being collected. Overall, these events account for a total of 16,610 pounds of medicines, equivalent to over 25.4 million tablets, being collected and safely disposed of.

Our Environmental Health & Safety (EHS) department continuously seeks opportunities to positively impact the environment. By listening to employee feedback, attending focus groups, or simply working with our waste disposal partners, much success has been realised to achieve 'green' results.

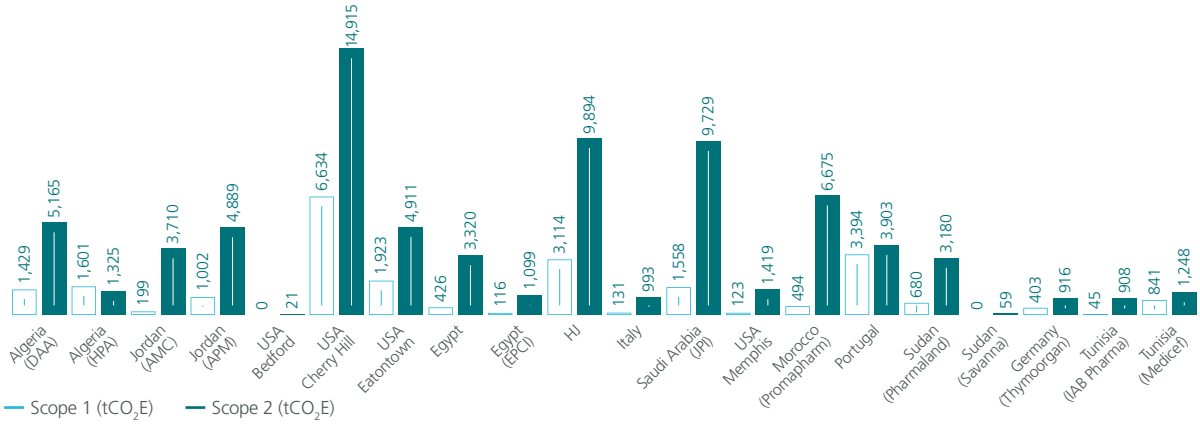
Environmental preservation efforts

Earth Hour campaign

Earth Hour is celebrated worldwide on the last Saturday of March every year. Our employees participated in efforts to raise awareness of environmental threats due to the wasteful use of energy. Many environmental activities took place around the Hikma locations such as a candle-lit walk, lectures and children's face painting and games.

We also collaborated with the Royal Society for the Conservation of Nature (RSCN) to organise the eighth annual 'Clean Up the World' campaign, held under the slogan 'Our Place… Our Planet… Our Responsibility', which seeks to shed light on the importance of cleaning up and conserving natural parks while discouraging people from littering.

Emissions by location



MANAGING THE UNCERTAINTIES

In the previous year, we reviewed and re-designed our approach to risk management and risk governance. This year, we embedded the overarching Enterprise Risk Management framework, which is subject to rigorous internal and external review.

Risk governance

The Board is ultimately responsible for developing and maintaining the Group's risk management and internal control systems. During the year, the Board continued to review the Group's risk appetite in detail. Following this review, our principal risks are categorised into risks:

- that are innate to the pharmaceutical business, the skilful management of which provides us with our economic returns
- that are inherent in our strategy, which we believe are worth taking, but in a selective and controlled manner
- for which we have little or no appetite and which we try to minimise or avoid altogether

This risk appetite, which also sets out expected mitigation approaches and risk limits, is reviewed and updated annually, forms the foundation of the Enterprise Risk Management (ERM) framework and shapes the detailed approaches to risk management within the businesses.

Our risk governance framework, as approved by the Board, is summarised in the table to the right. On behalf of the Board, the Audit Committee oversees Hikma's risk management framework in the context of its responsibilities for internal control, bi-annually reviews the material risks facing the Group and is updated in response to changes in both the internal and external environment. The risk framework provides further detail on the monitoring, mitigation and control processes for each of the identified principal risks and includes a designated senior executive with Group level responsibilities in each area. The designated senior executive takes into account the Group's risk appetite as part of their consideration of risk events and report to the Executive Committee. The Audit Committee also reviews business and operational risks with the internal and external auditors which are identified through the audit work that they perform, including risk interviews with all executive management.

Board of Directors

- Define the Group's risk appetite annually
- Review Hikma's principal risks and uncertainties annually

Audit Committee

- Assesses the effectiveness of the risk governance framework together with the internal control procedures and reports to the Board
- Reviews management's bi-annual risk management report
- Reviews the external communications and disclosures bi-annually

Executive Management/Group Risk Committee

- Develops the consolidated risk management report
- Reviews significant emerging risks

Chief Risk Officer (Chief Strategy and Corporate Development Officer)

- Co-ordinates communication between the global risk owners, the Executive Committee and the Audit Committee
- Prepares the consolidated risk management report and submits it to the Audit Committee and Executive Management Committee bi-annually
- Validates and challenges the identified risks as received by the designated senior executive
- Works with relevant parties on the risk management external communications and disclosures for the Annual Report
- Updates the risk management framework annually

Designated Senior Executive

- Co-ordinates risk management activities across the regions
- Submits a risk management status update report to the Chief Risk Officer bi-annually
- Implements the risk management processes and identifies, assesses and manages risks within the business

Designated Regional Officer

- Submits a risk management status update report to the designated senior executive bi-annually
- Implements the detailed risk management processes in operations and mitigates and manages risks within their respective regions, as part of their daily operations

Internal Audit

- Provides objective assurance and opinion of the effectiveness of Hikma's risk management and internal control systems

Principal risks

During the year, the Board conducted a robust assessment of all the principal risks in the businesses, looking in detail at the nature and scale of the risks being taken and the mitigation approaches. The Board considers that it is possible that more than one principal risk could escalate at any one point in time. The Board is satisfied that these risks are being managed appropriately and consistently with the target risk appetite.

The Group faces risks and uncertainties that could have a material impact on its earnings and ability to trade in the future. These principal risks are set out below, although the contents of this table are not deemed as an exhaustive list of all the risks and uncertainties the Group faces.

Risk and description	*Mitigation and control*
Product quality	

• Situations resulting in poor manufacturing and processes have the potential to lead to:
  • Product efficacy and safety issues affecting patients and manufacturing personnel resulting in liability and reputational issues
  • Regulatory action that could result in the closure of facilities and consequential loss of opportunity and potential failure to supply obligations
  • Delayed or denied approvals for new products
  • Product recalls
	• Global implementation of quality systems that guarantee valid consistent manufacturing processes leading to the production of quality products
	• The 11 FDA approved facilities are regularly assessed by the regulator
	• Documented procedures are continuously improved and staff receive training on those procedures on a regular basis
	• Continued environment and health certifications

API sourcing	
• API and raw materials represent one of the Group's largest cost components. As is typical in the pharmaceuticals industry, a significant proportion of the Group's API requirements is provided by a small number of API suppliers • There is a risk that it will not be possible to secure or maintain adequate levels of API supplies in the future • Regulatory approval of a new supplier can be lengthy and supplies may be disrupted if the Group is forced to replace a supplier which failed to meet applicable regulatory standards or terminated its arrangements with the Group	• Maintaining alternative API suppliers for the Group's top strategic products, where possible • API suppliers are carefully selected and the Group endeavours to build long-term supply contracts • The Group has a dedicated plant in Jordan that can synthesise strategic injectable APIs where appropriate • Utilising supply chain models to maintain adequate API levels

Risk and description	*Mitigation and control*
MENA and emerging markets	
• Hikma operates in MENA and emerging markets which have high levels of political and social instability as well as economic and regulatory fluctuations that can result in a wide variety of business disruptions in those markets for a substantial period of time	• Geographic diversity reduces the impact of issues arising in one jurisdiction with extensive experience of operating in these environments and developing opportunities • Strong regulatory team that proactively monitors possible regulatory changes • Building and nurturing local business relationships whilst upholding the highest ethical standards • Monitoring, analysing and reacting to economic developments, on short, medium and long-term bases
New product pipeline	
• A sizeable proportion of Group revenues and profits derive from a number of strategic products. Failure to maintain a healthy product pipeline will affect the ability of the Group to generate business and limits the ability to provide differentiated products to patients and customers	• Internal marketing and business development departments monitor and assess the market for arising opportunities • Expansive global product portfolio with increased focus on high value and differentiated products • Experienced internal R&D teams developing products and overseeing joint venture activities • Product related acquisitions (e.g. acquisition of West-Ward Columbus) • Third party pharmaceutical product specialists in addition to strong R&D teams are assisting in the development of manufacturing processes for new generic products. Both are assisted centrally in the implementation and management of projects
Industry earnings	
• The dynamics of the generic pharmaceutical industry include numerous volatile elements such as political action, societal changes, regulatory interventions, drug approval patterns, competitor strategies and pricing that are difficult to anticipate and may affect profitability, goodwill and impairment	• Operating in wide range of countries, products and therapeutic areas • Diversification of manufacturing capability and capacity • Active product life cycle and pricing management in the MENA region • Compliantly identify market opportunities and develop appropriate pricing strategies whilst responsibly applying price changes in the US

Risk and description	*Mitigation and control*
Acquisitions	
• The Group strategy is to pursue value adding acquisitions to expand the product portfolio, acquire manufacturing capabilities and expand in existing and emerging markets. There is risk of misjudging key elements of an acquisition or failing to integrate the assets, particularly where they are distressed • An acquisition of a large-scale target may entail financing-related risks and operating expenses and significantly increase the Group's leverage if financed with debt	• The mergers and acquisitions team undertake extensive due diligence of each acquisition, including legal, financial, compliance and commercial, and utilise multiple valuation approaches in assessing target acquisition value • Executive Committee reviews major acquisitions before they are considered by the Board • The Board is willing and has demonstrated its ability to refuse acquisitions where it considers the price or risk is too high • Dedicated integration project teams are assigned for the acquisition, which are led by the business head responsible for proposing the opportunity. Following the acquisition of a target, the finance team, the management team and the Audit Committee closely monitor its financial and non-financial performance
ABC compliance	
• The pharmaceutical industry and certain MENA and emerging markets are considered to be higher risk in relation to sales practices. Improper conduct by employees could seriously damage the reputation and licence to do business	• Board level – Compliance, Responsibility and Ethics Committee ("**CREC**") • Code of Conduct approved by the Board, translated into seven languages and signed by all employees • ABC compliance programme monitored by the CREC • Over 5,000 employees have received ABC compliance training • Sales and marketing and other ABC compliance policies and procedures are created, updated and rolled out and are subject to regular audits • Active participation in international anti-corruption initiatives (e.g. PACI, UN Global Compact) • Strengthening US compliance operations in line with business expansion • Conducting legally privileged internal compliance audits
Financial	
• The Group is exposed to a variety of financial risks similar to most major international manufacturers such as liquidity, exchange rates, tax uncertainty and debtor default. In addition, most of the other risks could have a financial impact on the Group	• Extensive financial control procedures have been implemented and are assessed annually as part of the internal audit programme • A network of banking partners is maintained for lending and deposits • Management monitors debtor payments and takes precautionary measures and action where necessary • Where it is economic and possible to do so, the Group hedges its exchange rate and interest rate exposure • Management obtains external advice to help manage tax exposures and has upgraded internal tax control systems

Risk and description	*Mitigation and control*
Legal, intellectual property and regulatory	
• The Group is exposed to a variety of legal, IP and regulatory risks similar to most relevant major international industries such as changes in laws, regulations and their application, litigation, governmental investigations, sanctions, contractual terms and conditions and potential business disruptions	• Expert internal departments that enhance policies, processes, embed compliance culture, raise awareness • Train staff and provide terms to mitigate or lower contractual risks where possible • First class expert external advice is procured to provide independent services and ensure highest standards • Board of Directors and executive management provide leadership and take action
Information technology	

• If information and data are not adequately secured and protected (data security, access controls), this could result in:
  • Increased internal/external security threats
  • Compliance and reputational damages
  • Regulatory and legal litigation
	• Utilise industry-standard information security solutions and best practice process for local and Group requirements
	• Continue to stay abreast of cyber-risk activity and, where necessary, implement changes to combat this
	• Alignment of IT and business strategy
	• Working with strategic third parties to implement and maintain a robust Group wide information security programme

Human resources and organisational growth	
• Changes in employment laws pose constant risks. The fast growth of the organisation poses risks to management processes, structures and talent that serve the changing needs of the organisation. In turn, this may affect other risks	• Employ HR programmes that attract, manage and develop talent within the organisation • Keeping our organisation structures and accountabilities under review, and maintaining the flexibility to make changes smoothly as requirements change • Continuously upgrade management processes so that they become and remain at the standards of a global company
Reputational	
• Reputational risk inescapably arises as a by-product of other risks and from taking complex business decisions. However, we view our reputation as one of our most valuable assets, as risks facing our reputation may affect our ability to conduct core business operations	• Monitor the internal and external sources that might signal reputational issues • Sustain corporate responsibility and ethics through transparent reporting and compliance with global best practices (e.g. GHG emissions, UN Global Compact) • Maintain strong communication and corporate affairs capabilities • Establishing partnerships and programmes to limit misuse of Hikma products

Risk management

During 2016, the Group focused on embedding the Enterprise Risk Management ("**ERM**") framework. Hikma operates in diverse and dynamic markets which are subject to great levels of uncertainty and the ERM framework is an integral part of our business as it provides for a pragmatic and consistent approach to identifying, calibrating and reporting on risks throughout the organisation; gauging changes in the Group's risk profile; and balancing risk-taking with mitigation and control.

In addition to providing consistent approaches to measurement, the ERM framework specifies the designated senior executive responsible for detailed oversight and management of each of the principal risks in the business and guides them on the approach they should take to monitor, mitigate and control each type of risk. All senior executives have the significant daily interaction with reporting lines to members of the Executive Committee, which is responsible for controlling situations that may arise, irrespective of the risk category.

Internal control

The Board is ultimately responsible for the effectiveness of the Group's systems of internal controls and risk management. The Board confirms that it is in accordance with the Code and follows the FRC's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting". The system for identifying, evaluating and managing the risks the Group faces draws on the ongoing output of the finance department on Group performance, the work of the internal auditors and issues identified by the external auditors to the extent covered by their audit work. The Board monitors the ongoing effectiveness of the system and formally reviews the Group's policies on internal control on an annual basis, including all material controls. The Board is satisfied that the Group's systems for internal control have been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts. The systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The Board considers two key areas where control needs to be enhanced:

1) IT — the Board appointed a Chief Information Officer to integrate Hikma's global IT initiatives and expanded the Group's IT resources. The Board receives regular updates on the progress of this enhancement.

2) Compliance — the Board initiated a programme to enhance the ABC activities in the US operations and instructed an external assessor to assess the enhancements in early 2017. The Board is satisfied that the enhancements are on track to be fully implemented and tested.

Key internal audit events

MAY

The Audit Committee Chair meets EY to review the internal audit findings to date, the management responses and the action plan.

JUL

EY report their initial findings to the Audit Committee. The Committee meets with EY without management present.

OCT

The Audit Committee Chair has a further meeting with EY to review the full-year audit findings, review the results of the risk assessment that is undertaken in conjunction with management and consider the internal audit plan for the following year.

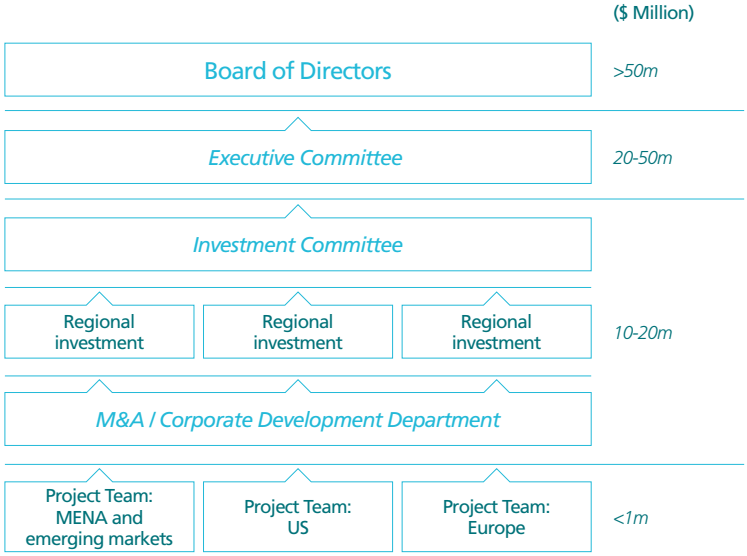
DEC

EY report their full-year findings for the year, a forward-looking risk assessment and a plan for the following year to the Committee. The Committee meets with EY without management present.

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

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

Authority to invest



Viability

Assessment mechanism

The Directors assess the position and prospects of the Company at each Board meeting and at the end of the financial year by taking account of the strategic and operational update from the Chief Executive and financial reporting and forecasting from the Chief Financial Officer. The Directors also receive regular updates on operational, strategic and financial matters from executives. The Board has considered the potential impact of the principal risks detailed on pages 54 to 57 and has modelled the following scenarios which are designed to take into account those principal risks:

- **Product quality:** Prolonged closure of one of our major US FDA approved facilities
- **MENA & emerging markets:** Escalation of political or social instability in one of our major MENA markets
- **Industry earnings:** Significant changes to the pricing environment in the US

These scenarios were designed to be severe but plausible. They take full account of the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks and that would realistically be open to them in the circumstances.

The Directors consider that this stress-testing of the Company's prospects is reasonable and the results showed that the Company would be able to withstand the impact of these scenarios by making the necessary adjustments to its operating plans within the normal course of business.

Viability period

The Directors have made their assessment of the viability of the Company over a period of three years. This is the timeframe for new acquisitions and greenfield opportunities to become fully mature and integrated businesses, to be ready to market products that have been transferred or developed and is considered to be the maximum over which forecasts can be made to a reasonable level of accuracy. The Board acknowledges that the accuracy is greater in the nearer term than it is towards the end of the viability period.

Qualifications and assumptions

The Board undertook a robust assessment of the Group's principal risks, as outlined on pages 54 to 57. This statement highlights the broad business environment variables that the Board considers could have a significant impact on the viability of the Company.

The Board acknowledges that financial modelling over the viability period is subject to a number of assumptions by management. The most significant assumptions in the view of the Directors are:

- Introduction and commercialisation of new products
- Market growth and product demand rates
- Foreign exchange consistency
- Continuation of elevation of certain product prices
- Political and social stability in the markets
- Ability to re-finance existing debt on similar terms
- Cash flow generation from newly acquired businesses
- Ability to increase operational efficiency and reduce central costs
- The effective tax rate being within the current guidance range

Statement

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

Going concern

The Directors have considered the going concern position of the Company during the year and at the financial year end, as they have in previous years. The Directors believe that the Group is well diversified due to its geographic spread, product diversity and large customer and supplier base. The Group operates in the relatively defensive generic pharmaceuticals industry which the Directors expect to be less affected by economic downturns compared to other industries.

The Group's overall net debt position was $704 million at 31 December 2016 compared to $135 million in December 2015. Net cash flow from operating activities in 2016 was $293 million (2015: $366 million). The Group has $1,109 million (2015: $1,374 million) of undrawn short-term and long-term banking facilities, in addition to $180 million (2015: $205 million) of unutilised import and export financing limits. These facilities are well diversified across the subsidiaries of the Group and are with a number of financial institutions. The Group's forecasts, taking into account reasonable possible changes in trading performance, facility renewal sensitivities, maturities of long-term debt, and the purchase of West-Ward Columbus, show that the Group should be able to operate well within the levels of its facilities and their related covenants.

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

CORPORATE GOVERNANCE

During the year we have continued to promote our core Hikma values of transparency, respect, trust and quality.

63 / Message from our Chair
64 to 67 / Corporate governance at a glance
68 to 73 / Board of Directors
74 to 75 / Executive Committee
76 to 83 / Governance report
84 to 103 / Committee reports
104 to 135 / Remuneration report
136 to 139 / Directors' report

Message from our Chair

EVER STRONGER GOVERNANCE

Dear Shareholders

Your Board has continued to develop and grow during 2016, continuing to improve our governance and oversight of the Group.

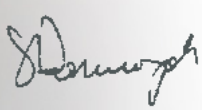
Earlier in 2016 several investors wrote to Hikma regarding succession for Independent Directors and certain remuneration matters. I was pleased that our Nomination and Governance Committee and Remuneration Committee addressed both of these issues in a considered and consultative manner. You will find further information in the respective Committee reports.

> "We owe Michael more than I have detailed here and I would like to thank him on behalf of all of us."

Our response to these points leads me into the Board and Committee changes that are underway. We welcomed Nina Henderson to the Board in October and I am delighted that we have further enhanced our US and global corporate experience with such a strong appointment. The implementation of the medium-term succession plan results in Michael Ashton stepping down from the Board in May 2017. Michael has guided the development of our remuneration practice and development of a Human Resources function from their nascent early days on listing in 2005 to the very strong position that we are in today. We owe Michael more than I have detailed here and I would like to thank him on behalf of all of us.

As we announced during the year, John Castellani is in the process of assuming responsibility for the Compliance, Ethics and Responsibility Committee chair. This is a very important Committee for the Group and I am delighted that we have the right person to build on Ron Goode's excellent achievements.

Over the last five years we have made a significant number of directors appointments and have passed on the leadership of all four Board Committees. We feel that, by taking time to ensure we have the right people and do not lose knowledge, our succession process has greatly assisted in the continued enhancement of the Board. I would like to thank shareholders for their patience as we have gone through this exercise.



Said Darwazah
Chairman and Chief Executive

Corporate governance at a glance

IMPLEMENTING CHANGE READY FOR THE FUTURE

During 2016, the Board focused on implementing Director and Committee changes in order to be ready to take Hikma to the next level.

Hikma's Board of Directors

Highlights of 2016

- Oversaw the integration of Roxane (now West-Ward Columbus)
- Extensive review of the Group's strategy
- Expanded our US and global board experience further through the appointment of Nina Henderson
- Enhanced gender diversity on the Board
- Continued to develop and implement our executive and management succession plans
- Developed a US ABC enhancement programme
- Enhanced our internal governance and processes concerning the market abuse regime
- Carried out an in-depth review of the remuneration policy
- Undertook a shareholder consultation regarding governance and remuneration arrangements
- Successful transition to PricewaterhouseCoopers LLP as auditors
- Advanced our anti-trust, anti-money laundering and trade sanctions programme

Priorities in 2017

- Maximising the value from the product portfolio
- Enhancing forecasting and budgeting processes
- Ensuring an orderly handover of responsibilities from Dr Ronald Goode to John Castellani as Chair of the Compliance, Responsibility and Ethics Committee
- Further develop our medium-term executive succession and development plans
- Embedding the revised remuneration policy and performance targets

Attendance

During the year under review, the Board held seven scheduled meetings and two unscheduled meetings. All Directors attended each scheduled and unscheduled meeting other than Michael Ashton who was unable to attend one meeting due to an important family commitment. Michael read the papers for consideration at that meeting and relayed his comments in advance through the Senior Independent Director. Michael contacted the Company Secretary as soon as possible in order to establish the outcomes and key points considered.

Board changes

During 2016, Dr Jochen Gann joined as the Boehringer Ingelheim nominated Non-Executive Director and John Castellani and Nina Henderson joined as Independent Non-Executive Directors. Michael Ashton is due to stand down at the Annual General Meeting ("**AGM**") on 19 May 2017.

Board meeting attendance

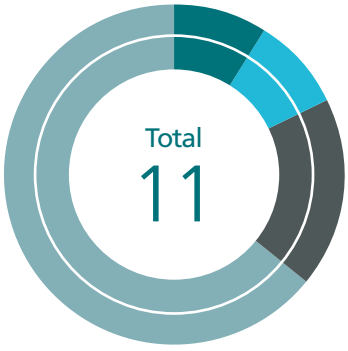
Director	Attended	%
Said Darwazah	9/9	100%
Mazen Darwazah	9/9	100%
Robert Pickering	9/9	100%
Ali Al-Husry	9/9	100%
Michael Ashton	8/9	89%
Dr Ronald Goode	9/9	100%
Pat Butler	9/9	100%
Dr Pamela Kirby	9/9	100%
Dr Jochen Gann (appointed 29 Feb 2016)	5/5	100%
John Castellani (appointed 1 Mar 2016)	5/5	100%
Nina Henderson (appointed 1 Oct 2016)	2/2	100%
Breffni Byrne (retired 12 May 2016)	5/5	100%

Please see pages 66 to 67 to view the detailed Board calendar and meeting activities.

2015 Composition

Chairman & CEO	11%
Executive Directors	11%
Non-Independent NED	11%
Independent NED	67%

2016 Composition



Chairman & CEO	9%
Executive Directors	9%
Non-Independent NED	18%
Independent NED	64%

Corporate governance at a glance continued

2016 Board key business and the time spent by area of focus

In addition to the regular discussion items and responsibilities on page 67, the following matters were considered during 2016.

JAN

- West-Ward Columbus ("**Roxane**") circular, prospectus and EGM

FEB

- West-Ward Columbus ("**Roxane**") update
- Risk appetite
- AGM notice

* Two meetings were held in February

MAR

- Market update
- Preliminary statements
- R&A 2015
- Dividend

MAY

- AGM
- Forecast II
- Trading statement
- West-Ward Columbus ("**Roxane**") integration
- Strategy

JUL

- Brexit assessment
- Strategy
- Board evaluation

AUG

- Market update
- Proposed interim dividend
- Forecast III
- Interim announcement and results
- API risk

OCT

- Strategic review

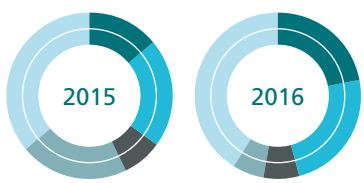
NOV

- Forecast IV
- Market update
- Trading statement
- Trading update

DEC

- Budget for 2017
- Financing
- Investor relations review

The Board's time



	2015	2016
Corporate governance	14%	22%
Financial	21%	24%
Operational developments	8%	7%
Risk	21%	6%
Strategy and acquisitions	36%	41%

Please see pages 71 to 73 to view in detail the Directors' biographies

Regular items and responsibilities

The following items are matters of regular discussion at meetings of the Board of Directors.

Chief Executive's report

- Operational update from the business divisions
- New greenfield opportunities and partnerships
- Issues arising across the Group

Committee reports

- Committee Chair updates on business of the Committee
- Discussion of recommended actions
- Delegation of issues to management

Investors and markets

- Capital and pharmaceutical markets updates
- Market consensus information
- Investor relations annual review

Legal

- Regulatory issues
- Litigation developments
- Legal compliance updates
- Legal and regulatory change

Strategic

- Business environment updates
- Pharmaceutical market strategy
- Specific M&A opportunities

Risk

- Risk appetite
- Principal risks
- Deep dive assessments
- Management framework

Finance

- Financial reporting
- Flash sales
- Forecasting
- Budgeting

Governance

- Board process enhancements
- UK and listed environment developments
- Annual governance review

Training

- Company specific training
- Professional adviser opportunities
- Bespoke training programmes

Board of Directors

Standing left to right: Peter Speirs, Nina Henderson, Dr Jochen Gann, Michael Ashton, Dr Pamela Kirby, John Castellani, Ali Al-Husry, Mazen Darwazah
Seated left to right: Robert Pickering, Pat Butler, Said Darwazah, Dr Ronald Goode

Board of Directors continued

Around the table

Executives

1. Said Darwazah

Chairman and Chief Executive

- Strategic vision
- Acquisitions and financing
- US pharmaceuticals
- Governance and leadership

2. Mazen Darwazah

Executive Vice Chairman, Chief Executive of MENA and Emerging Markets

- MENA pharmaceuticals
- Regulatory and reputational
- Strategy and operations
- Business integrity and ethics

Non-Executives

3. Ali Al-Husry

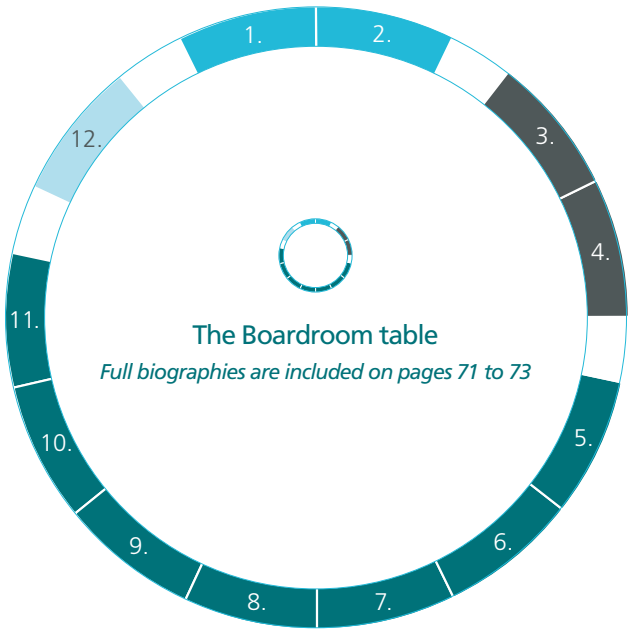
Non-Executive Director

- Financing and capital markets
- MENA region
- Business development
- Pharmaceuticals

4. Dr Jochen Gann

Non-Executive Director

- Acquisitions and business development
- Treasury and capital management
- EU pharmaceuticals



Independent Non-Executives

5. Robert Pickering

Senior Independent Director
Chair Nomination and Governance Committee

- Listed environment and governance
- Capital markets

6. Dr Pamela Kirby

Chair Remuneration Committee

- US and UK pharmaceuticals
- Human resources and people

7. Michael Ashton

Independent Non-Executive Director

- North American, European and African manufacturing and distribution
- Human resources and people

8. Dr Ronald Goode

Chair Compliance, Responsibility and Ethics Committee

- US and international pharmaceuticals
- Business integrity and ethics

9. Pat Butler

Chair Audit Committee

- Financial affairs and audit
- Strategy and risk

10. John Castellani

Chair (elect) Compliance, Responsibility and Ethics Committee

- US pharmaceutical market
- Regulatory and legislative

11. Nina Henderson

Independent Non-Executive Director

- Strategy and risk
- US and international general management

Company Secretary

12. Peter Speirs

Company Secretary

- Listing and governance

1. Said Darwazah

Chairman and Chief Executive

Age: 59 / Appointed: 1 July 2007
Joined Hikma: 1981 / Nationality: Jordanian

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

During his 35 years at Hikma, Said has undertaken several executive roles which have provided him with extensive experience in each functional area of Hikma's global generic pharmaceuticals business and in the broader strategic leadership of an international and entrepreneurial organisation. Said has led the development of the Group strategy, the Injectables business in Europe and the MENA region and acquisitions including West-Ward Pharmaceuticals and Baxter's injectable business. Under Said's leadership, Hikma's facilities in the US, Jordan and Portugal received US FDA approval, the leading international pharmaceutical regulatory standard.

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

Other appointments: Said holds various public and charitable positions. He is the Chairman of the Queen Rania Foundation, a major charitable project, and a Director of Endeavour Jordan, a charitable organisation that assists in the development of entrepreneurs, and a Trustee of Jordan River Foundation, a charitable organisation that aims to empower Jordanian society. Said is also a trustee of the American University of Beirut. Said is a Board member of the Central Bank of Jordan and DASH Ventures Limited. He is also Chairman of Royal Jordanian and the Dead Sea Touristic & Real Estate Investments.

Committee membership:

- Executive Committee (Chair)

2. Mazen Darwazah

Executive Vice Chairman, Chief Executive of MENA and Emerging Markets

Age: 58 / Appointed: 8 September 2005
Joined Hikma: 1985 / Nationality: Jordanian

Skills and experience: Mazen was appointed Group Executive Vice Chairman and MENA Chief Executive in 2005 and became President and Chief Executive of MENA and Emerging Markets in 2014. During his 31 years' service at Hikma he has held an extensive range of positions within the Group starting as a medical representative and working in different capacities including Chairman and Chief Executive of Hikma Pharmaceuticals Limited, a major group operational and holding company.

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

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

Other appointments: Mazen holds various public and charitable positions. He is Vice Chairman of the Capital Bank of Jordan and a trustee of the St. Louis College of Pharmacy, Birzeit University and King's Academy. Mazen is also a member of the King Abdullah Policy Board. He is on the Advisory Board for the Lebanese American University (LAU), Lebanon.

Committee membership:

- CRE Committee
- Corporate Responsibility Committee (Chair)
- Executive Committee
- Nomination and Governance Committee

3. Ali Al-Husry

Non-Executive Director

Age: 59 / Appointed: 14 October 2005
Joined Hikma: 1981 / Nationality: Jordanian

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

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

Other appointments: Ali is the founder and a Director of Endeavour Jordan, a not for profit organisation that assists in the development of entrepreneurs, and a Director of the Microfund for Women, which provides microfinance to low-income female entrepreneurs. He is also a trustee for the Jordanian University of Science and Technology. Additionally, Ali is a Director of the Capital Bank of Jordan. Ali is also a Board member of DASH Ventures Limited.

4. Dr Jochen Gann

Non-Executive Director

Age: 52 / Appointed: 29 February 2016
Joined Hikma: 2016 / Nationality: German

Skills and experience: Jochen is Global Head of Corporate Finance / M&A and Corporate Vice President at Boehringer Ingelheim GmbH. In his M&A role he leads Boehringer Ingelheim's mergers and acquisitions activities across all businesses. He is also responsible for Business Development & Licensing (Strategic Transaction and Alliance Management) for Boehringer's prescription medicine division. In addition, in his role as Corporate Treasurer he is responsible for the group's financing, asset management, risk management, and liquidity and credit management activities as well as the corporate banking strategy. Jochen is also managing director of the Corporate Venture Fund.

Board of Directors continued

Jochen has held several senior roles at Boehringer Ingelheim including Head of Controlling Subsidiaries and Head of Tax. Prior to joining Boehringer Ingelheim in 2007, Jochen held the positions of Head of Corporate Treasury at Cognis GmbH, Managing Director at Degussa Bank GmbH, Head of Treasury Controlling at Hoechst AG and Consultant at Metzler, Germany.

Jochen holds a Doctorate Degree (International Finance) from University of Hohenheim, Germany and a Master's Degree in Business Administration and Science from University of Karlsruhe, Germany.

Other appointments: Jochen currently holds a number of board positions at companies of the Boehringer Ingelheim group. He is also currently Chairman of the Finance committee at Verband Der Chemischen Industrie e. V., Germany and a Member of the Advisory Board KfW IPEX-Bank GmbH, Germany.

5. Robert Pickering

Senior Independent Director

Age: 57 / Appointed: 1 September 2011
Joined Hikma: 2011 / Nationality: British

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

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

Other appointments: Robert is a Non-Executive Director of CLSA UK, a branch of CLSA Limited, an independent brokerage and investment group and Itau BBA International PLC, the investment bank of the Itaú Unibanco group. He is Chairman of the Trustees of Lincoln College Oxford 2027 Trust.

Committee membership:

- Audit Committee
- Nomination and Governance Committee (Chair)
- Remuneration Committee

6. Dr Pamela Kirby

Independent Non-Executive Director

Age: 63 / Appointed: 1 December 2014
Joined Hikma: 2014 / Nationality: British

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

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

Other appointments: Dr Kirby is a Non-Executive Director of DCC plc, Victrex plc and Reckitt Benckiser Group PLC. She is also a Supervisory Board Member for Akzo Nobel NV and a Non-Executive member of the board of the King's Health Partnership, an academic health-science centre.

Committee membership:

- Audit Committee
- CRE Committee
- Remuneration Committee (Chair)

7. Michael Ashton

Independent Non-Executive Director

Age: 71 / Appointed: 14 October 2005
Joined Hikma: 2005 / Nationality: Australian

Skills and experience: Michael has over 30 years' experience in the pharmaceutical industry, holding senior executive positions with Pfizer and Merck. Michael was Chief Executive of Puricore until June 2015, SkyePharma PLC from November 1998 to March 2006 and prior to that was Chairman, President and Chief Executive of Faulding. He has held a number of non-executive and advisory positions across the pharmaceutical industry.

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

Other appointments: Michael is Chairman of Komixx, a private children's educational company.

Committee membership:

- Audit Committee
- Nomination and Governance Committee
- Remuneration Committee

8. Dr Ronald Goode

Independent Non-Executive Director

Age: 73 / Appointed: 12 December 2006
Joined Hikma: 2006 / Nationality: American

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

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

Ron has a PhD from the University of Georgia and a MS and BS from the University of Memphis. He is a recipient of the University of Georgia distinguished alumni award.

Other appointments: Ron is the Chairman of The Goode Group, advisers to the pharmaceutical industry, a Director of Mercy Ships International, a medical services charity, and a Senior Business Advisor to The Kinsella Group, an investment banking company. Additionally he is a member of Private Access, Inc., a medical record software developer.

Committee membership:

- Audit Committee
- CRE Committee (Chair until 19 May 2017)
- Remuneration Committee

9. Pat Butler

Independent Non-Executive Director

Age: 56 / Appointed: 1 April 2014
Joined Hikma: 2014 / Nationality: Irish

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

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

Other appointments: Pat is a Non-Executive Director of the Bank of Ireland, Towergate Group and Res Media Limited. He is also a Governor of the British Film Institute and a trustee of the Resolution Foundation.

Committee membership:

- Audit Committee (Chair)
- CRE Committee
- Nomination and Governance Committee
- Remuneration Committee

10. John Castellani

Independent Non-Executive Director

Age: 66 / Appointed: 1 March 2016
Joined Hikma: 2016 / Nationality: American

Skills and experience: John J. Castellani was President and Chief Executive Officer of Pharmaceutical Research and Manufacturers of America (PhRMA) from 2010 to 2015. Prior to that, he was the President and Chief Executive of Business Roundtable, an association of leading US company chief executives. During his career John has also held senior positions with Burson-Marsteller, Tenneco, Inc. and General Electric Corp., amongst others.

John holds a Bachelor of Science Degree (Biology) from Union College Schenectady, New York.

Other appointments: John is a member of the board of trustees of The Johns Hopkins Medical System Sibley Memorial Hospital, Washington, DC. He is also a Director of 5th Port.

Committee membership:

- Audit Committee
- CRE Committee (Chair from 19 May 2017)
- Remuneration Committee

11. Nina Henderson

Independent Non-Executive Director

Age: 67 / Appointed: 1 October 2016
Joined Hikma: 2016 / Nationality: American

Skills and experience: Nina is a former Corporate Vice President of Bestfoods where she held numerous international general management and executive marketing positions for global consumer branded and food service businesses. During a 30 year career, her positions included President Bestfoods Grocery North America Consumer Division, Corporate Vice President Business Development Global Food Service Division, President Bestfoods Specialty Markets Division and Vice President Bestfoods Baking until 2001.

Nina has served as a Director of Royal Dutch Shell PLC, AXA Financial Inc., The Equitable Companies, Del Monte Foods Company, Hunt Corporation, Pactiv Corporation and Walter Energy Inc. with service on Audit, Investment, Nomination and Governance, Corporate Social Responsibility and Remuneration Committees. She has served as a Lead Director and committee Chair.

Nina is an honours graduate of Drexel University and holds a Bachelor of Science. A member of the Drexel 100, she received the Anthony J. P. Drexel Distinguished Alumni Award in 2010.

Other appointments: Nina is a Director of IWG PLC (formerly Regus PLC), CNO Financial Group Inc., a life and healthcare insurance products company, the Foreign Policy Association and the Visiting Nurse Service of New York Inc., the largest home healthcare provider in the United States. She is a Trustee of Drexel University, including the Drexel College of Medicine. Nina is a President of the Kent Land Trust Foundation, a nature conservancy.

Committee membership:

- Audit Committee
- Nomination and Governance Committee
- Remuneration Committee

12. Peter Speirs

Company Secretary

Appointed: 3 April 2012
Joined Hikma: 2010 / Nationality: British

Skills and experience: Peter joined Hikma as a Deputy Company Secretary in 2010 and assumed the role of Company Secretary in 2012. Peter is responsible for advising the Board and Committees on governance matters. Prior to joining Hikma he worked for Barclays and Pool Re, the UK terrorism re-insurer.

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

Executive Committee

Standing left to right: Michael Raya, Hussein Arkhagha, Bassam Kanaan, Majda Labadi, Mazen Darwazah, Khalid Nabilsi, Brian Hoffmann.
Seated left to right: Riad Mishlawi, Said Darwazah, Susan Ringdal

Said Darwazah

Chairman and Chief Executive

Please refer to page 71 for full biographical details.

Mazen Darwazah

Executive Vice Chairman, Chief Executive of MENA and Emerging Markets

Please refer to page 71 for full biographical details.

Bassam Kanaan

Chief Strategy and Corporate Development Officer

Appointed: 2014
Joined Hikma: 2001 / Nationality: Jordanian

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

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

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

Committee membership:

- Executive Committee
- Global Management Committee (Chair)

Majda Labadi

Corporate Vice President for Human Resources and Head of Operations, MENA

Appointed: 2009
Joined Hikma: 1985 / Nationality: Jordanian

Skills and experience: During her 31 years at Hikma, Majda has held a variety of roles including Purchasing Manager at Hikma Pharmaceuticals Limited, Strategy Manager at Hikma Investment, General Manager of Hikma Farmacêutica and Vice President of Injectables. In February 2009, Majda assumed her current position as Corporate Vice President, Human Resources and she took on additional responsibility for MENA operations in January 2015. She has been responsible for establishing a central human resource practice and leading the development of several Group-wide initiatives, including the grading structure, performance evaluation process and the Group bonus scheme.

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

Other appointments: Majda is currently a member of the Board of Trustees of the Al Hussein Technical University.

Committee membership:

- Executive Committee

Khalid Nabilsi

Chief Financial Officer

Appointed: 2011
Joined Hikma: 2001 / Nationality: Jordanian

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

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

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

Committee membership:

- Executive Committee

Susan Ringdal

Vice President, Corporate Strategy and Investor Relations

Appointed: 2012
Joined Hikma: 2005 / Nationality: American

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

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

Committee membership:

- Executive Committee
- Global Management Committee

Michael Raya

Chief Executive Officer, West-Ward Pharmaceuticals

Appointed: 2008
Joined Hikma: 1992 / Nationality: American

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

Michael holds a Master's degree in Industrial Pharmacy from Long Island University and a Bachelor's degree in Chemistry from St. Francis College.

Michael is also a graduate of INSEAD's International Executive Program.

Committee membership:

- Executive Committee

Riad Mishlawi

EU Vice President and Global Head of Injectables

Appointed: 2011
Joined Hikma: 1990 / Nationality: Lebanese

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

Riad has a BSc in Engineering and a Master's in Engineering and Management from George Washington University.

Committee membership:

- Executive Committee

Brian Hoffmann

President, West-Ward Pharmaceuticals

Appointed: 2015
Joined Hikma: 2009 / Nationality: American

Skills and experience: Brian was appointed President of West-Ward Pharmaceuticals in 2015 with responsibilities for two of Hikma's facilities, supply chain, business development, and product selection. Brian originally joined West-Ward in 2009 to develop a strategy function and was later promoted to VP Corporate Development and SVP & General Manager. Brian has led many strategic initiatives including the acquisitions and integrations of Baxter's Multi-Source Injectables business and Boehringer Ingelheim's Roxane Laboratories.

Brian worked for L.E.K. Consulting as a management consultant in their Boston office. He led engagements for clients in a wide variety of areas including growth strategy, merger evaluation and integration, new product launches, and strategic alliances.

Brian holds a Bachelor's Degree in Business Administration from Boston University Questrom School of Management and an MBA from the University of Chicago Booth School of Business with concentrations in strategic management, finance, and marketing.

Committee membership:

- Executive Committee

Hussein Arkhagha

General Counsel

Appointed: 2013
Joined Hikma: 2001 / Nationality: Jordanian

Skills and experience: Hussein joined Hikma as Legal Counsel in July 2001. Since then, he has established and developed the global legal department, aligning its mission and strategy with those of Hikma. Hussein is a key member of the team that prepared for Hikma's IPO on the London Stock Exchange in 2005, in addition to Hikma's major acquisitions. Prior to his appointment as General Counsel, he held several positions at Hikma, including Head of MENA Legal, Head of the Shareholders' Department and Head of Tax.

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

Other appointments: Hussein is an active member of charity associations, sports and cultural organisations. He currently sits on the Board of Trustees for Prince Hamza Bin Al Hussein Schools in Jordan.

Committee membership:

- Executive Committee

Governance report

Explanations under the UK Corporate Governance Code

Governance principles

The Board is committed to the standards of corporate governance set out in the UK Corporate Governance Code (the "**UK Code**") adopted in September 2014 and the Markets Law of the Dubai Financial Services Authority. The report on pages 62 to 135 describes how the Board has applied the Main Principles of the UK Code and Markets Law throughout the year ended 31 December 2016. 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 positions of Chairman and Chief Executive and the continuation of Independent Non-Executive Directors who have served more than nine years require explanation under the UK Code. Hikma is committed to an open dialogue regarding these matters. Questions may be directed to and further information may be requested from the Company Secretary. Otherwise, throughout the year and up until the date of this report, Hikma was in full compliance with the UK Code.

Chairman and Chief Executive position

The Board is aware that Said Darwazah's position as Chairman and Chief Executive is a departure from the UK Code. The Board consulted shareholders in early 2014 and fully re-considered the position during the year. The following disclosure summarises the Board's rationale. The Independent Non-Executive Directors meet twice a year to review the Board structure including consideration of whether the combined role should continue. The Independent Non-Executive Directors have concluded that the position remains appropriate.

Reasons for the decision

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

- Chairman's role: The Chairman position is highly visible inside and outside Hikma, acting as an ambassador with business partners and adviser to the divisions. It is essential the Chairman intimately understands MENA culture and has strong relationships in the region, can speak Arabic and has extensive pharmaceutical knowledge.
- Business partners: A significant number of the Company's key political and commercial relationships across the MENA region are built on the long-term trust and respect for the Darwazah family where the role of the Chairman remains key.
- Continuity of success: Said Darwazah has been a driving force behind the operational success of the business since 2007 and the Board believes that it is important to the continued success of the Group that he remains in the lead executive role.
- Succession: The Board considers that the heritage and management relationships across the Group add extra challenge to appointing an external Chief Executive, whilst ensuring shareholder value is maximised. The Chief Executive continues to develop the executives below him with a view to handing responsibilities over in the medium term.

Control enhancements

The Board has implemented the following enhancements to controls:

- Governance structure review: The Independent Directors meet at least bi-annually in a private session chaired by the Senior Independent Director. This meeting includes consideration of the appropriateness of the governance structure and safeguards for shareholders.
- Committee Chair roles: The Chairs of the Board Committees, all of whom are Independent Non-Executive Directors, undertake a significant amount of work in the oversight of the functions that report to their Committees and have in-depth relationships with the relevant executives.

- Transparency and engagement: Hikma has always had the highest regard for external shareholders. Many of the original investors from before listing still invest and support Hikma today. Over 12 years since flotation, the Company has maintained the highest standards of shareholder engagement, which is reflective of the importance placed in maintaining strong investor relations and governance. Hikma has won and been shortlisted for several transparency and governance awards.
- Expanded Senior Independent role: The Board has increased the responsibilities of the Senior Independent Director to assume joint responsibility, with the Chairman and Chief Executive, for setting the Board agenda, agreeing action points and the minutes of the meetings.

Independence

The Board considers Robert Pickering, Michael Ashton, Dr Ronald Goode, Pat Butler, Dr Pamela Kirby, John Castellani and Nina Henderson to be independent. These individuals provide extensive experience of international pharmaceutical, financial, corporate governance and regulatory matters and were not associated with Hikma prior to the listing of Hikma in 2005.

Tenure range

	Independent NED	
Tenure range	No.	Percentage
0–3 years	4	57%
4–6 years	1	14%
7–9 years	0	0%
9+ years	2	29%

The Board reviewed and considered the independence of the Non-Executive Directors during the year as part of the annual corporate governance review. It recognises that Michael Ashton and Dr Ronald Goode have served in excess of nine years and therefore this constitutes a departure from the UK Code. Michael Ashton will retire from the Board in May 2017 and Dr Ronald Goode will stand down in May 2018. Dr Ronald Goode will be handing over the Chair of the Compliance, Responsibility and Ethics Committee to John Castellani at the 2017 AGM.

The Board wishes to retain the services of Dr Ronald Goode and Michael Ashton for a time period sufficient to transfer their responsibilities and knowledge in an orderly manner whilst ensuring continuity and ongoing challenge. The Board considers this to be appropriate as Hikma is a maturing company in which historical knowledge and personal relationships are important to the successful oversight of the business.

The Board is of the view that Michael Ashton and Dr Ronald Goode remain independent because:

- Their character and the manner in which they perform their role clearly demonstrate independent thought and judgement.
- They continue to ask difficult and challenging questions of management and request additional information when required.
- None of the Independent Directors receives additional remuneration apart from Directors' fees, and they do not participate in the Group's share plans or pension schemes.
- There are no conflicts of interest between any Independent Non-Executive Directors and management or significant shareholders.

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

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

Governance report continued

Roles

The division of Board responsibilities can be summarised as follows:

Chairman and Chief Executive

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

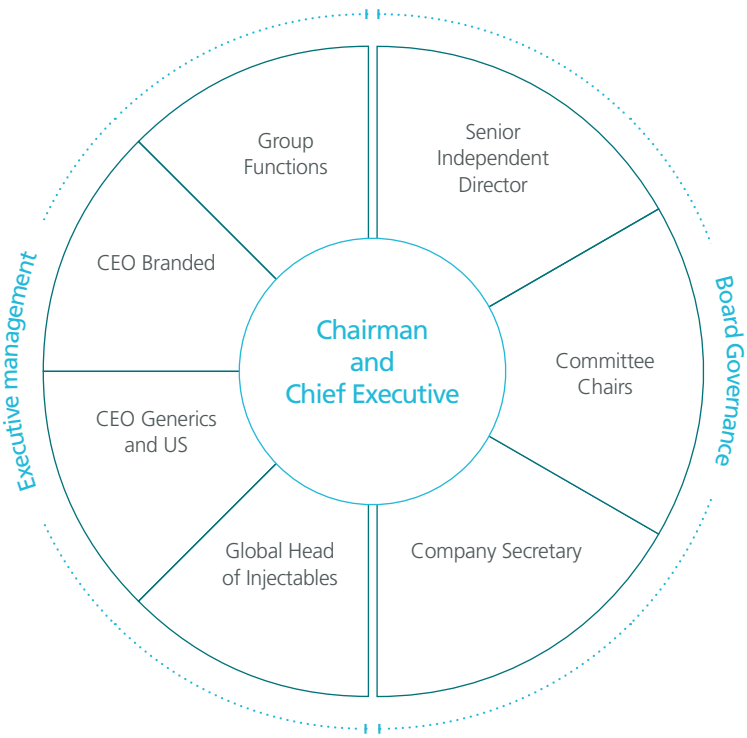
Chairman

- Being an ambassador for the Group
- Providing an appropriate environment for the Board to scrutinise and challenge the actions of management in a constructive manner
- Setting the agenda for the Board, in consultation with the Senior Independent Director
- Ensuring that the opinions of Directors and executives are fully taken into account
- Keeping the Senior Independent Director fully informed of all matters of importance to the Group
- Ensuring that the Board considers all matters that are relevant to it and has appropriate information

Chief Executive

- Providing the strategic vision and implementation capability to ensure the Company achieves its full potential
- Leading the executive team and supporting the business heads in the delivery of the divisional strategies
- Identifying and executing new business opportunities inside and outside the current core activities
- Ensuring effective implementation of Board decisions

Roles and responsibilities



Senior Independent Director

The Senior Independent Director's responsibilities include:

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

Executive Vice Chairman

When required, the Executive Vice Chairman acts as alternate to the Chairman and Chief Executive and is another point of contact and sounding board for management and Directors. The Executive Vice Chairman advances the executive agenda and supports the Chairman and Chief Executive in setting and delivering strategy. The Executive Vice Chairman has Board level executive responsibility for Hikma's Anti-Bribery and Corruption ("**ABC**"), business integrity and ethics and corporate social responsibility programmes.

Non-Executive Directors

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

Company Secretary

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

Board Committees

The Board has an extensive workload and, therefore, has delegated the detailed oversight of certain items to four Board Committees: Audit; Nomination and Governance; Remuneration; and Compliance, Responsibility and Ethics Committee ("**CREC**"). Each Committee has terms of reference which were reviewed during the year. Copies are published on the Hikma website and are available for inspection at the registered office at 13 Hanover Square, London, W1S 1HW or by contacting cosec@hikma.uk.com. The Chairs of each Board Committee report on that Committee's business at every Board meeting. The minutes of each Committee are made available to the entire Board. Each Committee is empowered to request information from management and the advice of any employee or officer, and obtain independent professional advice at Hikma's expense.

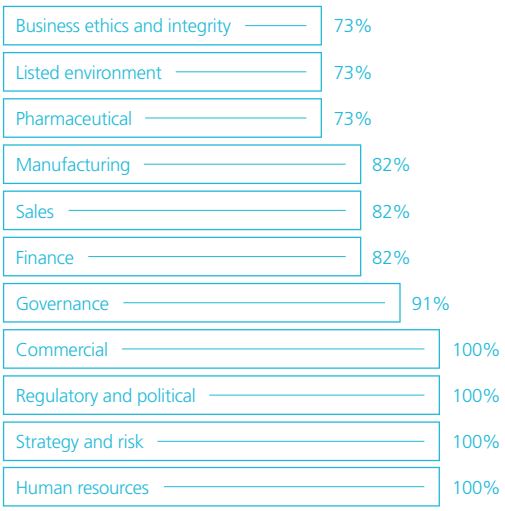
Governance report continued

Effectiveness

Skills and experience

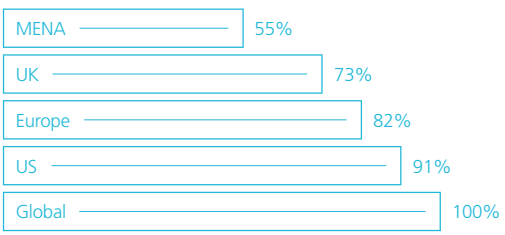
The Board keeps the skills and experience of its members under constant review. The Directors believe in the necessity for constructive challenge and debate in the boardroom and consider that existing Board dynamics and processes encourage honest and open debate with the Executive Directors.

Board experience



Country of origin

Geographical experience



Hikma knowledge

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

Training

The Chairman considers the development needs of Directors as part of his ongoing assessment of Board effectiveness and ensures that these requirements are met by the Company Secretary organising appropriate training opportunities. The Board training and development activities this year were:

- External advisers provided the Board with training sessions on governance, anti-bribery and anti-corruption, and financial reporting requirements
- Directors attended several externally provided seminars and discussion forums. Further training is scheduled for 2017
- Hikma's brokers and financial advisers presented industry and market updates to the Board on several occasions
- The Company Secretary made regular updates to the Directors on relevant regulatory and governance matters

Independent advice

The Board Governance Manual provides for any Director to have access to independent professional advice at Hikma's expense.

External commitments

The Directors' external commitments are detailed in their profiles on pages 71 to 73. The Nomination and Governance Committee operates, monitors and reviews the conflicts of interest procedures, which have operated effectively during the year. A register of external commitments is maintained by the Company Secretary and is reviewed at each Nomination and Governance Committee and Board meeting. Where new commitments are proposed, these are reviewed in advance by the Nomination and Governance Committee and, where appropriate, recommendations on necessary controls are made to the Board. The Board considers that a degree of outside commitments enhances a Director's ability to perform the role.

Time

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

Evaluation and performance

The Board re-assessed its approach to evaluation during the year. The conclusion from this exercise was that a full, externally moderated, interview-based evaluation should be conducted every three years.

Process

- The process is co-ordinated by the Senior Independent Director at the request of the Chairman
- Lintstock, an external moderator which has no other connection with the Company, led the process with a thematic questionnaire and interview process
- Lintstock reported independently to the Chairman and the Senior Independent Director
- Lintstock presented the results and findings to the full Board and provided their independent feedback on the results
- A similar process was followed for each Committee of the Board
- The results of the evaluation process formed part of the Chairman's appraisal of the overall effectiveness of the Board and its members
- Regularly during the year, the Directors fed back to the Company Secretary improvements and enhancements that they considered should be progressed outside the evaluation timetable

Elements assessed

- Board Composition, Expertise and Dynamics
- Time Management
- Board Support and Committees
- Strategic Oversight
- Risk Management
- Succession Planning and Human Resource Management
- Priorities for Change

Progress on previously identified issues

Observations	Actions taken
Independence and tenure	Following extensive work by the Nomination and Governance Committee, the Company announced the appointment of additional independent directors and confirmed the tenure of longer serving directors.
Time	The schedule of committee and board meetings was extended in order to allow further time for important business.
Strategic focus	An extensive strategic review was conducted and presented to the Board for challenge and insight. The strategic review led to the development of a new, detailed business plan.
Committee structure	The membership of board committees was extended to ensure that all relevant skills and experiences were available. The remit of the Nomination Committee was extended to provide closer oversight of governance.
Timeliness	Management reviewed their processes for board papers to ensure that directors had more time for considering issues in advance.

Governance report continued

Conclusions and actions

The Board demonstrated particular strengths in the following areas:

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

Areas where further work is being undertaken by management and the Company Secretary:

- Knowledge of European and emerging markets
- Review of past decisions
- Length of reports and presentations
- Training and development opportunities for directors
- Executive development

Chairman's appraisal

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

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

The conclusion of this process was that the Chairman gave clear leadership and direction to the Board, and that the Board is run in an appropriate and effective manner.

Responsibilities

Board responsibility

The Board is the ultimate decision-making oversight and control authority in Hikma. The Board sets the strategic direction, monitors financial performance and challenges management ideas and performance. The Board promotes good governance within the Group, and seeks to ensure that Hikma meets its responsibilities to shareholders, employees, suppliers, customers and other stakeholders. The Board is assisted in the delivery of its responsibilities by internal and external advisers:

Internal advisers

- Executive Vice Chairman, Chief Executive of MENA and Emerging Markets
- Chief Financial Officer
- CEO West-Ward Pharmaceuticals
- Chief Strategy and Corporate Development Officer
- VP Corporate Strategy and Investor Relations
- VP Human Resources and MENA Operations
- VP EU and Global Head of Injectables
- General Counsel
- Company Secretary

External advisers	Nature of advice
• Bank of America Merrill Lynch	Broker
• CenterView Partners	Investment adviser
• Citigroup	Broker
• EY	Internal auditor
• Lintstock	Board evaluation
• PwC	External auditor
• Slaughter and May	Lawyers
• Willis Towers Watson	Remuneration advisers

Matters reserved to the Board

Hikma maintains a formal schedule of matters reserved to the Board in the Board Governance Manual, which is reviewed annually. The Chief Executive is responsible for delivering Hikma's strategic and operational objectives and has authority from the Board to deliver those objectives through matters which are not reserved and where authority has been delegated specifically. The Chief Executive reports on operational progress and corporate actions to the Board at each meeting. Where appropriate, the Chief Executive is assisted by internal and external advisers in presenting operational progress and key strategic decisions to the Board.

The formal schedule of matters reserved to the Board includes the following items:

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

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.

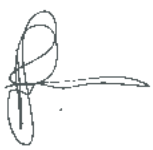
Dialogue with stakeholders

During the year the Board reviewed communications from shareholders regarding the tenure of certain Independent Directors and the disclosure and challenge in the performance targets. The Board and its committees took account of these comments through clarifying succession arrangements, strengthening performance targets and consulting with shareholders on the action taken.

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

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

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



Peter Speirs
Company Secretary

14 March 2017

INTRODUCTION TO COMMITTEES

The Board has an extensive workload and, therefore, has delegated the detailed oversight of certain items to four Board Committees and the Executive Committee of senior management.

Board Committees

The four Board Committees are:

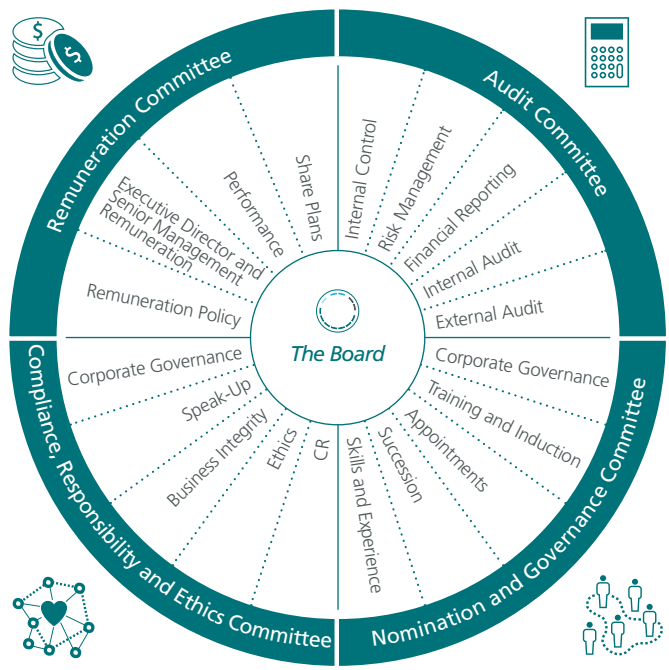
- Audit Committee
- Nomination and Governance Committee
- Remuneration Committee
- Compliance, Responsibility and Ethics Committee ("**CREC**")

Each Board Committee has terms of reference which are reviewed annually, published on the Group's website at www.hikma.com and are available for inspection at the registered office at 13 Hanover Square, London, W1S 1HW. The Chair of each Board Committee reports on that Committee's business at every Board meeting. The minutes of each Committee are made available to the entire Board. Each Committee makes a formal annual report to shareholders in the Annual Report.

Executive Committee

The Chief Executive chairs the Group Executive Committee, which develops strategic proposals to the Board, makes operational decisions and oversees risk control. This Committee is operationally supported by the Global Management Committee which is composed of executives at the level below the Executive Committee.

Board Committee responsibilities



Audit Committee

Highlights in 2016

- Oversaw West-Ward Columbus ("**Roxane**") acquisition and related accounting matters
- Moved audit from Deloitte to PwC
- Continued development of Enterprise Risk Management approach

Priorities in 2017

- Enhancing forecasting and budgeting processes
- Accounting for R&D
- Reviewing risk systems

"There were clear benefits from a fresh pair of eyes and we have developed an effective working relationship with the PwC team."

To find out more, see pages 86 to 91

Nomination and Governance Committee

Highlights in 2016

- Finalised Independent Director and chair succession
- Identified Nina Henderson as an additional Director in alignment with US expansion
- Enhanced internal governance and MAR processes

Priorities in 2017

- Progressing the matters raised by the Board evaluation exercise
- Further developing the executive succession plan

"Having made a significant number of changes over the past three years, our succession arrangements for Independent Directors are in place for the foreseeable future."

To find out more, see pages 92 to 97

Compliance, Responsibility and Ethics Committee

Highlights in 2016

- Completed ABC risk assessment
- Developed and implemented a US ABC enhancement programme
- Advanced an anti-trust, anti-money laundering and trade sanctions programme

Priorities in 2017

- Handover of chair responsibilities
- Implement and test the US ABC procedures
- Integration of global compliance

"I am delighted with the significant achievements of the Committee since it was established in 2010 to lead, develop and oversee our approach to business integrity, social responsibility and ethics."

To find out more, see pages 98 to 103

Remuneration Committee

Highlights in 2016

- Enhanced the strategic linkage and stretch of the performance criteria
- Completed the handover of the Committee Chair
- In-depth review of the remuneration policy

Priorities in 2017

- Reviewing management incentivisation
- Embedding the revised policy
- Continue to enhance performance targets

"The Committee considered that 2016 was solid, but in certain aspects challenging from a Group financial performance view, but that significant progress was made in integrating West-Ward Columbus and positioning the Group for future growth."

To find out more, see pages 104 to 135

Letter from the Chair

EMBRACING AND IMPLEMENTING CHANGE

Dear Shareholders

The completion of the West-Ward Columbus ("**Roxane**") acquisition, a change in auditors and the continued development of the Enterprise Risk Management system made 2016 a busy year for the Audit Committee.

The acquisition of Roxane was completed on 29 February 2016. Ahead of this the Audit Committee oversaw the preparation and issuance of the Class I Circular and Prospectus. After the acquisition we assessed the fair value, for accounting purposes, of the assets acquired. This involved considerable intangible assets as well as various co-development and contract manufacturing agreements. We carried out the fair value assessment at the half year and again at year end.

> "There were clear benefits from a fresh pair of eyes and we have developed an effective working relationship with the PwC team."

You will recall at the AGM last year you approved the Board's recommendation to award the audit to PwC. 2016 was accordingly a year of transition. PwC completed their review of the interim financial disclosures in August 2016 and performed a review of our internal controls, and used the learnings from both exercises to plan the annual audit in detail. There were clear benefits from a fresh pair of eyes and we have developed an effective working relationship with the PwC team.

The Committee continued its oversight of the development of our Enterprise Risk Management system. We completed a detailed review of the principal risks and approaches to mitigating them, and we reviewed the new organisational processes for measuring and managing risks in an integrated manner. Overall, I am happy to report that the Company has made real progress in this area.

Finally, this year we welcomed Nina Henderson and John Castellani to the Committee, each of whom brings invaluable expertise and insight. I would also like to thank Michael Ashton for his enormous contributions to the Committee over his tenure.

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

Pat Butler
Chair of the Audit Committee

2016 overview

2016 Highlights

- Oversaw West-Ward Columbus ("**Roxane**") acquisition and related accounting matters
- Moved audit from Deloitte to PwC
- Continued development of Enterprise Risk Management approach

2017 Priorities

- Enhancing forecasting and budgeting processes
- Accounting for R&D
- Reviewing risk systems
- Optimising internal audit

Calendar of events

Q1

- Forecast I
- Preliminary statements
- Report and Accounts
- Principal risks and uncertainties

Q2

- Audit plan
- Forecast II & IMS

Q3

- Interim dividend
- Auditor update
- Forecast III & Interim announcement and results
- Internal audit report

Q4

- Forecast IV & IMS
- Audit performance and plan
- Budget for 2017

Membership and attendance

The Audit Committee comprises seven Independent Non-Executive Directors: Pat Butler (Committee Chair), Michael Ashton, Dr Ronald Goode, Robert Pickering, Dr Pamela Kirby, John Castellani and Nina Henderson. Pat Butler, the Chair, has extensive experience of financing, accounting, risk and internal control matters from his 30 years at McKinsey and Arthur Andersen and is therefore considered to have recent and relevant financial experience. All members have spent significant portions of their careers in leading positions at financial, advisory and pharmaceutical companies.

Members	Member since	Attended	Potential	Meeting attendance
Pat Butler (Chair)	1 Apr 2014	7	7	100%
Breffni Byrne (retired 12 May 2016)	14 Oct 2005	3	3	100%
Michael Ashton	14 Oct 2005	6	7	86%
Dr Ronald Goode	12 Dec 2006	7	7	100%
Robert Pickering	1 Sept 2011	7	7	100%
Dr Pamela Kirby	1 Dec 2014	7	7	100%
John Castellani	1 March 2016	6	6	100%
Nina Henderson	1 Oct 2016	2	2	100%
Total meetings			**7**	**98%**

Allocation of time

Advisers

Internal	External
• Chief Financial Officer	• PricewaterhouseCoopers LLP (Auditor)
• VP Corporate Strategy and Investor Relations	• EY (Internal Audit)
• Company Secretary	
• Group Financial Controller	

Responsibilities

The Audit Committee assists the Board in discharging its responsibilities for financial reporting, external audit, internal audit, internal control and risk management. The Committee reviews Hikma's Annual Report, financial statements, interim reports, trading updates and monitors all audit and non-audit work undertaken by external auditors. It considers the significant accounting judgements underpinning the financial statements. It also monitors the effectiveness and output of Hikma's internal and external audit activities, internal controls and risk management systems. The Audit Committee advises the Board on the appointment, re-appointment and removal of the external auditors, as well as the effectiveness of the audit process. The Audit Committee terms of reference include all matters prescribed by the Code and clearly set out its authority and duties. They are reviewed by the Board on a regular basis and are available on the Hikma website, at the registered office at 13 Hanover Square, London, W1S 1HW and by contacting cosec@hikma.uk.com.

Significant accounting judgements

During 2016 and up until the date of this report, the Audit Committee considered and discussed the following financial matters:

- Fair value of assets acquired: The Committee reviewed and challenged management's estimates of the fair values of assets and liabilities acquired as part of the Roxane acquisition and thus the opening balance sheet. This included a range of intangible assets related to product rights, products under development, co-development agreements and contract manufacturing agreements.
- Goodwill and intangibles: The Committee reviewed management's forecasts for launching new products and revenue expectations, and evaluated the implications of these forecasts for the carrying value of product-related intangibles. The Committee considered the accounting policies and their practical implementation through management's impairment analysis and associated judgements. This included a review of the accounting approach to co-development agreements.
- Revenue recognition: The Committee reviewed the judgements of management regarding revenue recognition for significant products where the potential for returns and rebates was high. The Committee was satisfied that the review by management validated the approach to revenue recognition and took account of changes in the environment for those products during the year. The Committee considered the results of an internal investigation into revenue recognition and returns procedures in Algeria which resulted from a whistleblower report and concluded that there were no such accounting issues, but certain wholesaler contractual and procedural enhancements were implemented.
- Taxation: The Group's worldwide operations are highly integrated and involve a number of cross-border transactions. There is complexity and judgement in estimating the potential tax liabilities in various jurisdictions. The Committee reviewed the appropriateness of the disclosures in the Annual Report and considered the advice from professional services firms and management in this regard.
- Accounts receivable and inventory: The Committee reviewed the reports on major receivables and inventory provisions. The Committee considered management's valuation of inventory, plans to ensure payment and relevant provisions.
- Asset impairment: The Group has significant investment in fixed assets. The Committee monitored the application of the Group's policies in relation to impairment and valuation of those assets and considered and challenged management's recommendations regarding the appropriate impairment.
- Rebates and chargebacks: The Committee assessed the reports on the processing of chargebacks and rebates in the US. This is a highly judgemental area and applies to a significant proportion of Group revenue. The Committee considered the control and modelling environment and the appropriateness of associated provisions.
- Going concern: The Committee assessed the going concern position when preparing the annual and half-yearly financial statements. The Committee took into account Hikma's forecasts and budget, borrowing facilities, contingent liabilities, medium and long-term plans, and financial and operational risk management.
- Viability: The Committee received the medium-term business projections and considered the scenarios that could impact those projects and the ability of the Company to remain viable.

Fair, balanced and understandable

Hikma is committed to clear and transparent disclosures and seeks to continuously improve the clarity of its reporting. In producing the Annual Report, management, the auditors and the Committee aim to ensure that the disclosures are in clear language, reflect the underlying situation and that appropriate information is disclosed.

At the request of the Board, the Audit Committee considers whether Hikma's Annual Report is fair, balanced and understandable and whether it provides the necessary information for shareholders and stakeholders to assess Hikma's position, performance, business model strategy and associated risks. The Committee's assessment is underpinned by a comprehensive review conducted by a committee of senior management (the "**Reporting Committee**"), which consists of the:

- Chief Financial Officer
- Vice President, Corporate Strategy and Investor Relations
- Company Secretary
- General Counsel
- Vice President for Corporate Affairs
- Deputy Director of Investor Relations
- Vice President for Human Resources and MENA operations*
- Divisional Heads*
- Group Financial Controller*
- Chief Compliance Officer*

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

The Reporting Committee, which meets regularly during the year:

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

The Audit Committee closely oversees the work of the Reporting Committee, which is responsible for ensuring the accuracy of the information submitted in the Annual Report and assessing whether the narrative section of the report is consistent with the accounting information. Each of the members of the Audit Committee and the Reporting Committee was satisfied that the 2016 Annual Report is fair, balanced and understandable and recommended the adoption of the report and accounts to the Board.

External audit

The external audit was undertaken by PricewaterhouseCoopers LLP ("**PwC**"). Mr Charles van den Arend, the senior statutory auditor, assumed responsibility in May 2016 following the appointment of PwC by shareholders. As in previous years, the Committee maintained regular contact with the auditors throughout the year. The Committee regularly reviews the work of the external auditors and undertook an assessment of the auditors' performance and independence and in doing so examined the following issues during the year:

Audit quality and technical capabilities

The Committee evaluation process includes an assessment of the work of the auditors. The Committee formally reviewed the quality of the 2015 audit conducted by Deloitte and concluded that the team conducted an effective audit, with appropriately skilled staff.

The Committee feeds back its comments on the auditors' performance as part of the regular meetings it has with them without management present, and believes that there is a strong, appropriate and open relationship between the audit team leadership, the Audit Committee and management. The FRC's corporate reporting review team reviewed the tax disclosures in Hikma's 2015 financial statements and did not raise any concerns or observations.

Independence

The Committee's policy is that the external auditors should not undertake any work outside the scope of their annual audit in order to maintain auditor independence. The Committee has discretion to grant exceptions to this policy where it considers that exceptional circumstances exist and that independence can be maintained. The Committee regularly reviews the independence safeguards of the auditors and remains satisfied that auditor independence has not been compromised.

During 2015 and early 2016 the Company's previous auditors, Deloitte LLP, undertook certain assurance work related to the production of a shareholder circular and prospectus for the Class 1 acquisition of Roxane Laboratories. In advance of any instruction, the Committee reviewed the scope of this work and was satisfied that it was assurance related in its nature, required an in-depth knowledge of the Company and its financial procedures, had to be conducted relatively quickly and that the independence of the auditors could be assured. The Committee approved the use of Deloitte LLP for this work.

PwC provided tax advisory and remuneration services to the Group prior to their appointment as auditors in May 2016 and have now ceased providing these services. PwC completed their work and assisting with certain tax projects by July 2016.

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

Competition and Markets Authority ("**CMA**")

The Audit Committee has complied with the CMA order relating to the provision of statutory audit services. A competitive audit tender process was undertaken in 2015 and the Committee's responsibilities and powers include those detailed in the CMA order.

Risk and associated disclosures

Readers are directed to the risk and control disclosures as follows:

- Principal risks and uncertainties on pages 54 to 57
- Risk management on page 58
- Internal control on pages 58 to 59
- Internal audit on page 59
- Viability on page 60

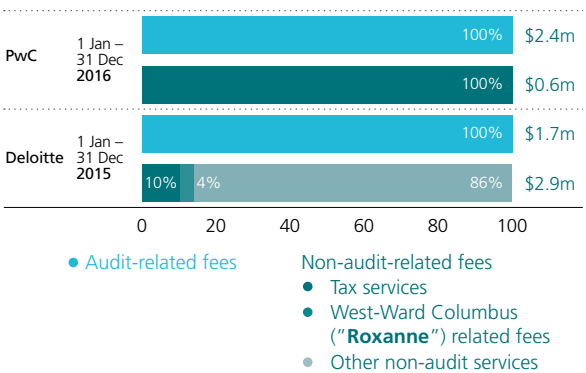
For and on behalf of the Audit Committee

Pat Butler
Audit Committee Chair

14 March 2017

Auditors' fee ($ million)

$3.0m



- Audit-related fees

Non-audit-related fees
- Tax services
- West-Ward Columbus ("**Roxanne**") related fees
- Other non-audit services

External auditor transition

The appointment of PricewaterhouseCoopers LLP ("**PwC**") was approved by shareholders at the 2016 Annual General Meeting following a rigorous tender selection process. The proposed change in auditor was first communicated to shareholders in September 2015. The intervening period was used to ensure a smooth handover process from Deloitte LLP, the previous auditors. The Committee has overseen the transition of the external audit work to PwC through a number of activities:

Auditor independence

The Committee reviewed the policies and procedures in place to safeguard PwC's independence and objectivity prior to the commencement of their audit. The Committee also implemented a new policy to prohibit any non-audit services to ensure that there was no impact on the audit service or PwC's independence.

Shadowing Deloitte

PwC shadowed Deloitte through areas of the 2015 year-end audit to support their understanding of the process and procedures involved. This allowed PwC to carefully observe and establish roles during this phase.

Induction

PwC underwent a thorough induction process to enhance their understanding of the business and become more familiarised with Hikma. This included meetings with Directors and management across the business with a number of site visits to international operations including Portugal, US and Jordan.

Audit plan

PwC shared a detailed audit plan as part of the tender process, setting out the scope and objectives of the audit together with an overview of the planned approach, an assessment of the Group's risk and controls, and proposed areas of audit focus. This detailed planning allowed for a seamless issue-free transition.

Transitional workshops

Workshops were held in a number of jurisdictions between the PwC audit team and departments throughout the Hikma Group to assist with the development of the audit plan and outline key milestones and objectives for the transition process.

Hikma Academy

PwC rolled out an extensive training programme and assessment for their global audit team. This was to ensure that their team was provided with relevant pharma training, were well equipped for the audit and had a deep understanding of Hikma's business, risks and policies.

Following the transition activities, the Committee considered that PwC was well-positioned and appropriately informed in undertaking their first full-year audit for 2016. The Committee considered that PwC's efforts and Deloitte's assistance had been invaluable for achieving an efficient and effective handover.

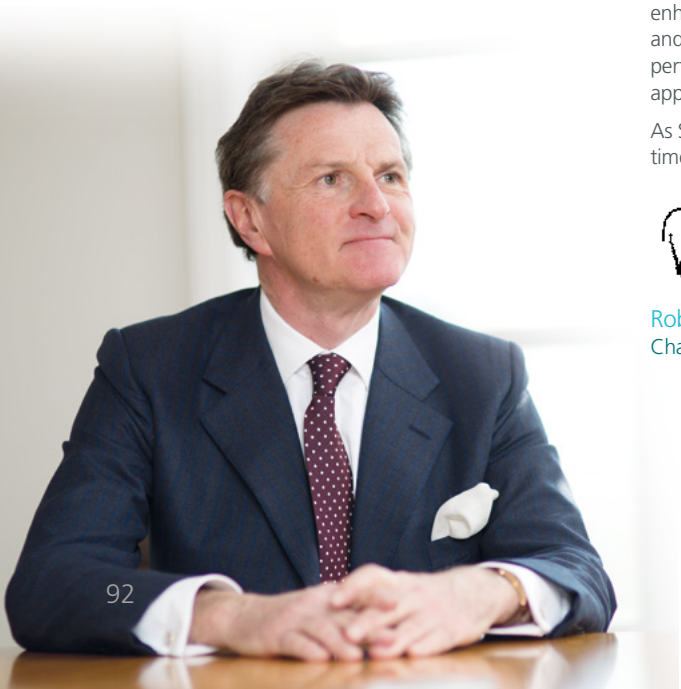
Letter from the Chair

DIVERSITY AND BALANCE ACROSS THE BOARD

Dear Shareholders

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

During the year we communicated our medium-term succession plan for Independent Directors, which involves the retirement of Michael Ashton in May 2017 and Ron Goode in May 2018. In accordance with our approach that has been in place for several years, we have allowed time for the orderly transfer of Ron's CREC responsibilities to the new chair, John Castellani. We also completed the process for identifying and appointing an additional Independent Director, which resulted in Nina Henderson joining the Board. Having made a significant number of changes over the past three years, our succession arrangements for Independent Directors are in place for the foreseeable future.



"Having made a significant number of changes over the past three years, our succession arrangements for Independent Directors are in place for the foreseeable future."

The Committee continues to give due consideration to succession for the Executive Directors, including reviewing the development needs of internal candidates and considering the critical aspects of undertaking an external search. Whilst executive succession is not an immediate concern, it is something that we monitor carefully and for which we have made appropriate plans.

The Committee has undertaken extensive governance activities during the year, including the annual review of our entire governance framework and extensive procedural changes and enhancements resulting from the Market Abuse Regulation. Following a review, we decided that the Board evaluation process should be enhanced through externally facilitated interviews and more in-depth assessment of the Chairman's performance. We implemented changes to our appraisal process early in 2017.

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

Robert Pickering
Chair of the Nomination and Governance Committee

2016 overview

2016 Highlights

- Implemented our medium-term Independent Director succession plan
- Undertook a non-executive search process leading to the appointment of Nina Henderson
- Inducted three new Non-Executive Directors
- Enhanced Board gender diversity
- Reviewed and upgraded the Board evaluation programme
- Initiated a transition process for the Compliance, Responsibility and Ethics Committee Chair
- Enhanced the Company's internal governance and MAR processes

2017 Priorities

- Progressing any matters raised by the Board evaluation exercise
- Further developing the executive succession plan

Calendar of events

Q1

- Director search
- Report to shareholders
- Board evaluation
- Annual governance review

Q2

- Director search
- US NED appointment
- Governance processes enhancements

Q3

- Board and Committee structure review
- NED re-appointments and Director search
- Governance processes enhancements

Q4

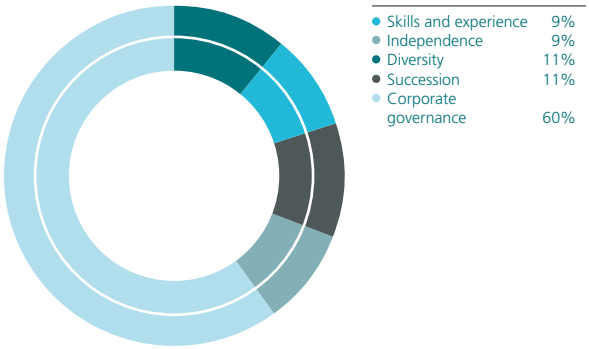
- Board evaluation review
- Training

Membership and attendance

The Nomination and Governance Committee consists of five Directors. Four are Independent Non-Executive Directors: Robert Pickering, who is the Committee Chair, Michael Ashton, Pat Butler and Nina Henderson. The fifth is Mazen Darwazah, the Executive Vice Chairman. The Committee met four times during the year.

Members	Member since	Attended	Potential	Meeting attendance
Robert Pickering (Chair)	1 Sep 2011	4	4	100%
Michael Ashton	14 Oct 2005	3	4	75%
Pat Butler	1 Apr 2014	4	4	100%
Nina Henderson	1 Oct 2016	1	1	100%
Mazen Darwazah	14 Oct 2005	4	4	100%
Total meetings			**4**	**95%**

Allocation of time



Advisers

Internal	External
• Chairman and Chief Executive	• Odgers Berndtson
• VP Human Resources and MENA Operations	• Lintstock
• Company Secretary	

Responsibilities

The Nomination and Governance Committee is responsible for corporate governance and succession planning, including the progressive refreshing of the Board and reviewing the appropriateness of the size, structure and composition of the Board. The Nomination and Governance Committee also operates, monitors and reviews the conflicts of interest procedures, which have operated effectively during the year. The Nomination and Governance Committee terms of reference include all matters prescribed by the Code and clearly set out its authority and duties. They are reviewed by the Board on a regular basis and are available on the Hikma website, at the registered office at 13 Hanover Square, London, W1S 1HW and by contacting cosec@hikma.uk.com.

Diversity

Diversity policy

Hikma is committed to employing and engaging the best people, irrespective of background, gender, orientation, race, age or disability. Since its founding, Hikma continues to have excellent diversity in terms of culture, age, background, skills and experience.

Gender diversity

Hikma has a long history of a significant number of women holding executive management positions, a number of whom have worked for the Company for the majority of their careers (see pages 74 to 75 for the Executive Committee membership).

Hikma continues to promote gender diversity through the Women Entrepreneurs' Day (WED), a United Nations event aimed at celebrating, empowering and supporting women in business worldwide. A number of senior Hikma women were speakers at a WED held in Jordan.

The Committee considered Board diversity at several stages through 2016 and appointed a second female Director during the year under review. The Committee considers that it would be appropriate to improve further gender diversity and will seek to do so as succession opportunities arise. The Committee only engages executive search firms who are signatories to the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice.

Ethnic diversity

Hikma grew from a Jordanian, to a regional and then global company. Partly as a result of its heritage, Hikma has staff from all over the world at every level of seniority. Hikma has used the Parker Reviews' definitions in order to provide the graphical detail in the ethnicity charts below.

Succession

Planning

As in previous years, the Committee continued its work on planning for executive succession. The Committee reviewed the executives' assessment of senior management's capabilities and development needs to ensure that there is a sufficient pipeline for executive positions. The Committee is pleased to report that the succession plans for executives are appropriate.

The Company communicated its medium-term succession plan for Non-Executive Directors to investors on 20 September 2016. This plan provides for the retirement of Michael Ashton in May 2017 and Dr Ronald Goode in May 2018, as well as the transfer of their respective Committee responsibilities. The medium-term succession plan, which was implemented during 2016, allows for the gradual rotation of Independent Non-Executives and for a full induction and the transfer of knowledge and relationships.

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

The medium-term plan allows for the orderly transition of Committee chairmanship roles, allowing time to ensure that all parties on the Board from management are prepared for the change.

In terms of the process for identifying candidates, the Committee has the necessary authority to advance the search process to the point when a shortlist of candidates or a candidate is proposed to the Board.

The Nomination and Governance Committee undertook a process to identify a candidate to join the Board as an additional Independent Non-Executive Director, which can be summarised as follows:

- The Senior Independent Director, in consultation with the Chairman and Chief Executive with the assistance of the Company Secretary, established a role and experience profile for the position of Non-Executive Director
- A draft profile and the key characteristics and experience required were discussed by the Nomination and Governance Committee
- Following an assessment of the executive search market, Odgers Berndtson was appointed to identify candidates who met the role profile
- An extensive list of candidates was identified by Odgers Berndtson and a shortlist was created through discussions with the Senior Independent Director and other committee members
- The Senior Independent Director and other Committee members met the shortlisted candidates, discussed their impressions at the Nomination and Governance Committee and made recommendations
- A second round of meetings was undertaken with the Chairman and Chief Executive and the Vice Chairman
- Following a full induction process and Nina Henderson confirming her desire to join the Board, the Committee recommended the appointment of Nina Henderson to the Board

Odgers Berndtson, the search adviser, did not and does not have any further connection with the Company.

Board review

Skills and experience

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

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

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

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

For further information on the diverse skills and experience of our current Directors, please see the biographical details on pages 71 to 73.

Chairman and Chief Executive

The Committee and the Independent Non-Executive Directors keep under review the position of Chairman and Chief Executive and the governance safeguards that were implemented at the time of the combination of roles in May 2014 (a full rationale and process is included in the 2013 Annual Report on pages 63 to 64, a summary version is included in this report on pages 76 to 77). The Independent Non-Executive Directors met regularly during the year without management present and discussed, amongst other issues, the safeguards and functioning of the Board. The Independent Directors considered that the safeguards are effective and that the combined position continued to be appropriate. The Committee noted the Independent Directors' position and concluded that the combined position continues to be appropriate.

Election and re-election

Each member of the Board will stand for election or re-election at the 2017 AGM, with the exception of Michael Ashton who will step down at the close of the 2017 AGM. The positions of each Board member were considered in detail during the year as part of the review of succession arrangements, consideration of independence issues, the Board and Committee evaluation processes and the ongoing dialogue between the Chairman and the Senior Independent Director.

Governance

The Committee has full responsibility for governance matters for the Board. This includes the annual process of reviewing the procedures in the Board Governance Manual, the compliance with the UK Code, and considering the governance agenda for the following year. The Committee also keeps abreast of governance developments throughout the year and makes adjustments in an orderly manner. During the year, the Committee strengthened the internal governance processes to take account of the Market Abuse Regulation.

For and on behalf of the Nomination and Governance Committee

Robert Pickering
Nomination and Governance Committee Chair

14 March 2017

Case study – Nina Henderson induction

Nina joined the Board as part of the Independent Director Succession Plan. This is her induction story…

Tailored

The induction programme was tailored to Nina. Nina holds and has held non-executive positions in other UK listed entities. Therefore, the induction was focused on the Company's performance, structure, business operations, financial and board governance processes.

Strategy

Nina met with the Chairman and Chief Executive in order to understand the structure and strategic direction of the Group.

Finance

Prior to joining the Board Nina discussed the financial performance and procedures of the Company with the Chief Financial Officer. Additionally, she met with the senior statutory auditor.

Briefing

In order for a potential director to fully understand the duties and responsibilities that are being undertaken, all directors receive an induction briefing in advance of a formal proposal being made to the Board. Nina's briefing was undertaken by the Company Secretary prior to joining the Board. All briefing papers were made available in advance and requests for additional information were met immediately afterwards.

Structure

The induction briefing was structured into four key areas:

Director duties and the Listing Rules

The legal framework of the UK is substantially different from that of the US. Nina currently holds a non-executive position in another UK listed entity, and therefore a refresher of the concepts around duties of directors and the nature of the legal entity legislation and regulation in the UK were explained.

Board governance and procedures

The internal Board Governance Procedures for the operation of the Board, Committees and administration of Directors were explained, including formalities regarding the appointment process, announcements and associated documentation.

Company overview

A detailed overview of the Company was presented to Nina covering matters such as the business and organisational structure, operational areas, activities, internal risk processes and shareholdings. Additionally, an explanation of the markets in which the Company operates was also given, with a particular focus on those more established such as the US and MENA regions.

Site visits

Nina developed a near-term plan to visit the major facilities in addition to the Board calendar.

Letter from the Chair

AN INTEGRITY AND DEVELOPMENT JOURNEY

Dear Shareholders

This is my final letter to you as Chair of the Compliance, Responsibility and Ethics Committee. Whilst we are continuing on a journey and there is further to go, I am delighted with the significant achievements of the Committee since it was established in 2010 to lead, develop and oversee our approach to business integrity, social responsibility and ethics.

Since formation, the main focus of the Committee has been formalising, developing and implementing an ABC business integrity programme based on a thorough risk assessment and understanding of our business. We started with our founder's commitment to always doing the right thing and developed that into a global compliance department with fully implemented and externally assessed ABC procedures. There are many people who have made the ABC programme a success and I would particularly like to thank my colleagues Mazen Darwazah, Peter Speirs, Waleed Hamam, former colleague, Othman Abu Gheida, and the individual compliance officers who have worked so hard to ensure that ethical integrity, which has always been the basis of Hikma's operations, is formalised into fully implemented, high-quality and appropriate policies, procedures and training programmes.

> "I am delighted with the significant achievements of the Committee since it was established in 2010 to lead, develop and oversee our approach to business integrity, social responsibility and ethics."

The Committee has had the advantage of Hikma's long-standing dedication to the communities in which it operates, which are brought together under our Corporate Social Responsibility programme. The Committee has overseen, encouraged and supported this programme which is so clearly linked to our founder's desire to improve lives, particularly through educational and development opportunities for the least privileged. The Committee has addressed a wide range of ethical considerations and developed practices to ensure that Hikma does the right thing.

Whilst we have come far, there is more work to do to further embed and enhance these programmes. John Castellani and I have been implementing our plan to transfer my chair responsibilities during the past year and to ensure that he is best placed to lead the Committee going forward.

I would like to thank all those involved for their commitment and hard work that has made a success of the Committee's vision.

Dr Ronald Goode
Chair of the Compliance, Responsibility and Ethics Committee

2016 overview

2016 Highlights

- Completed the re-assessment of ABC risk and verified procedural implementation
- Developed and implemented an ABC programme for the US operations
- Developed a compliance online training tool for all employees
- Became a strategic health partner at the World Economic Forum
- Developed the human dignity programme
- Advanced an anti-trust, anti-money laundering ("**AML**") and trade sanctions programme

2017 Priorities

- Handover of chair responsibilities
- Implement and test the US ABC procedures
- Integration of global compliance
- Company-wide compliance online training
- Further promote our human dignity programme

Calendar of events

Q1

- ABC & CR update
- Shareholder report
- US ABC assessment progress

Q2

- ABC update
- CR update
- US ABC assessment

Q3

- Anti-trust, AML and trade sanctions
- Group and ABC risk assessment report
- US ABC strategy
- Group compliance and speak-up

Q4

- Group compliance and speak-up
- CR update
- US ABC enhancement update

Membership and attendance

The Compliance, Responsibility and Ethics Committee ("**CREC**") consists of five members. Four are Independent Non-Executive Directors: Dr Ronald Goode (Committee Chair), Pat Butler, Dr Pamela Kirby and John Castellani (Chair designate). The fifth member is the Executive Vice Chairman, Mazen Darwazah, who champions Hikma's Anti-Bribery and Corruption ("**ABC**"), Corporate Responsibility ("**CR**") and human dignity programmes. The CREC met six times during the year, and full attendance was achieved. As the CREC is not a committee mandated by the Code, its membership is not subject to published requirements. However, Hikma believes that the requisite challenge to operational effectiveness is achieved by having an Independent Non-Executive Director membership majority. The Chairmanship of the CREC is held by an Independent Non-Executive Director, Dr Ronald Goode. John Castellani, the Chair designate, is an Independent Non-Executive Director and will take the Chair from the 2017 AGM. The Chair of the Audit Committee is a standing member.

Members	Member since	Attended	Potential	Meeting attendance
Dr Ronald Goode (Chair)	1 Nov 2010	6	6	100%
John Castellani (Chair designate)	1 Mar 2016	4	4	100%
Mazen Darwazah	1 Nov 2010	6	6	100%
Pat Butler	1 Apr 2014	6	6	100%
Dr Pamela Kirby	1 Dec 2014	6	6	100%
Breffni Byrne (retired 12 May 2016)	1 Nov 2010	2	2	100%
Total meetings			**6**	**100%**

Allocation of time

Advisers

Internal	External
• Chief Compliance Officer	• Good Corporation
• VP for Corporate Communication	• Ernst & Young
• General Counsel	
• Company Secretary	

Responsibilities

The CREC sets the overall strategy for the Group's response to anti-money laundering, bribery, corruption and trade sanctions risks and is responsible for approving the contents of all of Hikma's policies in areas where ethical judgements are important. The CREC oversees the Group's ABC compliance programme, policies on ethics and business conduct and the development of the Code of Conduct (the "**Code**"). The CREC also oversees Hikma's speak-up process for employees to raise ethical concerns, and, where relevant, oversees their investigation. The CREC reviews and monitors policy in the area of Corporate Responsibility ("**CR**") at Board level. The CREC's terms of reference are available on the Hikma website, at the registered office at 13 Hanover Square, London, W1S 1HW and by contacting cosec@hikma.uk.com.

Anti-Bribery and Corruption (ABC)

Top level commitment, from the beginning

Since its foundation, Hikma has and continues to be committed to the highest standards of integrity and ethics in the conduct of its business. Hikma has communicated its zero tolerance of bribery and corruption to its employees and made sure that they are aware that Hikma will not penalise any individual for complying with the principles enshrined in the Code or in the ABC policies, even at the cost of forgoing a business opportunity, losing revenue or profit or disobeying a superior's instructions. Hikma disciplines staff for any ethical breaches of its standards of integrity.

Hikma is a founding member of the World Economic Forum's Partnering Against Corruption Initiative ("**PACI**"), the leading business driven global anti-corruption initiative which was formed in 2004 by a group of chief executives from different industries. PACI is one of the Forum's strongest cross-industry collaborative efforts and is creating a highly visible, agenda-setting platform by working with business leaders, international organisations and governments to address corruption, transparency and emerging-market risks. Under the leadership of PACI Vanguard Chief Executives, the community is expanding rapidly and now focuses on implementing a global anti-corruption agenda.

Strategy and resources

During the year, the compliance department continued to implement the medium-term global strategy for the delivery of the commitment to business integrity and ABC. Hikma has a framework that sets out the structure of leadership, delegated authority and ownership for the ABC compliance programme.

Operational responsibility and oversight for ABC is assigned by the Board to the Executive Vice Chairman, who then delegates responsibility to his management team. The Chief Compliance Officer ("**CCO**") reports directly to the CREC on ABC matters. The CCO's leadership of ABC issues is overseen by the CREC Chair and the Executive Vice Chairman. The head of each business division has taken responsibility to be the compliance champion for their division:

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

The CCO is supported by Group and regional compliance officers at the operational level. The legal, HR, financial and company secretarial departments also advise and provide implementation support to the compliance department.

Case study – US ABC risk assessment and process enhancements

Introduction

Hikma engaged GoodCorporation, recognised worldwide as one of the leading organisations working in the field of corporate responsibility and business ethics, to conduct a risk assessment that would provide a benchmark and goals to improve Hikma's Anti-Bribery and Corruption ("**ABC**") programme. They have worked with over 100 clients, including 17 from the FTSE 100, in more than 60 countries, and the Committee believes them to be extremely well qualified to advise us.

During 2015, the Committee instructed an independent assessment of each site. The US process was put on hold pending the acquisition of Roxane in early 2016. This assessment was completed during the year.

Risk assessment process

The regional compliance officer for each site was responsible for delivering the requirements of GoodCorporation. At the conclusion of each assessment a presentation was made to the senior team, Chief Compliance Officer and regional officer, highlighting the areas where significant progress had been made and establishing a road map for the future. During the process the Chairman of the CREC received regular updates both from the Company Secretary and GoodCorporation.

1. Risk assessment outcome

The overall conclusion from the US exercise was that good progress had been made since the previous visit, but that significant further enhancements were in development which could further raise the level of achievement. GoodCorporation developed an action plan to ensure maximum enhancements.

2. Development

The US compliance team used the GoodCorporation action plan and the advice of US legal experts to develop full ABC procedures that met the requirements of the US and UK legislation.

3. Implementation

The US compliance team implemented their procedures through working closely with relevant departments, training workshops and communications. The US Chief Executive ensured that the US compliance team reported directly to him, in order to ensure that successful implementation could be achieved rapidly.

4. Verification exercise

The CREC instructed GoodCorporation to revisit the US operations to test the implementation of the revised procedures and assess the level of achievement. The Committee was delighted to report that, as a result of work over an intensive, eight month period, the US ABC practices were considered to be very strong.

Training

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

During 2016, the Compliance Department developed an online training tool for ABC issues, which is supported by a commitment from the Chief Executive that all employees and officers of the Group will undertake that training.

Procedures

Hikma has developed, implemented and independently tested a full suite of ABC procedures across all its global operations. The procedures require significant efforts on the part of operational, financial and sales and marketing personnel, overseen by the regional compliance team. The Group's internal audit plan, under the direction of the General Counsel, verifies the effectiveness of the ABC procedures and recommends improvements, where required.

Anti-trust, AML and trade sanctions

The General Counsel oversees the Group's compliance within the anti-trust, anti-money laundering and trade sanctions legislation and reports to the Committee in this regard. The Group has established extensive policies and procedures to ensure compliance which have been reviewed by the Committee during the year.

Responsibility and ethics

Code of Conduct

The CREC is responsible for the Group Code of Conduct, which is reviewed and compared to comparable international companies regularly. The Code is available in all of the major languages in which the Company conducts business: Arabic, English, French, German, Portuguese, Italian and Russian. Each year all Hikma employees are required to confirm that they have read the Code, have understood it and will abide by its terms. The training plan for the Code includes face-to-face training for top managers, and training and discussion sessions at department level for employees and lower management. The Code is available on our website: www.hikma.com/en/sustainability/Code-of-conduct.html.

Speak-up

Hikma has an open-door policy regarding communication so that it can hear from those who have any questions or concerns about the ethics and integrity of the business. Where employees believe that it is not possible or appropriate to report to line management, they may make reports confidentially to any senior manager within the business. Additionally, Hikma has anonymous web and telephone reporting lines in place across all operations, which report directly to the compliance department and Chair of the CREC.

The Company has established a committee of senior group employees representing the compliance, legal and human resources functions. This committee is responsible for investigating and approving appropriate action in relation to all speak-up incidents.

As part of their commitment to the Code, employees understand that they have a duty to report any suspected violations. The Company remains satisfied that the policy and procedures enable proportionate and independent investigation of matters raised including non-compliance and that appropriate follow-up action is taken.

Compliance with the UK Modern Slavery Act ("**MSA**")

Hikma is committed to ensuring that modern slavery in the form of forced or compulsory labour and human trafficking does not take place in any of its businesses or supply chains across the globe. Key measures in support of this goal include training Hikma staff on labour standards and how to recognise and respond to any incidences of modern slavery, undertaking periodic analysis and management of any modern slavery risk in Hikma's businesses or supply chains, carrying out appropriate due diligence and engaging on the issue with supply chain partners.

Corporate responsibility

The Executive Vice Chairman is the champion of Hikma's CR programme within the Company and chairs Hikma's CR Committee. The VP of Corporate Communication is responsible for CR at an operational level. The CR team, led by the VP of Corporate Communication, regularly presents developments to the CREC which, during the year under review, included:

- Developed the Human Dignity programme
- Joined the FTSE4Good index
- Upgraded greenhouse gas reporting capabilities
- Fully integrated the US CR activities within the Group CR programme
- Strategic health partner at the World Economic Forum
- Continued commitment to the UN Global Compact

Further details are available in the Sustainability report on pages 38 to 51.

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

Dr Ronald Goode
CREC Chair

14 March 2017

Letter from the Chair

REMUNERATION, PERFORMANCE AND STRATEGIC ACHIEVEMENT

Dear Shareholders

I am delighted to be writing to you for the first time in my role as Chair of the Remuneration Committee. My first year has been focused on assessing the existing remuneration arrangements, developing the remuneration policy for the future and building the internal team. We spent significant time and resource assessing the adequacy of our existing remuneration arrangements and considering whether our remuneration policy should be adjusted. We concluded that the policy, which has been developed over the past few years, is tailored to the Company and we are, therefore, recommending minimal changes.

The main area of policy change, which was raised by shareholders and we have addressed in these disclosures, is improving the linkage between performance remuneration outcomes and the Group's strategic objectives, as well as enhancing the stretch in those targets. The targets that impact this year's and future years' performance remuneration have been set to direct the executives to achieve the matters of greatest importance identified in the strategic review, which centres on product development and aligning the organisational structure with that strategy.

> "The Committee considered that 2016 was solid, but in certain aspects challenging from a Group financial performance view, but that significant progress was made in integrating West-Ward Columbus and positioning the Group for future growth."

The Committee has reviewed the overall level of executive packages and considers that the existing packages are appropriate, taking into account comparable positions, performance, the business environment and the Group's approach to remuneration below the Board level. The Committee is not proposing to adjust packages significantly.

The Committee considered that 2016 was solid, but in certain aspects challenging from a Group financial performance view, but that significant progress was made in integrating West-Ward Columbus and positioning the Group for future growth. Therefore, the performance remuneration outcomes were measured on target in relation to the financial metrics, but considered above target overall for the strategic measures.

Nina Henderson and Pat Butler joined the Committee during the year, ensuring that all the Independent Directors contribute towards remuneration discussions. I welcome them to the Committee.

Over the course of the next year we will embed the executive policy and review incentivisation for management below the Executive Committee level.

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

Dr Pamela Kirby
Chair of the Remuneration Committee

2016 overview

2016 Highlights

- Enhanced the strategic linkage and stretch of the performance criteria
- Undertook an in-depth review of the remuneration policy
- Considered and responded to issues raised by shareholders
- Inducted Willis Towers Watson as the new remuneration advisers
- Successful transition of the Committee Chair from Michael Ashton to Dr Pamela Kirby
- Enhanced the performance criteria for the Executive Incentive Plan

2017 Priorities

- Reviewing management incentivisation
- Embedding the revised policy
- Continuing to enhance performance targets
- Developing management incentives
- Engaging with employees and stakeholders

Calendar of events

Q1

- Executive performance
- Executive remuneration
- EIP award
- Remuneration adviser tender

Q2

- Market update
- EIP and MIP award
- Management succession
- Termination policy

Q3

- Remuneration policy review
- Executive objectives

Q4

- Executive benchmarking
- Executive objectives
- Shareholder consultation

Membership and attendance

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

Members	Member since	Attended	Potential	Meeting attendance
Dr Pamela Kirby (Chair)	1 Dec 2014	7	7	100%
Michael Ashton	14 Oct 2005	6	7	86%
Dr Ronald Goode	12 Dec 2006	7	7	100%
Robert Pickering	1 Mar 2014	7	7	100%
John Castellani	1 Mar 2016	6	6	100%
Pat Butler	20 Sep 2016	2	2	100%
Nina Henderson	1 Oct 2016	2	2	100%
Breffni Byrne (retired 12 May 2016)	14 Oct 2005	3	3	100%
Total meetings			**7**	**98%**

Allocation of time

Advisers

Internal	External
• Chairman and Chief Executive	• Willis Towers Watson
• VP Human Resources and MENA operations	
• Company Secretary	

Remuneration and performance summary

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

Performance components

	2015		2016	
Sales	$1,440m	35%	**1,950m**	
Profit	$355m	1%	**$359m**	
Share price	2,301p	-18%	**1,893p**	
Dividend	32 cents	3%	**33 cents**	
Employee compensation	$356m	31%	**$465m**	
Shareholder implementation approval	82.40%		**88.97%**	

Total remuneration

Executive Director	2015 ($000)		**2016 ($000)**		**2017 ($000) (estimate)**
Said Darwazah	7,316	-14%	**6,308**	**-13%**	**5,470**
Mazen Darwazah	4,465	-23%	**3,419**	**2%**	**3,492**

Components

Salary[1]	2015 ($000)		**2016 ($000)**		**2017 ($000) (estimate)**
Said Darwazah	1,200	3%	**1,236**	**3%**	**1,273**
Mazen Darwazah	676	3%	**696**	**3%**	**717**
Bonus[2]					
Said Darwazah	2,928	28%	**2,116**	**-10%**	**1,910**
Mazen Darwazah	1,649	-31%	**1,137**	**-5%**	**1,076**
Share awards[3]					
Said Darwazah	3,160	-9%	**2,871**	**-24%**	**2,177**
Mazen Darwazah	2,117	-30%	**1,492**	**7%**	**1,591**
Pensions[4]					
Said Darwazah	16	-100%	**0**	**0%**	**25**
Mazen Darwazah	13	-100%	**0**	**0%**	**14**
Other benefits[5]					
Said Darwazah	12	608%	**85**	**0%**	**85**
Mazen Darwazah	10	840%	**94**	**0%**	**94**

Non-Executive Directors' fees

Non-Executives	2015 (£000)		**2016 (£000)**		**2017 (£000) (estimate)**
Non-Executive Directors' average total fee[6]	95.1	1%	**96.2**	**0%**	**96.2**

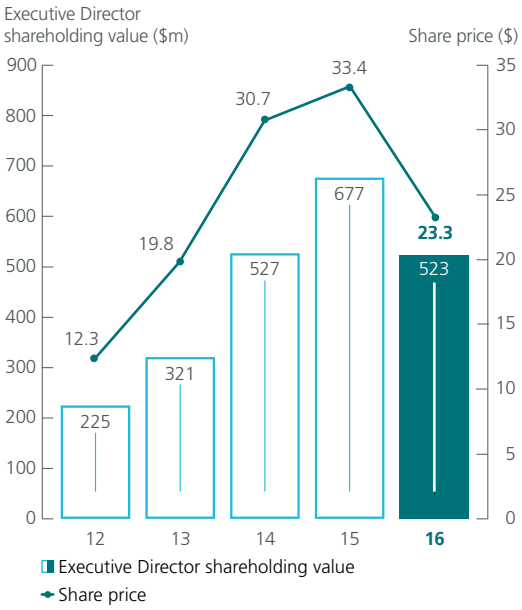
1. Salary: The average rise for salaries across the Group in 2016 was 3%.
2. Bonus: The bonus figure comprises Elements A and C of the EIP. See page 112 for further explanation. The 2017 estimate is based on target performance.
3. Share awards: 2015 and 2016 figures represent LTIPs exercised during the year. 2017 is an estimation of the value of element B of the 2015 EIP and the LTIP to vest in that year, using 31 December 2016 vesting percentages, share prices and exchange rates.
4. Pension: The Company did not contribute to the Executive Directors' pensions during the year because an assessment of provisions made in previous years resulted in a short-term surplus. Pension contributions are up to 10% of salary. Executives participate in the same pension plan as Jordanian employees, their country of employment.
5. Benefits: The increased level of benefits for Executive Directors relates to a re-assessment of transportation costs and depreciation.
6. NED fees: The Average Non-Executive Director's fee includes basic fee and Committee membership and Chair fees. Full breakdown of fees on page 134.

Shareholder alignment

The Committee considers that it is very important to align the interests of the executive and the outcome for shareholders. The Committee closely monitors the linkage.

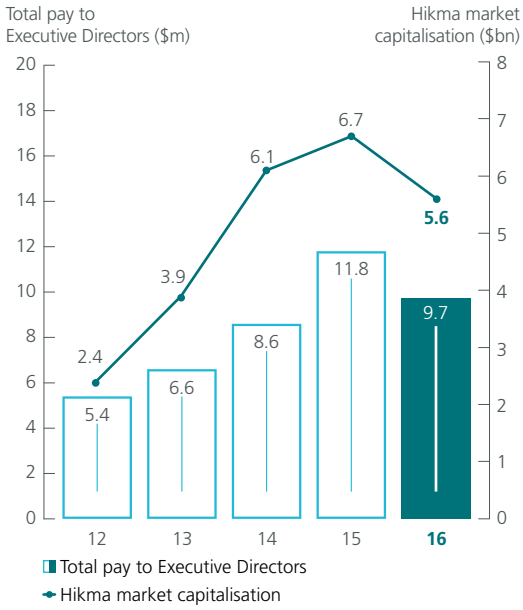
Share price and value of executive holdings ($m)

Hikma's Executive Directors have a substantial equity interest in the Company, the value of which is circa 40 times the total remuneration paid to these executives. Therefore, the changes in the share price experienced by shareholders have a more significant impact on the executives than their remuneration.



Market capitalisation and total executive pay ($m)

The Committee considers that the total pay of the executives should be broadly commensurate with the overall size, complexity and performance of the Company. The Committee uses the graph below to broadly monitor the position and is content that remuneration has increased broadly in line over time.



Equity position of the Directors and executive management

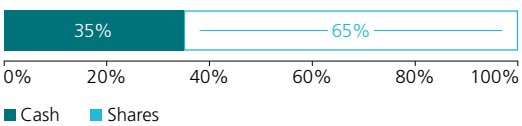
The Committee believes that its share ownership policy strongly links executive and shareholders' interests. All Executive Directors are required to build and maintain a minimum shareholding equal to three times base salary. The limits under and compliance with this policy are reviewed periodically by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

Executive Director	Target	Actual	**Requirement fulfilled?**
Said Darwazah	300%	27,112%	**Yes**
Mazen Darwazah	300%	26,956%	**Yes**

Share ownership requirements also apply to Hikma executive management who are required to build and maintain a minimum shareholding equal to at least two times base salary. In certain cases, the shareholding requirement has been increased in order to reflect local executive remuneration practice. Compliance with the shareholding requirement is measured annually at the time of this report.

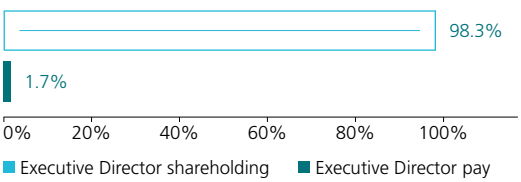
Proportion of executive pay that is share-based 2016

To further align shareholder and executive interests, the Committee ensures that a significant proportion of executive remuneration is based in shares.



Executive pay and executive shareholdings 2016

The Committee believes that shareholder interests are aligned with Executive Directors through the combination of substantial executive shareholdings, significant share-based compensation and remuneration broadly following company growth.



Committee responsibilities

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Group's policy on executive remuneration, determining individual remuneration and benefits package of each of the Executive Directors and recommending and monitoring the remuneration of senior management below Board level. The Board is responsible for implementing the recommendations and agreeing the remuneration packages of individual Directors. The Remuneration Committee is also responsible for making recommendations for the grants of awards under any employee share plans. In accordance with the Committee's terms of reference, no Director may participate in discussions relating to his own terms and conditions of remuneration. Non-Executive Directors' fees are determined by the full Board. The Committee's terms of reference include all matters prescribed by the Code and clearly set out its authority and duties. They are reviewed by the Board on a regular basis, and are available on the Hikma website, at the registered office at 13 Hanover Square, London, W1S 1HW and by contacting cosec@hikma.uk.com.

Directors' remuneration policy

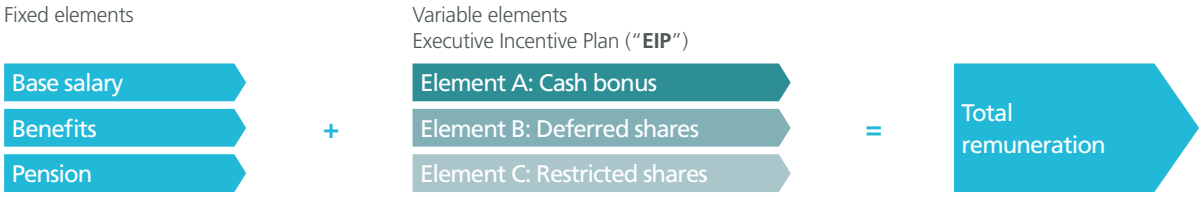
Effective period

The Directors' Remuneration Policy (the "**Policy**") for Hikma Pharmaceuticals PLC ("**Hikma**") which is detailed on pages 109 to 118 will be put to a binding shareholder vote. The Policy will, subject to shareholder approval, become formally effective from the 2017 Annual General Meeting ("**AGM**") on 19 May 2017. It is intended that the Policy will apply for a period of three years from the date of approval.

Executive Directors

The remuneration for Executive Directors is designed to provide for a competitive compensation package which reflects the Group's performance against strategic objectives. Remuneration for Executive Directors will continue to comprise the following elements:

Policy overview



Summary of changes to the Policy

The new Policy for which approval is being sought at the AGM in 2017 is broadly unchanged from the Policy that was previously approved by shareholders at the 2014 AGM, with the exception of the following matters:

- Use of benchmarking data. In accordance with current guidance on use of benchmarking data, the Committee is moving away from formally setting remuneration within ranges defined by benchmark data. Going forward, the Committee will take into account market pay practice in UK listed companies of a similar size and relevant peer companies from the pharmaceutical sector.
- Base pay increases for Executive Directors will be restricted to a maximum of the increase for the wider workforce, unless there is exceptional reason such as to reflect a significant change in the scope or responsibilities of the role.
- To change the performance criteria of the Executive Incentive Plan:

From

- Financial metrics (50%)
- Strategic and operational targets (40%)
- Personal targets (10%)

To

- Financial metrics at a Group and regional level (60%)
- Strategic targets (40%)

- To extend the life of the EIP from 5 years to 10 years on the same terms as previously approved.
- To extend the limit on the maximum fees payable to Directors from £1,000,000 to £1,500,000 in order to allow for the orderly succession of Non-Executive Directors, as detailed in the Nomination and Governance Committee Report.

Our core principles

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

- Enhances the achievement of Hikma's strategic aims
- Takes account of employment conditions both inside and outside Hikma
- Aligns the interests of Directors with those of shareholders
- Is aligned with Hikma's founding principles

Discretion

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

	Purpose and link to strategy	Operation	
Fixed elements	**Base salary** Provides a base level of remuneration to support recruitment and retention of Directors with the necessary experience and expertise to deliver the Group's strategy. Key element of core fixed remuneration	Base salaries for individual Executive Directors are reviewed annually by the Committee, and any changes normally take effect from 1 January. Salaries are set with reference to: • Pay increases for the general workforce acting as an upper limit unless exceptional circumstances exist • Individual performance, experience and contribution • Market pay in UK listed companies of a similar size, and relevant peer companies from the pharmaceutical sector	• Company performance • Affordability • Salaries for individuals who are recruited or promoted to the Board may be set below market levels at the time of appointment, with the intention of bringing the base salary levels in line with the market as the individual becomes established in their role. Whilst base salaries are reviewed annually, they will not necessarily be increased each year.
	Benefits Provides competitive benefits in the market to enable the recruitment and retention of directors, and are in line with the culture of the Company.	Benefits may include, but are not limited to: healthcare, school fees, company cars, and life insurance. As the Company operates internationally it may be necessary for the Committee to provide special benefits or allowances. These would be disclosed to shareholders in the annual report on remuneration for	the year in which the benefits or allowances were paid. Accordingly, the Committee would expect to be able to adopt benefits such as relocation expenses, tax equalisation and support in meeting specific costs incurred by directors to ensure the Company and the individuals comply with their obligations in the reporting of remuneration for tax purposes.
	Pension Provides a minimum level of pension contribution to support a low fixed cost and highly entrepreneurial remuneration policy.	A defined contribution scheme and/or cash supplement in lieu of pension may be provided. Executives currently participate on the same basis as employees in the Hikma Pharmaceuticals Defined Contribution Retirement Benefit Plan (the "**Benefit Plan**"), which operates in accordance with the rules relevant to employees in Jordan. Participants are entitled	to 30% of the Group's contributions to the Benefit Plan after three years of employment with the Group, and an additional 10% in each subsequent year. Should a new executive be appointed to the Board, they would normally participate in the Benefit Plan, according to the rules relevant to employees in the appropriate jurisdiction.
Variable elements (EIP)	**A: Cash bonus** Immediate reward for financial and strategic achievement.	The Remuneration Committee sets annual performance targets for awards under the EIP. At the end of each year the Committee determines the level of incentive earned for that year. Element A is paid immediately as an annual cash bonus.	Details of the 2016 performance targets, their level of satisfaction and the resulting performance remuneration are disclosed on pages 126 to 129. The Company discloses the nature and weighting of future performance targets in the Policy Implementation report on pages 120 to 121.
	B: Deferred shares Deferred, at risk, share-based reward for financial and strategic performance.	Element B is provided in the form of deferred shares. Element B awards are subject to the following conditions: • a deferral period of two years; • risk of performance based forfeiture each year of the deferral period of up to 50% of the cumulative deferred Element B shares which have not vested,	depending on the annual assessment of performance for the year in question, as detailed on pages 126 to 129; and • an additional holding period of three years for 50% of the award. The Committee retains the discretion to both increase the number of shares awarded under Element B subject to the holding period and to change the length of the holding period.
	C: Restricted shares Incentivises the achievement of strategic objectives over the longer term.	The performance conditions and targets for Element C are the same as those for Element A and B. • Element C (maximum of 100% of salary per annum) is provided in the form of deferred shares. Element C awards are subject to the following conditions: – a deferral period of three years;	– continued employment on the third anniversary of the date of grant; and – an additional holding period of two years for 50% of the award. The Committee retains the discretion to both increase the number of shares awarded under Element C subject to holding period and to change the length of the holding period.

	Maximum opportunity	Performance metrics	Change to policy
	Whilst there is no maximum salary, any increase will generally be no higher than the average increase for the wider workforce. A higher increase may be made in the event of a role change, promotion, or in exceptional circumstances, but the rationale will be clearly explained in the next report to shareholders.	Not applicable.	No longer defined by the comparator group range and upper limit of employee rise unless exceptional circumstances exist to ensure greater alignment between executives and the wider workforce.
	The value of benefits is based on the cost to the Company and there is no predetermined maximum limit. The range and value of the benefits offered is reviewed periodically.	Not applicable.	No change to policy.
	The Group matches employee contributions made to the Benefit Plan. For the Executive Directors based in Jordan these are up to a maximum of 10% of applicable salary.	Not applicable.	No change to policy.
	Maximum 150% of salary per annum. However, at: Forfeiture: 0% Threshold: 25% Target: 100% See the performance summaries on pages 120 to 121 for further detail.	Annual performance metrics are based on: • Financial metrics (60%) – Core PBT (30%) and Core Revenue (30%): based on the budget • Strategic targets (40%): based on the Board approval strategy and business plan. The Company operates in a rapidly changing market place and therefore the Committee may change the balance of the measures, or use different measures, for subsequent financial years, as appropriate, to reflect this, although currently there is no intention to do so. The Committee retains discretion in exceptional circumstances to change the performance measures and targets and their respective weightings part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate (an historic example would be the Arab Spring). Discretion may also be exercised in cases where the Committee believes that the bonus outcome is not a fair and accurate reflection of business performance. Malus and/or clawback provisions apply to all elements of the EIP as detailed on page 113.	Extension of the EIP from 5 to 10 years to align with policy. The balance of the performance metrics have been strengthened and focused: From: • Financial metrics (50%) • Strategic and operational targets (40%) • Personal targets (10%) To: • Financial metrics (60%) • Strategic targets (40%)
	Maximum 150% of salary per annum. However, at: Forfeiture: 0% Threshold: 25%. Target: 100%.	See above in respect of Element A.	See above in respect of Element A.
	Maximum 100% of salary per annum. However, at: Forfeiture: 0% Threshold: 25% Target: 100%	See above in respect of Element A.	See above in respect of Element A.

Performance-based remuneration

Executive Incentive Plan

The Hikma Pharmaceuticals PLC 2014 Executive Incentive Plan ("**EIP**"), was first approved by shareholders at the 2014 AGM and is due to expire in 2019. The Company intends for the EIP to remain the sole incentive arrangement available to Executive Directors for the policy period expiring in 2020. Shareholder approval is being sought at the 2017 AGM to extend the life of the EIP from 5 to 10 years resulting in the EIP expiring in 2024 rather than before the expiry of the current policy period.

The EIP supports the Company's objectives by allowing the setting of annual targets based on the businesses' strategic objectives at that time, meaning that a wider range of performance metrics can be used that are relevant and suitably stretching.

Rationale

The Remuneration Committee considers that the EIP remains appropriate because:

- Global focus: Approximately 30% of the Company's business is located in the MENA and 60% in the US, which requires the Company to compete with local practices, including:
  - US: to offer sufficient leverage in the incentives to be reasonably competitive compared to US pharmaceutical companies.
  - MENA: the strong short-term remuneration focus by executives in the MENA which is partly reflective of the political and economic environment.
  - US and MENA: equity based incentives are generally subject to time based vesting following grant, not multi-year performance conditions.
- Business dynamics: Expansion in the MENA and emerging markets is a key strategic component. Political and economic change may cause a short-term lack of visibility of revenues and profits that could discourage longer-term investment and development. As a result, the application of conventional metrics used by more traditional incentive plans would likely fail to reward the successful execution of the Company's strategy, one that has been widely supported by investors. The Company has experienced this in practice when dealing with the impact of the Arab Spring on incentive arrangements and the constant change in key markets. Given such evolving and in some cases highly volatile market conditions, it is difficult to establish testing but realistic multi-year targets which the participant associates with their own performance.
- TSR: Comparative total shareholder return targets are inappropriate as even other industry comparators have a very different business mix in terms of product, geographic spread and business model, implying very different risk exposure.

Operational overview

The EIP is composed of three elements:

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	50% of the total share award is subject to a holding period after vesting. These shares may not be sold until 5 years after grant.	Share award
C	100%	Restricted Shares	3 years	• Clawback • Share price • Employed		Bonus* deferred in shares

* The Regulations require Element C to be treated as a cash bonus, although it is an award of shares that will vest three years after grant.

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

- 60% Financial metrics (Core PBT and Core Revenue)
- 40% Strategic targets (sub-conditions apply)

For each condition or sub-condition, four levels are established:

- Forfeiture: at which 0% is awarded in respect of the current year and 50% of outstanding Element B Deferred Shares lapse
- Threshold: at which awards of up to 100% of salary may be granted
- Target: at which awards of up to 250% of salary may be granted
- Maximum: at which awards of up to 400% of salary may be granted

Other remuneration matters

Shareholding requirement

The Committee has a minimum shareholding requirement for Executive Directors in order to ensure a long-term, locked in alignment with shareholders. The objective is for Executive Directors to build up and maintain a minimum level of shareholding throughout their employment with the Company. The minimum shareholding requirement is 300% of salary. However, the Committee has discretion to increase this minimum.

The shareholding requirement operates in the following manner:

- Only shares unconditionally owned by the Executive Directors count towards the requirement;
- No shares may be sold by the Executive Director (with the exception of shares sold to pay the tax due on vesting/exercise) until the shareholding requirement is met and no shares may be sold if the result of the sale is to reduce the Executive Directors' shareholding below the shareholding requirement.

Further explanation on the Executive Directors' shareholding requirement is detailed on page 131.

Malus and clawback

The EIP has malus and clawback provisions to protect the Company and shareholders. Under these provisions, the Committee can reduce or cancel awards that have not yet vested (malus) and can require the repayment of an award (clawback) under the EIP. In addition, there is a performance based threshold condition for Element B.

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

- Hikma's financial statements or results being negatively restated;
- participant having deliberately misled management, the Board or the market regarding Hikma's performance;
- participant causing significant damage to Hikma;
- mistake in the calculation of the level of satisfaction of the performance targets; or
- participant's actions amounting to serious misconduct.

Terms of appointment and service

Service contracts

The details of the service contracts of the Executive Directors of Hikma in force at the end of the year under review, which have not changed during the year and are available for inspection at the Company's registered office at 13 Hanover Square, London, W1S 1HW, 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
Mazen Darwazah	12 months	25 May 2006	Rolling contract	12 months' salary and benefits

The Executive Directors' contracts are on a rolling basis, unless terminated by 12 months' written notice. This arrangement is in line with best corporate practice for listed companies. The Committee's policy for setting notice periods is that a maximum 12 month period will apply for Executive Directors. The Committee may in exceptional circumstances arising on recruitment allow a longer period, which would in any event reduce to 12 months following the first year of employment. Details of the Non-Executive Directors' notice periods are provided on page 135.

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

Recruitment remuneration

The Committee's normal approach to recruitment remuneration is to pay no more than is necessary to attract candidates of the appropriate calibre and experience needed for the role from the international market in which the Company competes. The Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments made on recruitment and the appropriateness of any performance measures associated with an award.

The table below summarises the adjustments to the Policy with respect to recruitment of Executive Directors:

Component	Policy
Pension	It is not the Remuneration Committee's current policy for existing Executive Directors to provide executive level pension contributions or salary supplements. However, the Committee retains the discretion if required on recruitment to be able to offer either a contribution to a personal pension scheme or cash allowance in lieu of pension benefits.
Maximum level of variable remuneration	The maximum level of variable remuneration under the Company's policy is 400% of salary p.a. In exceptional circumstances, solely for the year of recruitment, this may be increased to 550%.
Share buy-outs/replacement awards	The Committee's policy is not to provide buy-outs as a matter of course. However, should the Committee determine that the individual circumstances of recruitment justify the provision of a buy-out, the value of any incentives that will be forfeited on cessation of a Director's previous employment will be calculated taking into account the following: • the proportion of the performance period completed on the date of the Director's cessation of employment; • the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and • any other terms and conditions having a material effect on their value ("lapsed value"). The Committee may then grant up to the equivalent value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the buy-out within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.

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

Payment for loss of office

When considering termination payments, the Remuneration Committee takes account of the best interests of Hikma and the individual's circumstances, including the reasons for termination, contractual obligations and the rules governing certain items of pay (e.g. EIP rules). The Remuneration Committee will ensure that there are no unjustified payments for failure on termination of employment. The Committee's policy in relation to leavers can be summarised as follows:

- In the normal course of events, the Executive Director will work their notice period and receive contractual compensation payments and benefits during this time.
- In the event of the termination of an executive's contract and Hikma requesting the executive to cease working immediately, payment in lieu of notice equal to fixed pay, pension entitlements, other benefits and, on a discretionary basis and only where it is in Hikma's interest, a pro-rated performance related bonus will be payable.
- In the event of termination for gross misconduct, neither notice nor payment in lieu of notice will be given and the executive will cease to perform services immediately.
- On an Executive Director ceasing to hold office, the Company will announce an out-going Executive Director's remuneration arrangements around the time of leaving.

The Committee will honour Executive Directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its Directors providing for compensation for loss of office or employment that occurs because of a takeover bid. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

When determining any loss of office payment for a departing individual the Remuneration Committee will always seek to minimise costs to the Company whilst seeking to address the circumstances at the time.

Component	Approach	Application of Remuneration Committee discretion
Base salary, benefits and pension	See above policy. Executive Directors may be entitled to receive payment in lieu of notice. Payment in lieu of notice will be equivalent to the salary payments, benefit value and pension contributions that they would have received if still employed by the Company for a maximum of 12 months.	Discretion to make payments in lieu of notice to the same value.
EIP	The treatment of awards on cessation of employment is governed by the rules of the EIP. The rules of the EIP provide that on termination of employment before the performance measurement date or prior to the relevant vesting date, no award will be granted in respect of the year of cessation and any subsisting entitlements will lapse; unless the following circumstances apply: • injury or disability; • redundancy; • retirement by agreement with the Company; • the participant being employed by a company which ceases to be a member of the Group; • the participant being employed in an undertaking or part of an undertaking which is transferred to a person who is not a member of the Group; or • any other circumstances if the Remuneration Committee decides in any particular case. If an Executive Director leaves in one of the above circumstances, the EIP rules provide for the following: **Element A** The Remuneration Committee will calculate the amount of any payment pro-rated to the amount of the plan year completed on the Executive Director's date of cessation and taking into account the level of satisfaction of the performance targets at the next performance measurement date. Any payment shall be made as soon as practicable after the determination of the level of satisfaction of the performance targets. **Elements B and C** The Remuneration Committee will calculate the amount of any payment pro-rated to the amount of the plan year completed on the Executive Director's date of cessation and taking into account the level of satisfaction of the performance targets at the next performance measurement date. Any payment shall be made as soon as practicable after the determination of the level of satisfaction of the performance targets. 50% of the shares awarded will be subject to the sales restrictions (five years from date of grant to date of sale). Subsisting Element B and C awards will vest. The sale restrictions on 50% of the shares awarded will continue. It should be noted the performance conditions for the outstanding Element B and C awards will have been satisfied at the date of grant.	The Remuneration Committee has discretion to determine that the reason for termination is classified in the same manner as those described in the adjacent column. The Remuneration Committee will only use its general discretion to determine that an Executive Director is a good leaver in exceptional circumstances and will provide a full explanation to shareholders of the basis for its determination.
Other contractual obligations	There are no other contractual provisions agreed prior to 27 June 2012.	n/a

Change of control

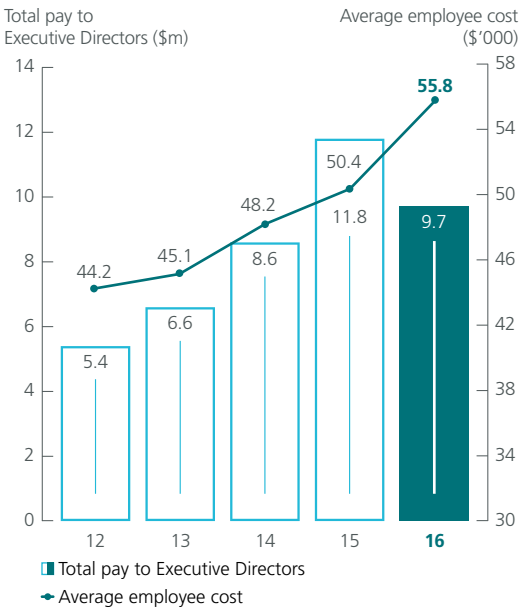
Component	Approach	Application of Remuneration Committee discretion
EIP	The treatment of awards on a change of control is governed by the rules of the EIP. **Element A** The Remuneration Committee will calculate the amount of any payment pro-rated to the proportion of the plan year completed on the change of control and taking into account the level of satisfaction of the performance targets at the date of the change of control. Any payment shall be made as soon as practicable after the determination of the level of satisfaction of the performance targets. **Elements B and C** In respect of the year of the change of control, the Remuneration Committee will calculate any award pro-rated to the proportion of the plan year completed on the change of control and taking into account the level of satisfaction of the performance targets at the date of the change of control. Any award shall be made as soon as practicable after the determination of the level of satisfaction of the performance targets and shall not be subject to the sale restrictions. Shares subject to subsisting awards shall vest on the date of the change of control and the sale restrictions shall be removed. It should be noted that the performance targets for subsisting awards were satisfied at the date of grant.	The Remuneration Committee has a discretion whether to pro-rate any element to time. It is the Remuneration Committee's policy in normal circumstances to pro-rate to time; however, in exceptional circumstances where the nature of the transaction produces exceptional value for shareholders and provided the performance targets are met, the Remuneration Committee will consider whether pro-rating is equitable. The Remuneration Committee has the same discretion in relation to Elements B and C as set out above for Element A and will operate it in the same manner.

Employment conditions

The Committee takes into consideration practices for all employees across the Group when reviewing executive remuneration. All employees receive a salary, pension and medical insurance on a similar basis to Executive Directors. Additionally, all employees participate in a cash bonus scheme which is based on Element A of the EIP. The majority of management level employees participate in a restricted share award scheme which is either Element B of the EIP or based upon that Element. The Committee reviews detailed internal and summary benchmarking data, and is satisfied that the level of remuneration is proportionate across the HR grades.

The Committee does not directly consult employees on the Policy contained in this Report, but receives regular updates on employee feedback through the Group HR department and the employee engagement survey, which is conducted by an external organisation and includes views on remuneration and other matters.

Employee cost and total executive pay ($m)



The Committee is cognisant of the importance of ensuring the pay of Executive Directors' alignment with the overall employee base. Whilst the Group has increased considerably in size and complexity over the past five years, the Committee believes the employee experience has been reasonably aligned with executives'.

Shareholder views

The Remuneration Committee reviews feedback received from shareholders as a result of the AGM process and throughout the rest of the year, and takes this into consideration together with the latest views of investor bodies and their representatives. The Committee engages with shareholders and investor bodies in the event of a significant vote against the Remuneration Policy or Policy Implementation. When any significant changes are made to the Remuneration Policy, the Remuneration Committee Chair discusses these with major shareholders in advance and may offer meetings for more detailed discussion, as it did during 2016:

Steps	Details	Timeframe
1 Adviser	We instructed our remuneration adviser to review the existing Remuneration Policy in light of current market practice guidance.	April 2016
2 Development	The adviser, VP for Human Resources, Company Secretary and Remuneration Committee Chair discussed the technical review and considered the Company's specific requirements, history and strategy. After considerate debate, a policy proposal was created.	May 2016
3 Remuneration Committee	The policy proposal was presented to the Remuneration Committee. Relevant adjustments were made.	August 2016
4 Strategy session	The Board reviewed the management strategic plan. The Remuneration Committee identified the key strategic deliverables and developed them into performance targets.	October 2016
5 Shareholder consultation	The Remuneration Committee Chair wrote to UK governance bodies and significant shareholders authorising the minimal policy changes and enhancements to performance targets. Comments were supportive.	November 2016
6 Finalisation	Having taken into account the results of the consultation, the Remuneration Committee approved the final policy proposal.	December 2016

Non-Executive Directors

Non-Executive Directors' ("**NEDs**") fees are set by the Board under the leadership of the Chief Executive Officer and Executive Vice Chairman having considered the:

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

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

The table below details the current fees.

Element and purpose	Operation
Basic fee Provides a level of fees to support recruitment and retention of NED with the necessary experience	Fees are reviewed and determined annually and paid in cash. A basic fee for undertaking the duties of a Director of Hikma, chiefly regarding Board, strategy and shareholder meetings. Chairman fee: £300,000* NED fee: £85,000 * For a Non-Executive role. Not currently in use.
Committee membership fee A composite fee for taking additional responsibilities in relation to Committee membership. Usually Non-Executives are members of at least three committees.	Fees are reviewed and determined annually and paid in cash. Committee fee: £8,000
Committee Chair fee The Committee Chairs undertake additional responsibilities in leading a committee and are expected to act as a sounding board for the executive that reports to the relevant committee. The chairmanship fee is paid in addition to the membership fee with a higher fee paid to the Audit Committee chairman to reflect the significant demands of this position.	Fees are reviewed and determined annually and paid in cash. Audit Committee Chair fee: £16,000 Remuneration Committee Chair fee: £8,000 Compliance, Responsibility and Ethics Committee Chair fee: £8,000 Nomination and Governance Committee Chair fee: £8,000
Board related expenses The Board believes that Directors should be free to perform their duties, as they see fit, without incurring personal expenses.	The Company pays expenses incurred wholly in relation to the position of Non-Executive Directors and ensures that Directors do not incur a tax liability as a result. The Committee retains discretion to provide for an allowance structure as an alternative to the latter payment.

End of remuneration policy.

Policy implementation 2017

Salaries

During 2016, the Committee undertook the annual benchmarking of executive packages. The Committee reviewed the data and concluded the executives should receive the same salary rise as the average employee of 3% for 2017.

	Salary		Increase
Executive Director	**2017**	2016	%
Chief Executive	**$1,273,080**	$1,236,000	3%
Executive Vice Chairman	**$717,155**	$696,267	3%

Benefits and pension

No change from 2016.

Executive Incentive Plan (EIP)

During 2017, the EIP will be operated as detailed below and in the Policy on pages 109 to 118. The performance conditions and their weighting are set out below:

		Potential outcomes			
Performance condition	Weighting (% of maximum subject to performance condition)	Forfeiture percentage of element of award	Threshold percentage of element of award	Target percentage of element of award	Maximum percentage of element of award
Core PBT	30%	0%	25%	50%	100%
Core Revenue	30%	0%	25%	50%	100%
Strategy	40%	0%	25%	50%	100%
		+ lose 50% of outstanding Elements B and C			

For each performance condition the Committee has established measurement criteria which determine the level of reward that executives may receive:

2017 Performance criteria: Chairman and Chief Executive

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

		Performance condition		Performance level			
Section	Description	Weighting percentage	Measurement	Forfeiture	Threshold	Target	Max
Financial	Profit before Tax	30%	Targeted Core PBT compared to actual audited Core PBT for the year ended 31 December 2017	Budget -30%	Budget -10%	Budget	Budget +10%
	Group Revenue	30%	Target Group Revenue compared to actual audited Group Revenue for the year ended 31 December 2017	Budget -30%	Budget -10%	Budget	Budget +10%
Strategic	Return on investment	20%	Enhance profitability by delivering on the opportunities from circa $2.5bn of investment in the Bedford and Columbus pipelines. Measured by Return on Invested Capital		Disclosed on measurement		
	Research and Development	10%	Delivering the product pipeline in the strategic plan ensuring that the medium-term revenue and profit targets are met		Disclosed on measurement		
	Group structure optimisation	10%	Reorganise the Group to ensure that it is best placed to deliver the Board-approved, medium-term strategic objectives and business plan		Disclosed on measurement		
Performance remuneration outcome			Total	0% award + lose 50% prior two years' shares	100% award	250% award	400% award
Outcome breakdown			A	0%	25%	100%	150%
			B	0%	25%	100%	150%
			C	0%	50%	50%	100%

2017 Performance criteria: Executive Vice Chairman

Please see the statement on page 120 regarding performance target disclosure.

		Performance condition		Performance level			
Section	Description	Weighting percentage	Measurement	Forfeiture	Threshold	Target	Max
Financial	PBT	20%	Target Core PBT compared to actual audited Core PBT for the year ended 31 December 2017	Budget -30%	Budget -10%	Budget	Budget +10%
	Group Revenue	20%	Target Group Revenue compared to actual audited Group Revenue for the year ended 31 December 2017	Budget -30%	Budget -10%	Budget	Budget +10%
	MENA PBT	10%	Target MENA PBT compared to actual audited MENA PBT for the year ended 31 December 2017	Disclosed on measurement			
	MENA Revenue	10%	Target MENA Revenue compared to actual audited MENA revenue for the year ended 31 December 2017	Disclosed on measurement			
Strategic	Emerging Markets	10%	Revenue generation in emerging markets before year ended 31 December 2017	Disclosed on measurement			
	MENA structure optimisation	20%	Reorganise the structure of the MENA division to ensure it is best positioned for growth and margin improvements. Ensure internal development for the MENA management team by end of 2017	Disclosed on measurement			
	Strategic partnerships	10%	Finalise at least two of the three strategic partnerships with three external parties	Disclosed on measurement			
Performance remuneration outcome			Total	0% award + lose 50% prior two years' shares	100% award	250% award	400% award
Outcome breakdown			A	0%	25%	100%	150%
			B	0%	25%	100%	150%
			C	0%	50%	50%	100%

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 2016 and the potential available for 2017 (dependent upon performance).

Said Darwazah

		Fixed $000	Bonus $000	Share award $000	Total $000	Benchmark data $000
2017	Threshold	1,384/52%	955/36%	318/12%	2,657	9,750 to 13,410
	Target	1,384/30%	1,910/42%	1,273/28%	4,566	
	Maximum	1,384/21%	3,183/49%	1,910/29%	6,476	
2016	Actual	1,321/28%	2,116/44%	1,325/28%	4,762	12,736 to 25,029

Mazen Darwazah

		Fixed $000	Bonus $000	Share award $000	Total $000	Benchmark data $000
2017	Threshold	825/54%	538/35%	179/12%	1,543	3,390 to 4,577
	Target	825/32%	1,076/41%	717/27%	2,618	
	Maximum	825/22%	1,793/49%	1,076/29%	3,694	
2016	Actual	790/30%	1,137/43%	717/27%	2,644	7,387 to 8,564

The following notes are applicable to the above calculations:

- Salary, benefits and pension comprise 'Fixed' remuneration.
- Elements A and C of the EIP comprise the Bonus and Element B comprises the share award. Elements A, B and C of the EIP are made in the year after the performance is achieved (e.g. for the 2017 illustration, the share awards detailed would be made in 2018 and vest two to three years later). Please note that the Remuneration and performance summary on page 106 uses share awards vesting (i.e. actual shares received, not those granted) during the period in order to make clear the difference between potential remuneration and what the executive earns in practice.
- Benchmark data represents the weighted average total remuneration of the persons holding similar roles in comparable, international pharmaceutical companies.

Advice and support

Willis Towers Watson ("**WTW**") were appointed by the Remuneration Committee as its independent advisers in 2016 following a competitive tender process.

In addition to advising the Committee, WTW have also supported Hikma's Corporate HR department, particularly in the delivery of reward and human resources strategy. The total fees for advice to the Committee during the year were $178k (2015: $138k paid to PwC). A policy fee structure is in place for the provision of ongoing advice and is used to determine a quote for each project before it is undertaken.

WTW adheres to the Remuneration Consultants Group Code of Conduct, which provides a clear framework for our relationship with our advisers while setting high professional standards. The Committee reviewed the performance of WTW during the year and fees received. The Committee concluded that WTW remained independent and continued to provide high-quality service to the Committee.

The Committee seeks the assistance of senior management on matters relating to policy performance and remuneration and maintains a strong link with management to ensure that its deliberations are fully informed. The Committee ensures that no Director, executive or employee takes part in discussions or advice relating to his own remuneration or benefits.

Shareholder approval

The Committee actively seeks the engagement of shareholders in the setting of remuneration policy and practice. The voting patterns are included in the table below. For ease of understanding, the percentages below have been divided into votes 'For', 'Against' and 'Withheld'. Under the Companies Act votes 'Withheld' are not a valid vote and, therefore, are discounted when considering approval at a general meeting:

Resolution	For	Against	Withheld	Votes cast	Votes available
Annual Report on Remuneration (2016 AGM)	86.0%	10.7%	3.3%	201,588,237	239,385,501
Vote to approve the Remuneration Policy (2014 AGM)	90.8%	7.4%	1.7%	161,008,645	198,167,997

Annual report on remuneration

All of the information presented on this page has been audited by PwC. For the year ended 31 December 2016, the Group's policy on remuneration was implemented as set out below.

Single total figure

The following table shows a single total figure of remuneration in respect of qualifying services for the 2016 financial year for each Executive Director, together with comparative figures for 2015.

Director	Year	Salary $	Benefits $	Bonus (EIP Elements A & C) $	Shares (LTIP) $	Pension $	Other $	Total $	Benchmark range* $
Said Darwazah	**2016**	**1,236,000**	**85,000**	**2,116,299**	**2,870,939**	**Nil**	**Nil**	**6,308,238**	**9,750,000 to 13,410,000**
	2015	1,200,000	12,000	2,928,000	3,159,892	16,150	Nil	7,316,042	12,736,000 to 25,029,000
Mazen Darwazah	**2016**	**696,267**	**94,000**	**1,136,753**	**1,491,746**	**Nil**	**Nil**	**3,418,766**	**3,390,000 to 4,577,000**
	2015	675,987	10,000	1,649,409	2,117,454	12,535	Nil	4,465,385	7,387,000 to 8,564,000

* Benchmark data represents the weighted average total remuneration of the persons holding similar roles in comparable, international pharmaceutical companies.

The EIP performance criteria for 2016 are detailed on pages 126 to 129 and criteria for the LTIP that vested on 17 May 2016 are on page 125.

Benefits

The increased level of benefits for Executive Directors relates to a re-assessment of transportation costs and associated depreciation. Directors receive medical benefits and a company car.

Pension

The Company did not contribute to the Executive Directors' pension during the year because an assessment of provisions made in previous years resulted in short-term surplus. This is a pension payment paid to the Hikma Pharmaceutical Defined Contribution Retirement Benefit Plan (the 'Benefit Plan') on behalf of the Executive Directors on the same basis as other employees located in Jordan. The Executive Directors do not receive personal pension contributions from the Group. Under the Benefit Plan the Group matches employee contributions made, which are fixed at a maximum of 5% of applicable salary. Participants become entitled to all of the Group's contributions once they have been employed for 10 years. Before that point, there is a staggered scale which starts at three years of employment. The Executive Directors have served for in excess of ten years and will receive their benefits under the Benefit Plan when they reach their 60th birthday. The Company does not and has not operated a defined benefit scheme.

LTIP share awards

During 2015 and 2016, awards vested under the Long Term Incentive Plan ("**LTIP**"). The LTIP operated with a 300% of salary maximum, a three-year vesting period and performance conditions based on total shareholder return and financial metrics. Further details can be found in the 2012 report and accounts on pages 97 to 99 or on request from cosec@hikma.uk.com. In 2014, the LTIP was replaced with Element B of the EIP which has a maximum award of 150% of salary. The EIP and awards made under it in respect of the 2016 performance year are described further below.

The LTIP amount included in the 2016 single total figure of remuneration is the conditional share award granted in 2013. The performance achieved against the performance targets is shown below.

Condition		Requirements		Practice	
Description	Weighting	Threshold	Maximum	Actual performance	Award vested % of maximum
TSR*	50%	50th percentile 20% of award element	75th percentile 100% of award element	**76th percentile**	**100%**
Sales growth	17%	9% 20% of award element	13% 100% of award element	**10%**	**20%**
EPS growth	17%	15% 20% of award element	20% 100% of award element	**33%**	**100%**
Return on invested capital	17%	10% 20% of award element	12% 100% of award element	**23%**	**100%**

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

Chairman and Chief Executive

		Financial performance		
Performance condition	TSR	Sales growth	EPS growth	Return on invested capital
Maximum number of shares capable of vesting	50,900	17,000	17,000	17,000
Percentage of maximum vesting	100%	20%	100%	100%
Number of vested shares	50,900	3,400	17,000	17,000
Value of vested shares*	£1,150,340	£76,840	£384,200	£384,200
Total value			**£1,995,580 ($2,870,939)**	

* Share price on vesting was £22.60 and there were $1.4463 to £1.

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

Executive Vice Chairman

		Financial performance		
Performance condition	TSR	Sales growth	EPS growth	Return on invested capital
Maximum number of shares capable of vesting	26,600	8,800	8,800	8,800
Percentage of maximum vesting	100%	20%	100%	100%
Number of vested shares	26,600	1,760	8,800	8,800
Value of vested shares*	£601,160	£39,776	£198,880	£198,880
Total value			**£1,038,696 ($1,491,746)**	

* Share price on vesting was £22.60 and there were $1.4463 to £1.

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

2016 Performance outcome: Chairman and Chief Executive

The following table sets out the performance conditions and targets for 2016 and their level of satisfaction:

		Performance condition
Section	Description	Measurement
Financial	Profit Before Tax	Target Core Profit Before Tax compared to audited Core Profit Before Tax for the year ended 31 December 2016
Strategic	WW Columbus synergies	Implement the synergies that were identified prior to the West-Ward Columbus acquisition and, in order to outperform, implement additional synergies identified post-acquisition
	US Generics R&D	Submit products to the FDA for approval in accordance with West-Ward Columbus business plan
	Global Injectables R&D	Submit products to the FDA/regulatory authorities in accordance with the Injectables business plan
		Transfer products acquired from the Bedford acquisition into Hikma's FDA approved facilities
Operational	Centralisation of the Group	Maximising operational efficiency by centralising selected Group functions and the leadership of major divisions in the UK by the year end: Injectables, Generics and Group functions
Personal	Internal audit	Enhancing the role of the internal audit programme by raising management engagement and responsiveness to issues raised
	People strategy	Undertake initiatives to ensure that core talent is identified and plans are in place for development with a view to enhancing the succession arrangements throughout the Group
Total		

	Required performance level				Achievement		Application
Weighting	Forfeiture	Threshold	Target	Max	Results	Achievement	Said % of salary
50%	Target -30% $249m	Target –10% $320m	Target $355m	Target +10% $391m	Core PBT of $359m	Target to Max	133.3% of salary
10%	Acquisition synergy target -30% $19m	Acquisition synergy target -20% $22m	Acquisition synergy target $27m	Acquisition synergy target +10% $30m	Synergies of $20m in excess of those detailed in the shareholder circular	Below threshold	0% of salary
10%	Acquisition product submission target -30% 3 files	Acquisition product submission target -20% 4 files	Acquisition product submission target 5 files	Acquisition product submission target +10% 6 files	6 products filed submitted	Max	40.0% of salary
5%	Product submission target -50% 2 products	Product submission target -25% 3 products	Product submission target 4 products	Product submission target +25% 5 products	3 products submitted. 1 product on stability	Threshold to Target	8.8% of salary
5%	Product transfer target -30% 14 products	Product transfer target -20% 16 products	Product transfer target 20 products	Product transfer target +10% 22 products	26 products transferred from Bedford	Max	20.0% of salary
10%	No change	Group functions only	Group functions and Injectables	Group functions, Injectables and Generics	Group functions, Injectables and Generics centralised in the UK and operating effectively	Max	40.0% of salary
5%	80% resolution of matters outstanding	90% resolution of matters outstanding	95% resolution of matters outstanding	100% resolution of matters outstanding	98% resolution of matters outstanding	Target to Max	16.3% of salary
5%	No people development activities undertaken	Talent reviews completed	Talent review and development completed	Talent review, development and management succession plan completed	Talent review, development and management succession plan completed	Max	20.0% of salary
	Unacceptable	**Acceptable**	**Good**	**Excellent**			**278.4%**

In accordance with the EIP rules and based on the performance detailed in the table above, the following awards have been made in respect of the 2016 performance year:

Participant		Calculation			Receive		
Executive	EIP Element	Salary	Maximum potential (% of salary)	Achievement	Value of bonus/ shares	Receive	Additional
Chairman and Chief Executive	A	$1,236,000	150%	107.2%	$1,324,662	Cash now (March 2017)	None
	B		150%	107.2%	$1,324,662	Shares in 2 years from May 2017	50% of total shares unsaleable until 5 years after grant
	C		100%	64.1%	$791,637	Shares in 3 years from May 2017	

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

2016 Performance outcome: Executive Vice Chairman

		Performance condition
Section	Description	Measurement
Financial	Profit Before Tax	Target Core Profit Before Tax compared to audited Core Profit Before Tax for the year ended 31 December 2016
Strategic	Algerian Injectables	Implement the Injectables strategy in Algeria through the creation of a partnership in order to be able to develop, manufacture and sell Injectable products in the region
	Emerging markets strategy	Develop the emerging markets strategy and operational support in order to ensure that it is ready for launching in 2017
Operational	MENA revenue growth	Grow the MENA revenue in an environment where governmental healthcare expenditure is declining and foreign exchange movements are adverse. Achieve MENA revenue target
	MENA operational efficiency	Enhance the operational efficiency in the MENA region through the implementation of the cost reduction strategy. Achieve the MENA EBITDA target
	MENA receivables	Reduce the relatively high level of receivables risk with distributors in order to reduce credit cost and risk. Achieve the MENA Cash to Cash target
Personal	Compliance	Develop the Group Compliance functional capabilities and complete the integration of the US compliance into the Group programme by the end of the year
Total		

	Required performance level				Achievement		Application
Weighting	Forfeiture	Threshold	Target	Max	Results	Achievement	Mazen % of salary
50%	Target -30% $249m	Target –10% $320m	Target $355m	Target +10% $391m	Core PBT of $359m	Target to Max	133.3% of salary
10%	Objective off track at year end	Objective partially complete at year end	Objective complete at year end	Objective complete and performing ahead of time	Partnership opportunity pursued by management and subsequently ruled out. Greenfield manufacturing plan finalised.	Target	25.0% of salary
10%	Objective off track at year end	Objective partially complete at year end	Objective complete at year end	Objective complete and performing ahead of time	Emerging markets strategy completed for HK, Iran, CIS, Ivory Coast and Kenya already beginning to perform.	Max	40.0% of salary
10%	Target Revenue -30% $502m	Target Revenue -10% $645m	Target Revenue $717m	Target Revenue +10% $789m	MENA revenue of $671m.	Threshold and Target	15.4% of salary
10%	Target EBITDA -30% $113m	Target EBITDA –10% $130m	Target EBITDA $162m	Target EBITDA +10% $177m	MENA EBITDA of $177m.	Max	40.0% of salary
5%	Target cash to cash +30% 306 days	Target cash to cash +10% 259 days	Target cash to cash 235 days	Target cash to cash -10% 212 days	MENA cash to cash of 274 days.	Below Threshold	0% of salary
5%	Objective off track at year end	Objective partially complete at year end	Objective complete at year end	Objective complete and performing ahead of time	CREC chair assessment.	Target	12.5% of salary
	Unacceptable	**Acceptable**	**Good**	**Excellent**			**266.3%**

In accordance with the EIP rules and based on the performance detailed in the table above, the following awards have been made in respect of the 2016 performance year:

Participant		Calculation			Receive		
Executive	EIP Element	Salary	Maximum potential (% of salary)	Achievement	Value of bonus/ shares	Receive	Additional
Executive Vice Chairman	A	$696,267	150%	103.0%	$717,058	Cash now (March 2017)	None
	B		150%	103.0%	$717,058	Shares in 2 years from May 2017	50% of total shares unsaleable until five years after grant
	C		100%	60.3%	$419,694	Shares in 3 years from May 2017	

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

The Company continued to operate the EIP in 2016. The outstanding share awards under the EIP and LTIP 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)	Exercise price	Face value[2]
Said Darwazah	LTIP	Conditional award	15-May-14	15-May-17	200% salary	63,000	Nil	$1,223,260
	EIP Element B	Conditional award	15-May-15	15-May-17	150% salary	41,000	Nil	$955,002
	EIP Element C	Conditional award	15-May-15	15-May-18	100% salary	27,000	Nil	$628,904
	EIP Element B	Conditional award	17-Mar-16	17-Mar-18	147% salary	68,346	Nil	$1,591,965
	EIP Element C	Conditional award	17-Mar-16	17-Mar-19	97% salary	45,100	Nil	$1,050,502
Total						**244,446 (2015: 233,000)**		**$2,807,165**
Mazen Darwazah	LTIP	Conditional award	15-May-14	15-May-17	200% salary	46,000	Nil	$893,174
	EIP Element B	Conditional award	15-May-15	15-May-17	150% salary	30,000	Nil	$698,782
	EIP Element C	Conditional award	15-May-15	15-May-18	100% salary	20,000	Nil	$465,855
	EIP Element B	Conditional award	17-Mar-16	17-Mar-18	147% salary	38,501	Nil	$896,793
	EIP Element C	Conditional award	17-Mar-16	17-Mar-19	97% salary	25,406	Nil	$591,775
Total						**159,907 (2015: 149,000)**		**$2,057,810**

1. The performance criteria for the LTIP are TSR, revenue growth, EPS growth, and ROIC, as detailed in previous awards on page 125. The performance criteria for Elements B and C of the EIP are met before grant. However, Element B is subject to forfeiture criteria for the first two years after grant, which are detailed part of the next year's EIP performance criteria on pages 126 to 129.
2. The face value is calculated using the vesting percentages described earlier in this section and the closing share price of £18.93p and foreign exchange rates of $1.23016 to £1 on 31 December 2016. The actual value received by Executive Directors under the share incentive arrangements is dependent upon the share price of Hikma at the time of exercise, the satisfaction of performance criteria (LTIP) and the non-occurrence of forfeiture events (EIP Element B).

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

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

Date	Market price (Closing price)
1 January 2016	2,233p
31 December 2016	1,893p
2016 Range (low to high)	1,624p to 2,676p
14 March 2017	2,130p

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 5% of this 10% for discretionary share plans. The following table summarises the current level of dilution resulting from Company share plans since 2006:

Type of plan	Granted in a rolling ten-year period	Granted during the year
Discretionary Share Plans (5% Limit)	4.03%	0.34%

Director share interests

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

	Darhold		Personal	
Director	Interest in Darhold	Effective Hikma shares	Shares (inc connected people)	Total shareholding
Said Darwazah	21.67%	13,003,009	1,139,043	14,142,052
Mazen Darwazah*	10.92%	6,551,297	1,346,625	7,897,922
Ali Al-Husry**	8.01%	4,808,542	1,162,811	5,971,353

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

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

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

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

	Ownership requirements				Conditional shares			
Director	Percentage of salary	Number of shares	Requirement fulfilled?	Total shares owned	LTIP subject to performance	EIP subject to performance	EIP not subject to performance	Total share interests
Said Darwazah	300%	159,191	Yes	14,142,052	63,000	109,346	72,100	14,386,498
Mazen Darwazah[1]	300%	89,676	Yes	7,897,922	46,000	68,501	45,406	8,057,829
Robert Pickering	–	–	–	10,000	–	–	–	10,000
Pat Butler	–	–	–	3,875	–	–	–	3,875
Michael Ashton	–	–	–	18,566	–	–	–	18,566
Ali Al-Husry[2]	–	–	–	5,971,353	–	–	–	5,971,353
Dr Ronald Goode	–	–	–	12,000	–	–	–	12,000
Dr Pamela Kirby	–	–	–	3,317	–	–	–	3,317
Dr Jochen Gann[3]	–	–	–	0	–	–	–	0
John Castellani	–	–	–	2,500	–	–	–	2,500
Nina Henderson	–	–	–	0	–	–	–	0

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 vehicle called DYKB Limited.
3. Dr Jochen Gann is senior executive in Boehringer Ingelheim who hold 40m (16.7%) shares in Hikma.

The share price used to calculate whether the shareholding requirements have been met is the price on 31 December 2016 of £18.93p and foreign exchange rates of $1.23016 to £1 on the same date. The information in the table above has been audited by PwC.

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

Director	Date	Event	No. Shares
Mazen Darwazah	17 May 2016	Exercise of LTIP. Retained all shares.	45,924
Said Darwazah	17 May 2016	Exercise of LTIP. Retained all shares.	88,383
Robert Pickering	21 March 2016	Purchase of shares.	2,500
Pat Butler	24 March 2016	Purchase of shares.	2,500
Dr Ronald Goode	25 August 2016	Purchase of shares.	2,000
John Castellani	11 April 2016	Purchase of shares.	2,500

Scheme interests

The following table sets out details of the 'scheme interests' of the Directors. Element C of the EIP has been excluded from the table because it does not qualify as a 'scheme interest' (defined in the Regulations) due to the performance period being a single year. The LTIP and Element B of the EIP have been included because they have performance periods of three years and one year plus a two-year forfeiture condition, respectively:

	Type of interest		Performance measures		Vested but unexercised	Exercised during the year	Gain on exercise
Director	Shares	Share options	Yes	No			
Said Darwazah	–	244,446	172,346	72,100	–	88,383	$2,870,939
Mazen Darwazah	–	159,907	114,501	45,406	–	45,924	$1,491,746
Robert Pickering	–	–	–	–	–	–	–
Michael Ashton	–	–	–	–	–	–	–
Ali Al-Husry	–	–	–	–	–	–	–
Dr Ronald Goode	–	–	–	–	–	–	–
Pat Butler	–	–	–	–	–	–	–
Dr Pamela Kirby	–	–	–	–	–	–	–
Dr Jochen Gann	–	–	–	–	–	–	–
John Castellani	–	–	–	–	–	–	–
Nina Henderson	–	–	–	–	–	–	–

Remuneration table

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

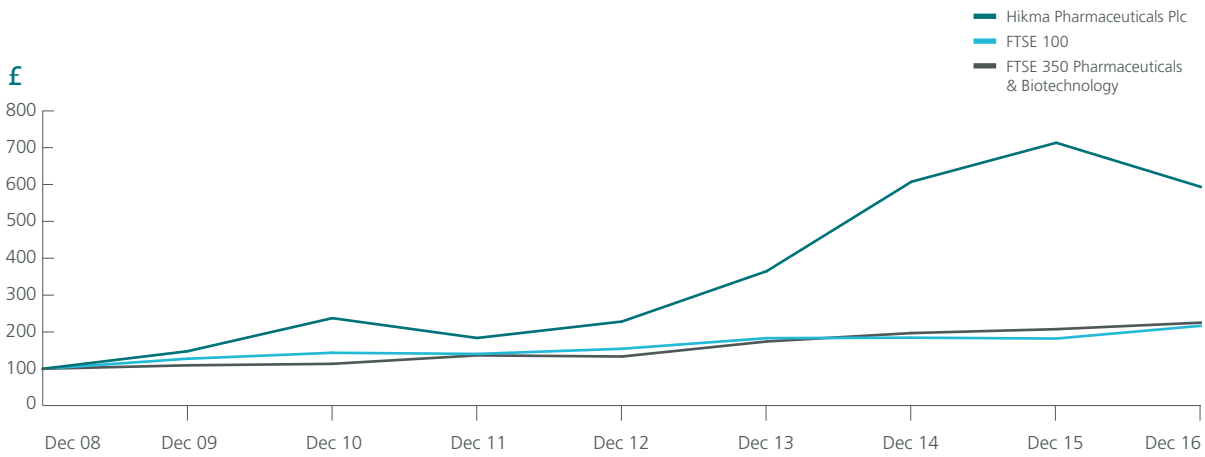
Important note: The total figures for the financial years 2016 and 2015 are higher due to the change from a LTIP award subject to future performance to an EIP based on prior year performance. In accordance with the Regulations, the 2015 and 2016 totals include LTIPs vesting during the relevant period (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 as a cash bonus, although it is an award of shares that will vest three years after grant. The final LTIP awards vest in 2017, after which point the totals in the above table will include Element C only.

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

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

Total shareholder return

The graph below shows the growth in value of £100 invested in Hikma ordinary shares compared to the FTSE 100 and FTSE 350 pharmaceutical sector from 31 December 2008 to 31 December 2016. The Company has chosen these comparators because the Company is a constituent, the comparators are largely unaffected by foreign exchange changes and relevant data is readily available.



CEO and average employee change

The table below shows how the percentage change in the Chief Executive Officer's (CEO) salary, benefits and bonus between 2015 and 2016 compares with the percentage change in the average of each of those components of pay for employees.

	Salary			Benefits			Bonus		
	2016	2015	Percentage change	**2016**	2015	Percentage change	**2016**	2015	Percentage change
CEO	**$1,236,000**	$1,200,000	3.0%	**$85,000**	$12,000	608.3%	**$2,116,299**	$2,928,000	-27.7%
Employees ($m)	**278**	185	50.3%	**94**	78	20.5%	**42**	46.9	-10.4%
Number of employees	**8,339**	7,189	16.0%	**8,339**	7,189	16.0%	**8,339**	7,189	16.0%
Average per employee	**$33,337**	$25,734	29.5%	**$11,272**	$10,850	3.9%	**$5,037**	$6,524	-22.8%

The Group's pay review which took effect from 1 January 2016 awarded average percentage increases in wages and salaries of 3.0% for existing employees. The nature and level of benefits to employees in the year ended 31 December 2016 were broadly similar to those in the previous year. The increased level of benefits for the Chairman and CEO relates to a re-assessment of transportation costs and depreciation. The total amount of bonuses paid to employees (excluding the Executive Directors) in respect of the year ended 31 December 2016 was 22.8% lower than in 2015.

Relative importance of spend on pay

The following table sets out the total amount spent in 2016 and 2015 on remuneration of the Group's employees and major distributions to shareholders.

Distribution expense	**2016**	2015	% change from 2015 to 2016
Employee remuneration	**$465m**	$362m	30.6%
Distributions to shareholders	**$79m**	$64m	23.4%

Non-Executive Directors

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

Individual		2016				2015			
Non-Executive Director	Board position	**Fee (all elements) £,000**	**Taxable travels benefits[1] £,000**	**Other expenses £,000**	**Total £,000**	Fee (all elements) £,000	Taxable travel benefits £,000	Other expenses[2] £,000	Total £,000
Robert Pickering	Senior Independent Director	**101.0**	**–**	**–**	**101.0**	98.5	–	–	98.5
Patrick Butler	Audit Committee Chair	**109.0**	**–**	**–**	**109.0**	99.2	–	–	99.2
Michael Ashton	Independent Director	**96.7**	**11.5**	**–**	**108.2**	98.5	6.4	–	104.9
Dr Ronald Goode	CRE Committee Chair	**101.0**	**10.7**	**–**	**111.7**	98.5	6.7	–	105.2
Dr Pamela Kirby	Remuneration Committee Chair	**97.3**	**–**	**–**	**97.3**	90.5	–	–	90.5
Breffni Byrne*	Independent Director	**34.9**	**–**	**–**	**34.9**	97.8	2.8	–	100.6
Ali Al-Husry	Non-Executive Director	**85.0**	**–**	**–**	**85.0**	82.5	–	–	82.5
Dr Jochen Gann*	Non-Executive Director	**70.8**	**–**	**–**	**70.8**	–	–	–	–
John Castellani*	CRE Committee Chair Designate	**77.5**	**0.9**	**–**	**78.4**	–	–	–	–
Nina Henderson*[3]	Independent Director	**–**	**–**	**–**	**–**	–	–	–	–
Samih Darwazah	Chairman (retired)	**–**	**–**	**–**	**–**	–	–	714.1	714.1

1. 'Taxable travel benefits' refers to certain accommodation expenses for Non-Executive Directors that are wholly related to their attendance at Board meetings and are in accordance with normal Hikma expense policy. These expenses are treated as a taxable benefit by the UK authorities and the above figure includes the corresponding tax contribution.
2. 'Other expenses' refers to costs associated with Mr Samih Darwazah, the founder and Life President of Hikma, who passed away in 2015. The Company paid certain medical, transport and accommodation expenses related to his treatment whilst ill and following his death held commemorative events. The expenses were paid in recognition of the high level of regard in which he was held and in acknowledgement of his unique contribution to the Company.
3. Nina Henderson was due to receive fees of £23,300 for services during 2016. These fees were paid in 2017 and, in accordance with regulations, will be included in the 2017 table.

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

Payments to past Directors and for loss of office

There were no payments for loss of office during the financial year. There was one payment in 2015 to a past Director which related to Mr Samih Darwazah and is disclosed in the 'Non-Executive Directors' table above. The information in this paragraph has been audited by PwC.

Letters of appointment

The Non-Executive Directors have letters of appointment with Hikma, not service contracts. Appointments are made for a period of 36 months.

Non-Executive Director	Date of appointment	Notice payment
Robert Pickering	1 September 2011	1 month
Michael Ashton	14 October 2005	1 month
Ali Al-Husry	14 October 2005	1 month
Dr Ronald Goode	12 December 2006	1 month
Pat Butler	1 April 2014	1 month
Dr Pamela Kirby	1 December 2014	1 month
Dr Jochen Gann	29 February 2016	1 month
John Castellani	1 March 2016	1 month
Nina Henderson	1 October 2016	1 month

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

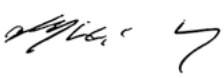
External appointments

The Committee recognises that Executive Directors may be invited to take up non-executive directorships or public sector and not-for-profit appointments, and that these can broaden the experience, network and knowledge of the Director, from which Hikma can benefit. Executive Directors may accept external appointments as long as they do not lead to a conflict of interest and are allowed to retain any fees. During the year under review, Said Darwazah and Mazen Darwazah received fees of $28,000 (2015: $10,000) and $10,000 (2015: $10,000) respectively relating to external appointments which are detailed in their Director profiles on page 71. The process for controlling these appointments is described in the governance statement on page 80.

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

14 March 2017

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 2016. 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):

- Long-term incentive schemes: Directors' remuneration report, pages 125 and 130
- Related party transactions: Note 40 of the financial statements, page 193
- Going concern statement: Risk and control, page 61
- Names and biographical details of the Directors: corporate governance report, pages 71 to 73
- Independence of Non-Executive Directors: corporate governance report, page 77
- Directors' share interests: Directors' remuneration report, page 131 to 132
- Greenhouse gas emissions: Sustainability report, page 48
- Financial instruments and risk: Notes 30 and 31 of the financial statements page 182 to 187

Financial

Principal activity

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

The Group's net sales, gross profit and operating profit are shown by business segment in Note 4 to the consolidated financial statements on pages 163 to 165.

Results

The Group's profit for the year in 2016 was $158 million (2015: $254 million).

Dividend

The Board is recommending a final dividend of 22 cents per share (approximately 18 pence) (2015: 21 cents). The proposed dividend will be paid on 25 May 2017 to shareholders on the register on 7 April 2017, subject to approval at the Annual General Meeting ("**AGM**") on 19 May 2017. An interim dividend of 11 cents per share was paid on 30 September 2016 (2015: 11 cents). The total dividend for the year 2016 is 33.0 cents per share (2015: 32.0 cents).

Creditor payment policy

Hikma's policy, which is also applied by the Group and will continue in respect of the 2017 financial year, is to settle terms of payment with all suppliers when agreeing the terms of each transaction and to ensure that suppliers are made aware of and abide by the terms of payment. Trade creditors of Hikma at 31 December 2016 were equivalent to 65 days' purchases (2015: 81 days), based on the average daily amount invoiced by suppliers during the year.

Donations

During the year the Group made charitable donations of approximately $2.3 million (2015: $1.8 million):

Type of donation	Amount donated in 2015 ($)	Amount donated in 2016 ($)
Local charities serving communities in which the Group operates	1,622,628	1,611,657
Medical (donations in kind)	127,399	665,851
Political donations and expenditure	Nil	Nil
Total	1,750,027	2,277,508

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

Research and development

The Group's investment in research and development (R&D) during 2016 represented 7.7% of Group revenue (2015: 2.8%). Additionally, the Group invested extensively in the purchase of certain products and West-Ward Columbus. Further details on the Group's R&D activities can be found on page 10.

Interest

The interest capitalised during the year under review was $0.3m (2015: $0.3m). The tax relief related to the capitalised interest was $0.1m (2015: $0.1m).

Significant contracts

Due to the nature of the Group's business, members of the Group are party to agreements that could alter or be terminated upon a change of control of the Group following a takeover. However, none of these agreements is individually deemed to be significant in terms of its potential impact on the business of the Group taken as a whole. The Directors are not aware of any agreements between Hikma and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid, other than as follows. The Company has an agreement with one senior executive, below Board level, which allows for compensation for loss of office with an estimated value of $6.6m, based on share and foreign exchange values on 31 December 2016.

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 re-election on an annual basis. Accordingly, Mr Said Darwazah, Mr Mazen Darwazah, Mr Robert Pickering, Mr Ali Al-Husry, Dr Ronald Goode, Mr Patrick Butler, Dr Pamela Kirby, Dr Jochen Gann, Mr John Castellani and Ms Nina Henderson will seek election or re-election at the AGM. Mr Michael Ashton will retire from the Board at the close of the AGM.

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.

Indemnities

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

Employment

During this year, the Company continued to operate its existing employee engagement mechanisms which include intra-group communications, social networking, an open door policy for legitimate union representatives and the operation of share incentive arrangements. The Company does not discriminate against a potential employee on grounds of disability and will make reasonable adjustments to employ and develop such persons.

Equity

Capital structure

Details of the issued share capital, together with movements in the issued share capital during the year, can be found in Note 33 to the financial statements. Hikma has one class of ordinary shares of 10 pence each ("**Shares**") which carries no right to fixed income. Each share carries the right to one vote at general meetings of Hikma. As at 31 December 2016:

Type	Nominal value	In issue	Issued during the year
Ordinary	10 pence	239,954,532	40,569,414

On 29 February 2016, the Company issued 40,000,000 ordinary shares to Boehringer Ingelheim pursuant to the acquisition of Roxane Laboratories that was approved by shareholders on 19 February 2016. Otherwise, during 2016, Hikma issued ordinary shares solely pursuant to the exercise of options under the 2004 Stock Option Plan, 2005 Long Term Incentive Plan, 2009 Management Incentive Plan and 2014 Executive Incentive Plan.

There are no specific restrictions on the size of a holding or on the transfer of Shares, which are both governed by the general provisions of Hikma's Articles of Association (the "**Articles**") and prevailing legislation. Other than the shareholder agreement between Boehringer Ingelheim ("**BI**") and Hikma (the "**Agreement**"), the Directors are not aware of any agreements between holders of Hikma's Shares that may have resulted in restrictions on the transfer of securities or on voting rights. The Agreement restricts BI's voting rights to 28,500,000 Shares and the onward transfer of Shares until 1 January 2018, as disclosed in the combined Prospectus and Circular posted to shareholders on 21 January 2016. No person has any special rights with regard to the control of Hikma's share capital and all issued Shares are fully paid. Hikma has not placed any Shares into treasury during the period under review.

Share buy-back

At the AGM on 12 May 2016, 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 2017 or the 2017 AGM, which is scheduled for 19 May 2017. The Directors have not used this authority during the year, but are proposing to renew this authority at the 2017 AGM. Additionally, at the Extraordinary General Meeting held on 19 February 2016, shareholders gave the Directors authority to re-purchase Shares from Boehringer Ingelheim that were issued in respect of the Roxane acquisition. This authority expires on 22 January 2021.

Share issuance

At the AGM on 12 May 2016, the Directors were authorised to issue relevant securities up to an aggregate nominal amount of £7,979,517 and to be empowered to allot equity securities for cash on a non pre-emptive basis up to an aggregate nominal amount of £2,393,855 at any time up to the earlier of the date of the 2017 AGM or 30 June 2017. The Directors propose to renew these authorities at the 2017 AGM for a further year. In the year ahead, other than in respect of Hikma's obligations to satisfy rights granted to employees under its various share-based incentive arrangements, the Directors have no present intention of issuing any additional share capital of Hikma.

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

Annual General Meeting

The AGM of Hikma will be held at Sofitel St James, 6 Waterloo Place, London SW1Y 4AN on Friday, 19 May 2017, starting at 10.00 a.m. The Notice convening the meeting is given in a separate document accompanying this document, and includes a commentary on the business of the AGM, and notes to help shareholders exercise their rights at the meeting.

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

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

Substantial shareholdings

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

Name of shareholder	Number of shares	Percentage held
Darhold Limited[1]	60,000,000	25.0%
Boehringer Ingelheim GmbH[2]	40,000,000	16.7%
Capital Group International	24,161,331	10.1%
Fidelity International	9,791,950	4.1%

1. Messrs Said Darwazah, Mazen Darwazah and Ali Al-Husry, each being a Director and shareholder of Hikma, are shareholders and non-executive directors of Darhold Limited. See page 131 for details of their holdings in Darhold Limited.
2. Dr Jochen Gann is a Director of Hikma and a senior executive of Boehringer Ingelheim GmbH.

Pre-emptive issue of shares

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

Directors' responsibility statement

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm to the best of our knowledge:

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

By order of the Board

Said Darwazah
Chairman and Chief Executive

14 March 2017

Mazen Darwazah
Executive Vice Chairman

14 March 2017

Independent auditors' report to the members of Hikma Pharmaceuticals PLC

Report on the financial statements

Our opinion

In our opinion:

- Hikma Pharmaceuticals plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2016 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

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

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

What we have audited

The Group and Company financial statements, included within the Annual Report, comprise:

- the consolidated and Company balance sheets as at 31 December 2016;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated and Company cash flow statement for the year then ended;
- the consolidated and Company statement of changes in equity for the year then ended; and
- the notes to the Group and Company financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the Group financial statements is IFRSs as adopted by the European Union, IFRSs as issued by the IASB, and applicable law. The financial reporting framework that has been applied in the preparation of the Company financial statements is IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

Our audit approach

Overview

- Overall Group materiality: $13,275,000 which represents 5% of profit before tax after adding back certain non-recurring items such as the gain on sale of prednisone, Roxane acquisition costs and purchase accounting adjustment items
- Our audit included full scope audits of 7 components as well as procedures performed centrally over specific material balances at other locations around the world. Taken together these account for 83% of consolidated revenue, 79% of the adjusted profit measure we use as the basis for determining materiality and 78% of consolidated profit before tax
- Acquisition accounting for the Roxane transaction
- Revenue recognition
- Impairment of goodwill and intangible assets
- Taxation

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	*How our audit addressed the area of focus*
Acquisition accounting for the Roxane transaction	
On 29 February 2016, the Group completed its transaction to acquire the Roxane business from Boehringer Ingelheim, for a purchase price consideration of $1,725 million. The acquisition required the Company to prepare valuation models to determine the fair value of assets and liabilities acquired as part of the acquisition and resulted in the recognition of $407 million of goodwill and $723 million of intangible assets. A number of internal restructuring steps were also undertaken following the acquisition, which gave rise to complex taxation consequences. The business combination required significant judgements and accounting estimates to be made in order to fair value the acquired assets and liabilities of the Roxane business, including the intangible asset valuation, the supply and manufacturing agreement, contingent consideration on the acquisition and co-development agreements. Refer to the audit committee review of areas of significant accounting judgements page 88 and acquisition of businesses note 43.	Hikma management engaged a third-party expert to provide valuation support with respect to the determination of the fair value of Roxane's assets and liabilities under IFRS 3. We engaged our valuations experts to assist our audit of the purchase price allocation, specifically examining the methodology, underlying cash flows and useful economic life and other key assumptions and mathematical accuracy of the valuation models prepared by management. We challenged management's identification of intangible assets, specifically the Marketed and In Process Research and Development elements, by understanding and verifying the rationale for the purchase and the status of products purchased from different sources including Board minutes and due diligence reports. For those assets identified, we assessed the reasonableness of the cash flow projections that underpin the valuation of the intangible assets, by comparing to historical cash flows and understanding the reasons for the growth profile of projections. We challenged the key assumptions, including discount rate and cash flow growth projections, used in determining management's estimate of the future cash flows associated with the intangible assets valuations and satisfied ourselves that they were reasonable. In relation to the contingent consideration, we assessed the accuracy of management's forecasted future sales volumes. We agreed the sales forecasts to the Board-approved plans, and consulted with our accounting technical experts on the correct accounting treatment of these liabilities. We are satisfied that management has appropriately valued its contingent liability at year-end, and has reflected the correct accounting treatment in the underlying books and records. With respect to the valuation of other acquired assets, we performed the following substantive procedures: • audited the acquired opening balances and substantively agreed a number of items back to supporting documentation to verify their valuation; • attendance at inventory counts shortly after the acquisition date; • challenged management over the valuation of the unfavourable supply and manufacturing contract held in the opening balance sheet. As well as validating the accuracy of the valuation models, we agreed a sample of inputs back to supporting documentation; and • physical verification of assets acquired and testing over the cut-off of selected revenue streams and costs. As a result of our work, we determined that the purchase price allocations for the acquisition outlined in the Group financial statements were reasonable. We engaged our tax specialists to examine the internal restructuring which occurred subsequent to the acquisition, in order to determine whether the resultant tax effects were accounted for appropriately, and to ensure that any estimates made by management were based on reasonable assumptions. Finally, we examined the disclosures in respect of each aspect of the transaction and found them to be reasonable, providing a fair reflection of the accounting and valuations judgements.

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

Area of focus	*How our audit addressed the area of focus*
Revenue recognition	
A description of the key accounting policies for revenue recognition, chargebacks and returns is included in Note 2. Management are required to make certain judgements in respect of revenue recognition and the level of chargebacks, returns and other revenue deductions that will be realised against the Group's revenue. These estimates are material to the financial statements and are highly judgemental, hence the reason for inclusion as an area of focus. The largest of these judgements relate to revenue recognition, chargebacks and returns, for which the Group held provisions as at 31 December 2016. For these estimates, management are required to make significant judgements based on historical rates and trends in order to determine these provisions. It is not always possible for management to make a reliable estimate of the revenue that it will earn, as significant pricing volatility continues to exist. In one case, revenue recognition is deferred until the point at which such clarity is available, known as the "sell-through" method. As at 31 December 2016, the amount of deferred revenue is $13 million. The estimation of the accrual made by management is complex and particularly significant in the US where pricing pressure and discounting are increasingly prevalent. As disclosed in the Annual Report, a whistleblower alert was received alleging issues in relation to revenue recognition in Algeria. Management's investigation did not identify any issues with the application of the revenue recognition policy. Refer to the audit committee review of areas of significant accounting judgements page 88, significant accounting policies note 2 and other current liabilities note 27.	We considered the Group's processes for making judgements in this area and performed the following procedures: We assessed applicable controls in place around this process, tested the nature of the pricing arrangements and the accuracy of calculations and agreed the rates in customer agreements with those used in management's calculations of the required provisions. We compared the assumptions to contracted product prices and rebate terms, historical rebates, discounts, allowances and returns levels (where relevant) and to current payment trends. We also validated assumptions used in the accrual calculation by comparison to historical levels of product returns and external information. For the product where revenue is deferred, we obtained management's calculations with respect to pricing assumptions, and validated the underlying calculations by comparing to historical data, as well as examining the terms of applicable contracts. We also vouched the deferred amount to historical revenue trends, price volatility and post year end settlements to validate the accuracy of management's deferral estimates and the appropriate application of the accounting treatment. Of the $13 million deferred revenue at 31 December 2016, we challenged management on this judgement and utilised our knowledge of the market to determine if management's assertion that it was not possible to reliably measure the price was appropriate. Based on our work performed on the above estimates, we noted no material misstatements in the appropriateness of revenue recorded for the year. Following the whistleblower alert in Algeria referred to in the audit committee report we extended the amount of substantive testing procedures to address the risk in revenue recognition at each of the in scope components, and found no material misstatements.

Area of focus	*How our audit addressed the area of focus*
Taxation	
The Group operates across a large number of jurisdictions due to its geographic spread, resulting in complex cross-border tax arrangements. As a result, it is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business including transaction related tax matters and transfer pricing arrangements. In addition, the Group acquired Roxane during the year, and this acquisition has several complex tax consequences. We focused on matters relating to the acquisition, the recognition, measurement and recoverability of deferred tax assets in the US which has the largest balance, and the judgements involved in assessing the level of uncertain tax provisions. Refer to the audit committee review of areas of significant accounting judgements page 88, tax note 11 and deferred tax note 17.	In conjunction with our UK, US, international tax and transfer pricing specialists, we evaluated and challenged management's judgements in respect of the taxation impacts of the Roxane acquisition, estimates involved in the measurement of uncertain tax provisions and judgements taken in the measurement of deferred tax assets. We assessed the application of International Accounting Standard 12 – *Income Taxes* in determining the tax base of the deferred tax assets, and assessed recoverability of assets against forecast taxable income. Where this has involved judgements, we challenged the judgements made by management and evaluated these in the context of the evidence available including examining correspondence with tax authorities. In understanding and evaluating management's judgement relating to the level of provisioning for uncertain tax positions, we considered the status of ongoing tax authority audits, the outcome of previous tax authority audits, and developments in the tax environment. The assumptions and the judgements involved mean that there is a broad range of potential outcomes, but from the evidence available, we considered that the level of provisioning and disclosure is acceptable in the context of the Group's financial statements.
Impairment of goodwill and intangible assets	
The Group has goodwill of $682 million and intangible assets of $1,719 million. All cash generating units ("CGUs") containing goodwill and indefinite –lived intangible assets must be tested for impairment annually. The determination of recoverable amount, being the higher of value-in-use and fair value less costs of disposal, requires judgement on the part of management in identifying and then estimating the recoverable amount for the relevant CGUs. Recoverable amounts are based on management's view of future cash flow forecasts and external market conditions such as future pricing and the most appropriate discount rate. Management performed an annual impairment assessment which included the assumptions and estimates around the success of future product launches, profit margins, growth rates and discount rates. Changes in these assumptions might give rise to a change in the carrying value of intangibles and goodwill. Refer to the audit committee review of areas of significant accounting judgements page 88 and intangible assets note 14.	We obtained the Group's impairment analyses and tested the integrity of the calculations. We assessed the determination of the CGUs identified for the impairment calculation by considering the CGU's previously used as well as from our understanding of the business and how it is monitored. We also tested the reasonableness of the key assumptions by challenging management and where possible agreeing information to third party sources. In particular, given the key sensitivity around future cash flows we performed the following procedures: • corroborated the information to Board approved budgets and forecasts; • performed look back testing to understand how accurate management had been in its forecasting previously; • considered analysts' reports and other market information over expected future market shares and pricing; and • recalculated the weighted average cost of capital and considered if the amount was within a reasonable range; management's rate of 12.5% was considered to be at the higher end of the range for the US generics business. We also obtained management's sensitivity analyses which showed the impact of reasonably possible changes to key assumptions and we performed an independent calculation to quantify the change in key assumptions which would be necessary to require an impairment charge. We determined the judgement made by the Directors that no impairment was required and the disclosures made in the financial statements to be reasonable.

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

How we tailored the audit scope

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

Given 2016 was our first year as external auditors we performed specific procedures over opening balances including reviews of the working papers of the predecessor auditor both at a Group and component level and other relevant procedures where these were not available, with the exception of one component where the local auditor has not changed. Our half year review was also used, together with procedures performed prior to year-end on evaluating component procedures and controls and visits by senior team members to component locations, to refine the audit approach which we had begun to develop as part of our transition following appointment.

As at 31 December 2016 Hikma Pharmaceutical plc had in total 64 entities (subsidiaries and associates) as part of the Group. These entities may operate solely in one segment but more commonly operate across two. Each territory ("Component") submits a Group Reporting package to Hikma's central accounting team including its income and financial position prepared under Group Accounting policies which are in compliance with IFRSs. We requested Component teams in the US (West-Ward Eatontown and West-Ward Columbus), Jordan (Hikma Pharmaceuticals), Saudi Arabia (Hikma Al Jazeera Pharmaceuticals Industries), Algeria (Hikma Pharma Algeria) and Portugal (Hikma Farmaceutica) to audit reporting packages of certain entities in these territories and report the results of their full scope work to us. This work was supplemented by procedures over specific balances performed centrally including the consolidation, acquisitions, taxation and certain Component balances not covered by local Component teams.

The involvement of the Group audit team in the work of the component auditors included conference calls, meetings with local management, review of working papers, attendance at audit clearance meetings, and other forms of communication as considered necessary depending on the significance of the component and the extent of accounting and audit issues arising. Given this was our first year as Hikma's auditors, senior members of the Group audit team also visited the US, Algeria, Saudi Arabia, Jordan and Portugal. Due to its financial significance and the acquisition of Roxane during 2016, the extent of visits and dialogue with the US Component teams was more extensive.

Taken together our audit work accounted for 83% of consolidated revenue, 79% of the adjusted profit measure we use as a basis for determining materiality and 78% of consolidated profit before tax.

Materiality

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

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

Overall Group materiality	$13,275,000
How we determined it	5% of profit before tax from continuing operations after adding back certain non-recurring items such as the gain on sale of prednisone, Roxane acquisition costs and purchase accounting adjustment items.
Rationale for benchmark applied	The Group's principal measure of earnings is Core profit. Management believes that it reflects the underlying performance of the Group and is a more meaningful measure of the Group's performance. We took this measure into account in determining our materiality but did not add back certain non-core items unless we deemed them to be truly non-recurring in nature. Our materiality would have been higher if we had adjusted for all non-core items.
Component materiality	We instructed each Component team to perform work to a materiality level which was below that of the Group. This ranged between $1 million for the Algerian Component and $10 million for each of the US Components.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $500,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 61, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

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 financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 88, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on page 88, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

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

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the directors' confirmation on page 54 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the directors' explanation on page 60 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 139, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Charles van den Arend
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

14 March 2017

Consolidated income statement

For the year ended 31 December 2016

	Note	2016 Core results $m	2016 Exceptional items and other adjustments (note 5) $m	2016 Reported results $m	2015 Core results $m	2015 Exceptional items and other adjustments (note 5) $m	2015 Reported results $m
Continuing operations							
Revenue	4	**1,950**	**–**	**1,950**	1,440	–	1,440
Cost of sales	4	**(932)**	**(32)**	**(964)**	(622)	–	(622)
Gross profit	4	**1,018**	**(32)**	**986**	818	–	818
Sales and marketing expenses		**(184)**	**(37)**	**(221)**	(156)	(16)	(172)
General and administrative expenses		**(208)**	**(36)**	**(244)**	(180)	(20)	(200)
Research and development expenses		**(126)**	**(24)**	**(150)**	(36)	–	(36)
Other operating expenses (net)	8	**(81)**	**12**	**(69)**	(37)	8	(29)
Total operating expenses		**(599)**	**(85)**	**(684)**	(409)	(28)	(437)
Operating profit	4	**419**	**(117)**	**302**	409	(28)	381
Loss/impairment of associates	16	**–**	**–**	**–**	(2)	(7)	(9)
Finance income	9	**3**	**9**	**12**	3	–	3
Finance expense	10	**(63)**	**(41)**	**(104)**	(55)	(2)	(57)
Profit before tax		**359**	**(149)**	**210**	355	(37)	318
Tax	11	**(80)**	**28**	**(52)**	(67)	3	(64)
Profit for the year	6	**279**	**(121)**	**158**	288	(34)	254
Attributable to:							
Non-controlling interests	34	**3**	**–**	**3**	2	–	2
Equity holders of the parent		**276**	**(121)**	**155**	286	(34)	252
		279	**(121)**	**158**	288	(34)	254
Earnings per share (cents)							
Basic	13	**118.5**		**66.5**	143.7		126.6
Diluted	13	**117.9**		**66.2**	142.3		125.4

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 $m	2015 $m
Profit for the year		**158**	254
Other comprehensive income			
Items that may be reclassified subsequently to the income statement, net of tax:			
Effect of change in investment designated at fair value	23	**1**	–
Exchange difference on translation of foreign operations		**(90)**	(67)
Total comprehensive income for the year		**69**	187
Attributable to:			
Non-controlling interests	34	**–**	(2)
Equity holders of the parent		**69**	189
		69	187

Consolidated balance sheet

At 31 December 2016

	Note	2016 $m	2015 $m
Non-current assets			
Intangible assets	14	**1,719**	607
Property, plant and equipment	15	**969**	507
Investment in associates and joint ventures	16	**7**	7
Deferred tax assets	17	**172**	70
Financial and other non-current assets	18	**48**	46
		2,915	**1,237**
Current assets			
Inventories	19	**459**	251
Income tax asset		**2**	3
Trade and other receivables	20	**759**	488
Collateralised and restricted cash	21	**7**	40
Cash and cash equivalents	22	**155**	553
Other current assets	23	**66**	25
		1,448	**1,360**
Total assets		**4,363**	**2,597**
Current liabilities			
Bank overdrafts and loans	24	**117**	115
Trade and other payables	25	**343**	276
Income tax provision		**112**	75
Other provisions	26	**27**	28
Other current liabilities	27	**319**	98
		918	**592**
Net current assets		**530**	**768**
Non-current liabilities			
Long-term financial debts	28	**721**	590
Obligations under finance leases	29	**21**	22
Deferred tax liabilities	17	**15**	21
Other non-current liabilities	32	**277**	20
		1,034	**653**
Total liabilities		**1,952**	**1,245**
Net assets		**2,411**	**1,352**
Equity			
Share capital	33	**40**	35
Share premium		**282**	282
Own shares	35	**(1)**	(1)
Other reserves		**2,075**	1,021
Equity attributable to equity holders of the parent		**2,396**	**1,337**
Non-controlling interests	34	**15**	15
Total equity		**2,411**	**1,352**

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

Said Darwazah
Director

Mazen Darwazah
Director

14 March 2017

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Merger and Revaluation reserves $m	Translation reserves $m	Retained earnings $m	Total reserves $m	Share capital $m	Share premium $m	Own shares $m	Total equity attributable to equity shareholders of the parent $m	Non-controlling interests $m	Total equity $m
Balance at 1 January 2015	38	(98)	942	882	35	281	(1)	1,197	19	1,216
Profit for the year	–	–	252	252	–	–	–	252	2	254
Currency translation loss	–	(63)	–	(63)	–	–	–	(63)	(4)	(67)
Total comprehensive income for the year	–	(63)	252	189	–	–	–	189	(2)	187
Total transactions with owners, recognised directly in equity										
Issue of equity shares (note 33)	–	–	–	–	–	1	–	1	–	1
Cost of equity-settled employee share scheme (note 38)	–	–	15	15	–	–	–	15	–	15
Deferred tax arising on share-based payments	–	–	(1)	(1)	–	–	–	(1)	–	(1)
Dividends on ordinary shares (note 12)	–	–	(64)	(64)	–	–	–	(64)	(2)	(66)
Balance at 31 December 2015 and 1 January 2016	38	(161)	1,144	1,021	35	282	(1)	1,337	15	1,352
Profit for the year	–	–	155	155	–	–	–	155	3	158
Effect of change in investment designated at fair value (note 23)	–	–	1	1	–	–	–	1	–	1
Currency translation Loss	–	(87)	–	(87)	–	–	–	(87)	(3)	(90)
Total comprehensive income for the year	–	(87)	156	69	–	–	–	69	–	69
Total transactions with owners, recognised directly in equity										
Issue of equity shares for acquisition of a subsidiary (note 33,43)	1,039	–	–	1,039	5	–	–	1,044	–	1,044
Cost of equity-settled employee share scheme (note 38)	–	–	22	22	–	–	–	22	–	22
Deferred tax arising on share-based payments	–	–	1	1	–	–	–	1	–	1
Dividends on ordinary shares (note 12)	–	–	(77)	(77)	–	–	–	(77)	(1)	(78)
Acquisition of subsidiaries (note 43)	–	–	–	–	–	–	–	–	1	1
Balance at 31 December 2016	**1,077**	**(248)**	**1,246**	**2,075**	**40**	**282**	**(1)**	**2,396**	**15**	**2,411**

Consolidated cash flow statement

For the year ended 31 December 2016

	Note	2016 $m	2015 $m
Net cash from operating activities	36	**293**	366
Investing activities			
Purchases of property, plant and equipment		**(122)**	(82)
Proceeds from disposal of property, plant and equipment		**1**	31
Purchase of intangible assets		**(68)**	(55)
Proceeds from disposal of intangible assets		**24**	–
Investment in financial and other non-current assets		**(11)**	–
Investment in available for sale investments		**(6)**	(1)
Investments designated at fair value		**–**	(20)
Acquisition of business undertakings net of cash acquired		**(515)**	–
Finance income		**2**	3
Acquisition related amounts held in escrow account		**–**	(38)
Net cash used in investing activities		**(695)**	(162)
Financing activities			
(Decrease)/increase in collateralised and restricted cash		**(4)**	6
Proceeds from issue of long-term financial debts		**471**	529
Repayment of long-term financial debts		**(326)**	(91)
Proceeds from short-term borrowings		**345**	325
Repayment of short-term borrowings		**(337)**	(595)
Dividends paid		**(77)**	(64)
Dividends paid to non-controlling shareholders of subsidiaries		**(1)**	(2)
Interest paid		**(54)**	(49)
Proceeds from issue of new shares		**–**	1
Proceeds from co-development and earnout payment agreement, net		**2**	17
Net cash generated by financing activities		**19**	77
Net (decrease)/increase in cash and cash equivalents		**(383)**	281
Cash and cash equivalents at beginning of year		**553**	280
Foreign exchange translation movements		**(15)**	(8)
Cash and cash equivalents at end of year		**155**	553

1. Adoption of new and revised standards

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

IFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations
Amendments IFRS 14	Regulatory deferral accounts
IAS 19 (Amendments)	Defined Benefit Plans: Employees Contributions
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 27 (Amendments)	Equity Method in Separate Financial Statements
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and it Associate or Joint venture
IAS 1 (Amendments)	Disclosure Initiative
Annual improvements 2010-2012	
Annual improvements 2012-2014	

The following Standards and Interpretations have not been applied in these financial statements because while in issue, are not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 10, IFRS 12 and IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exemption
IFRS 16	Leases
IAS 12 (Amendments)	Recognition of deferred tax assets for unrealised losses

IFRS 9 will impact both the measurement and disclosure of financial instruments, IFRS 15 may have an impact on revenue recognition and related disclosure, and IFRS 16 will impact leased assets and financial liabilities and related disclosures.

Until a detailed review is completed; the Directors do not find it practical to provide a reasonable estimate of the effects of the above listed IFRS on the financials statements of the Group in future periods.

2. Significant accounting policies

General Information

Hikma Pharmaceuticals PLC is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 212.

Basis of preparation

Hikma Pharmaceuticals PLC's consolidated financial statements are prepared in accordance with:

(i) EU endorsed International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Standards Interpretations Committee and those parts of the Companies Act 2006 as applicable to companies using IFRS.

(ii) International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared under the historical cost convention, except for the revaluation to market of certain financial assets and liabilities.

The Group's previously published financial statements were also prepared in accordance with IFRSs issued by the IASB and also in accordance with IFRSs adopted for use in the European Union.

The presentational and functional currency of Hikma Pharmaceuticals PLC is the US dollar as the majority of the Company's business is conducted in US dollars.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence and therefore considered the going concern basis as appropriate. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements (see page 61).

Basis of consolidation

The consolidated financial statements incorporate the results of Hikma Pharmaceuticals PLC (the Company) and entities controlled by the Company (together the Group).

The consolidated financial statements include:

- The assets and liabilities, and the results and cash flows, of the Company and its subsidiaries,
- The Group's share of the results and net assets of associates and joint ventures

The financial statements of entities consolidated are made up to 31 December each year.

Entities over which the Group has the power to direct the relevant activities so as to affect the returns to the Group, generally through control over the financial and operating policies, are accounted for as subsidiaries. Where the Group has the ability to exercise joint control over, and rights to the net assets of, entities, the entities are accounted for as joint ventures. Where the Group has the ability to exercise significant influence over entities, they are accounted for as associates.

The results and assets and liabilities of associates and joint ventures are incorporated into the consolidated financial statements using the equity method of accounting.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Interests acquired in entities are consolidated from the date the Group acquires control and interests sold are de-consolidated from the date control ceases.

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.

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.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The consideration is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in the consolidated income statement as incurred. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in those fair values can only affect the measurement of goodwill where they occur during the 'measurement period' and are as a result of additional information becoming available about facts and circumstances that existed at the acquisition date. All other changes are dealt with in accordance with relevant IFRSs. This will usually mean that changes in the fair value of consideration are recognised in the consolidated income statement.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the consolidated income statement.

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

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the aggregate of consideration, non-controlling interest and fair value of previously held equity interest over the fair values of the identifiable net assets acquired. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the consideration, the excess is recognised immediately in the consolidated income statement.

The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Investment in associates

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

2. Significant accounting policies continued

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 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 other comprehensive income.

Hyperinflationary economies

In hyperinflationary economies, when translating the results of operations into US dollars, assets, liabilities, income statement and equity accounts are translated at the rates prevailing on the balance sheet date. Sudan is considered being a hyperinflationary economy in both the years ended 31 December 2015 and 2016. The effect of inflation accounting in Sudan for the years ended 31 December 2016 and 2015 was not material.

Revenue recognition

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

Revenue is recognised in the consolidated income statement when goods or services are supplied or made available to external customers against orders received and when title and risk of loss have passed.

Revenue represents the amounts receivable after the deduction of discounts, value added tax, other sales taxes, allowances given, provisions for chargebacks and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in light of contractual and historical information.

If the ultimate net selling price cannot be reliably measured, revenue recognition is deferred until a reliable measurement can be made. Deferred revenue is included in other current liabilities in the consolidated balance sheet.

Chargebacks

The provision for chargebacks is the most significant and complex estimate used in the recognition of revenue. In the US, the Group sells its products directly to wholesale distributors, generic distributors, retail pharmacy chains and mail-order pharmacies. The Group also sells its products indirectly to independent pharmacies, managed care organisations, hospitals, and group purchasing organisations, collectively referred to as "indirect customers". The Group enters into agreements with its indirect customers to establish pricing for certain products. The indirect customers then independently select a wholesaler from which they purchase the products at agreed-upon prices. The Group will provide credit to the wholesaler for the difference between the agreed-upon price with the indirect customer and the wholesaler's invoice price. This credit is called a chargeback. The provision for chargebacks is based on historical sell-through levels by the Group's wholesale customers to the indirect customers, and estimated wholesaler inventory levels. As sales are made to large wholesale customers, the Group continually monitors the reserve for chargebacks and makes adjustments when it believes that actual chargebacks may differ from estimated reserves.

Returns

The Group has a product return policy that allows customers to return the product within a specified period prior to and subsequent to the expiration date. Provisions for returns are recognised as a reduction of revenue in the period in which the underlying sales are recognised.

The Group estimates its provision for returns based on historical experience, representing management's best estimate. While such experience has enabled reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Group continually monitors the provisions for returns and makes adjustments when it believes that actual product returns may differ from established reserves.

Rebates

In certain countries, rebates are granted to healthcare authorities and under contractual arrangements with certain customers. Products sold in the US are covered by various programmes (such as Medicaid) under which products are sold at a discount.

The Group estimates its provision for rebates based on current contractual terms and conditions as well as historical experience, changes to business practices and credit terms. While such experience has enabled reasonable estimations in the past, history may not always be an accurate indicator of future rebate liabilities. The Group continually monitors the provisions for rebates and makes adjustments when it believes that actual rebates may differ from established reserves. All rebates are recognised in the period in which the underlying sales are recognised as a reduction of revenue.

2. Significant accounting policies continued

Price adjustments

Price adjustments, also known as "shelf stock adjustments", are credits issued to reflect decreases in the selling prices of the Group's products that customers have remaining in their inventories at the time of the price reduction. Decreases in selling prices are discretionary decisions made by Group management to reflect competitive market conditions. Amounts recorded for estimated shelf stock adjustments are based upon specified terms with direct customers, estimated declines in market prices and estimates of inventory held by customers. The Group regularly monitors these and other factors and re-evaluates the reserve as additional information becomes available.

Free goods

Free goods are issued to customers as sale incentives, reimbursement of agreed upon expenses incurred by the customer or as compensation for expired or returned goods. Free goods are recognised at cost at the date at which one of the above conditions is met. The costs associated with free goods are classified as cost of sales.

Share-based payments

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

IFRS 2 'Share-Based Payments' requires an expense to be recognised when the Group buys goods or services in exchange for shares or rights over shares ('share-based payments') or in exchange for other equivalent assets.

The cost of share-based payments' transactions with employees is measured by reference to the fair value at the date at which the share-based payments are granted. The fair value of the equity settled stock options scheme is determined using a binomial model. The fair value of the management incentive plan is determined based on the share price as at the date of grant discounted by dividend yield. The fair value of the long-term incentive plan is determined using a Monte Carlo valuation model, for long-term incentive plan awards made from 2010, 50% of the award is subject to a TSR performance condition which is valued by applying the Monte Carlo simulation methodology, the remaining 50% of the award is subject to financial metrics and valued by applying a Black-Scholes model.

The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations (further details are given in Note 38). In valuing share-based payments, no account is taken of any performance conditions, other than conditions linked to the market price of the shares of Hikma Pharmaceuticals PLC.

The cost of share-based payments is recognised, together with a corresponding increase in equity, on a straight-line basis over the vesting period based on the Group's estimate of equity instruments that will eventually vest. The Group revises its estimate of the number of equity instruments expected to vest (except for failure to satisfy a market vesting condition) and the impact of the revision of the original estimates, if any, is recognised in the consolidated income statement, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. Where the terms of a share-based payments award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the modification date. Where a share-based payments award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for a cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described above. The dilutive effect of outstanding share-based payments is reflected as additional share dilution in the computation of diluted earnings per share.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Dividend income

Income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the operating lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2. Significant accounting policies continued

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a capital lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Government grants

Government grants relating to property, plant and equipment are treated as deferred income and released to the consolidated income statement over the expected useful lives of the assets concerned.

Tax

The Group provides for income tax according to the laws and regulations prevailing in the countries where the Group operates. Furthermore, the Group computes and records deferred tax assets and liabilities according to IAS 12 'Income Taxes'.

The tax expense represents the sum of the tax in the current period and deferred tax.

The current tax incurred in the period is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's tax incurred is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can reverse. To the extent the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, no deferred tax is provided.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is booked on unrealised inter-company profits on inventory sales, to the extent they are expected to unwind, at the rate applicable to the distribution company. Where there is a significant difference between the tax rates of the relevant companies, this creates deferred tax that can materially impact the Group's effective tax rate. In 2016, this had a 6.7% favourable impact on the effective tax rate.

Exceptional items and other adjustments

Exceptional items

The Group presents core earnings by making adjustments for costs and profits which management believes to be exceptional in nature by virtue of their size or incidence or have a distortive effect on current year earnings. Such items include costs associated with business combinations, one-off gains and losses on disposal of businesses assets, reorganisation cost, write-down and impairment charges on assets and impairment of goodwill, net of any tax impact.

Other adjustments

These include amortisation of intangibles excluding software and finance cost resulted from remeasurement of contingent liabilities, net of any tax impact.

Intangible assets

An intangible asset is recognised if:

- it is identifiable;
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group; and
- the cost of the asset can be measured reliably.

The probability of expected future economic benefits is assessed using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

2. Significant accounting policies continued

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 are 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. Payments made to such third parties to fund research and development efforts are recognised as intangible assets if the capitalisation criteria for recognising an intangible asset are met, all other payments are charged to the consolidated income statement.

Principle intangible assets are:

(a) Goodwill: arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

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

(b) Customer relationships: represent the value attributed to the long-term relationships held with existing customers at the date of acquisition and are amortised over their useful economic life.

(c) Product related intangibles:

(i) Product files and under-licenced products recognised through acquisitions, and from development activities are amortised over their useful economic lives once the asset is ready for use.

(ii) In process product files recognised on acquisition are amortised over the useful economic life once the asset is ready for use.

(d) Trade name: some trade names are assigned indefinite useful lives and others have finite useful lives over which they are amortised where applicable, in the period from acquisition.

(e) Marketing rights: are amortised over their useful lives commencing in the year in which the rights first generate sales.

(f) Purchased software: is amortised over the useful economic life when the asset is ready for use.

Property, plant and equipment

Property, plant and equipment have been stated at cost on acquisition and are depreciated on a straight-line basis except for land at the following depreciation rates:

Buildings	2% to 4%
Machinery	5% to 33%
Vehicles, Fixtures and equipment	6% to 33%

A units of production method of depreciation is applied to operations in their start-up phase, as this reflects the expected pattern of consumption of the future economic benefits embodied in the assets. When these assets are fully utilised, a straight-line method of depreciation is applied.

Projects under construction are not depreciated until construction has been completed and assets are considered ready for use.

Any additional costs that extend the useful life of property, plant and equipment are capitalised. Property, plant and equipment which are financed by leases giving Hikma Pharmaceuticals PLC substantially all the risks and rewards of ownership are capitalised at the lower of the fair value of the asset and the present value of the minimum lease payments at the inception of the lease, and depreciated in the same manner as other property, plant and equipment over the shorter of the lease term or their useful life. Whenever the recoverable amount of an asset is impaired, the carrying value is reduced to the recoverable amount and the impairment loss is taken to the consolidated income statement. Projects under construction are carried at cost, less any recognised impairment loss.

Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Impairment of property, plant and equipment and intangible assets

At the same time each year the Group carries out an impairment review for goodwill and other indefinite life intangible assets. At the year end the Group reviews the carrying amounts of its property, plant and equipment and intangible assets that are subject to amortisation to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). In consideration of the impairment review, the Group compare the carrying value of the asset to its recoverable amount.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

2. Significant accounting policies continued

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that it does not exceed the previous revaluation surplus, and any excess is recognised in the consolidated income statement.

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

The Group's Goodwill and intangible assets are tested as follows;

(a) Goodwill is allocated to each of the Group's cash-generating units. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(b) Intangible assets that have an indefinite useful life or 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 tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The assumptions used in the impairment tests are set out in note 14.

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 balance sheet, inventory is primarily valued at standard cost, which approximates to historical cost determined on a moving average basis, and this value is used to determine the cost of sales in the consolidated income statement. Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs necessary to make the sale. Inventory related provisions are made for net realisable value lower than cost, slow moving and short dated inventory.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less and are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets are classified into four categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All financial assets are initially recognised and derecognised on a trade date, where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset and are initially measured at fair value, plus transaction costs. For those financial assets classified as at fair value through profit and loss are initially measured at fair value.

(i) Financial assets at fair value through profit or loss

As part of West-Ward Columbus acquisition, the Group will be reimbursed for certain contingent payments in respect of milestones and other conditions based on future events. Those financial assets are revalued at the end of each reporting period to represent the value of the expected cashflows and the difference is presented as finance cost/income. These financial assets are currently booked under other current and non-current assets in the consolidated balance sheet.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

(ii) Available for sale financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to the consolidated income statement. The Group's investments in unlisted shares that are not traded in an active market and the fair value of which cannot be reliably measured are stated at cost, less a provision for any impairment loss, which is taken to the consolidated income statement.

(iii) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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.

Financial liabilities

Financial liabilities are classified in two categories: financial liabilities 'at FVTPL' or 'other financial liabilities'. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

(i) Financial liabilities at (FVTPL)

The Group currently has two financial liabilities at FVTPL as below:

- Co-development and earn out payment agreements with third parties where the Group earns milestone payments reflecting the achievement of R&D and commercialisation milestones. Those payments are recognised as financial liabilities once received.
- Contingent consideration arising from West-ward Columbus acquisition represent contractual liabilities to make payments to third parties in the form of milestone payments that are dependent on the achievement of certain US FDA approval milestones; and royalty payments based on future sales of certain products that are currently under development. Further details can be seen in note 43.

Financial liabilities are revalued at the end of each reporting period to represent the value of expected future cash outflows and the difference is presented as finance cost/income. These financial liabilities are currently booked under other current and non-current liabilities in the consolidated balance sheet.

(ii) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derivative financial instruments

Derivative financial instruments are used to manage the Group's exposure to interest rate and foreign exchange risks. The principal derivative instruments used by the Group are interest rate swaps and foreign exchange forward and option contracts. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

Hedge accounting

The Group designates certain hedging instruments, in respect of interest rate and foreign currency risk, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group tests whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 31 sets out details of the fair values of the derivative instruments used for hedging purposes.

Cash flow hedge

The effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

2. Significant accounting policies continued

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the consolidated income statement in the periods when the hedged item is recognised in the consolidated income statement, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated income statement.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Equity instruments

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The Group's Directors believe that the following accounting policies that involve Directors' judgements and estimates are the most critical to understanding and evaluating the Group's financial results.

Revenue recognition

The Group's revenue recognition policies require Directors to make a number of estimates, with the most significant relating to chargebacks, product returns, rebates and price adjustments (note 2) which vary by product arrangements and buying groups. If the ultimate net selling price cannot be reliably measured, revenue recognition is deferred until a reliable measurement can be made. The deferred revenue in respect of this is included in other current liabilities in the consolidated balance sheet.

Accounts receivable and bad debts

Trade receivable exposures are managed locally in the operating units where they arise. Credit limits are set as deemed appropriate for the customer, based on a number of qualitative and quantitative factors related to the credit worthiness of a particular customer. The Group is exposed to a variety of customers ranging from government-backed agencies and large private wholesalers to privately owned pharmacies, and the underlying local economic risks vary across the Group. Typical credit terms in the US range from 30-90 days, in Europe 30-120 days, and in MENA 180-360 days. Where appropriate, the Group endeavours to minimise risk by the use of trade finance instruments such as letters of credit and insurance.

The Group estimates, based on its historical experience, the level of debts that it believes will not be collected. Such estimates are made when collection of the full amount of the debt is no longer probable. These estimates are based on a number of factors including specific customer issues and industry, economic and political conditions. Bad debts are written-off when identified.

Goodwill and intangible assets

The critical areas of judgment in relation to the initial recognition and impairment tests of goodwill and intangible assets are as follows:

- The revenue forecasts (including market size, estimated expected market share, number of competitors and net selling prices).
- The raw and packaging materials costs.
- The economic useful lives of the product-related intangibles
- The allocation of sales, marketing, R&D and other operating costs to the individual product-related intangibles.
- The contributory asset charges (on working capital, fixed assets and workforce).
- The discount rate and specific risk premiums used to determine net present values and the terminal growth rate for goodwill.

Also, for pipeline products the launch date and probability of a successful product approval are also critical judgements.

Contingent Liabilities and receivables related to acquisitions

The Group entered contractual liabilities in the form of milestone and royalty payments in addition to contingent receivables (see note 43), where the critical areas of judgment to those liabilities and receivables are the probability assigned to reaching the success-based milestones and the management's estimate of future sales.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Taxation

In common with most international organisations, the Group may be subject to audit from revenue authorities from time to time. Where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability. These estimates take into account the specific circumstances of each dispute and relevant external advice, are inherently judgemental and could change substantially over time as new facts emerge and each dispute progresses. Hikma continues to invest in its financial systems to ensure the quality of the Group's financial data which reduces the risk of an adverse revenue authority audit

Furthermore, Hikma continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments and audits. Where open issues exist, the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of negotiations with the relevant tax authorities or, if necessary, litigation proceedings.

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 transfer pricing, the withdrawal of tax exemptions, legislative interpretations or changes. Specifically, at this time there is uncertainty regarding potential future US tax reforms. No reliable estimate of the potential impact of these proposals can be made at this time. Other risks the Group faces include a material change to the statutory tax rates, from the OECD's base erosion and profit shifting initiatives and adjustments arising out of a difference in interpretation of tax legislation. Hikma regularly takes professional advice to ensure the risks mentioned above are appropriately analysed and managed with any ultimate potential liability being adequately provided.

The transfer pricing risk can arise from a difference in view over the pricing of cross-border, inter-company product sales and services and of sales of assets. The standard by which most authorities, and the Group, assess the transfer price is whether it is set at arm's length. An upward adjustment by the tax authority of one territory will not necessary result in the downward adjustment by the other territory, leading to a potentially increased 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.

The Group benefits from a tax exemption in Jordan arising partly from the WTO approved Export Exemption that will be in force up until 31 December 2018. Hikma does not believe that the impact of the future withdrawal of this exemption will materially impact the Group's tax rate in light of the alternative options available under existing Jordan's domestic rules.

The Group makes substantial sales in the US market of products owned by a UK group company which also arranges for the product development and manufacture, both in the US and in other territories in which the Group operates. Whilst a reduction in the US federal tax rate would beneficially impact the Group's effective tax rate, other aspects of potential US tax reforms that may be adopted, such as border adjustability and denial of interest deductions, could have a significant negative impact on the Group's effective tax rate.

Continuing with the impact of changes in tax rules in the territories in which we operate, the Base Erosion and Profit Shifting ("BEPS") initiative of the OECD is likely to result in increased taxation as the actions from the BEPS initiative are adopted by fiscal authorities. The Group is reviewing the impact of such changes as they become clear and taking any action necessary to help mitigate any adverse consequences to the extent reasonably possible.

As part of a reorganisation following West-Ward Columbus acquisition, 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.

As at the balance sheet date, the Group held an aggregate provision in the sum of $64 million in respect of liabilities likely to arise from the above risks. Hikma considers up to $21 million could be released in 2017 due to statute of limitations but this could be offset by new provisions needed in 2017.

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.

For current matters see note 37.

4. Segmental reporting

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

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.

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

Branded **Year ended 31 December 2016**	**2016 Core results $m**	**2016 Exceptional items and other adjustments (note 5) $m**	**2016 Reported results $m**	2015 Core results $m	2015 Exceptional items and other adjustments (note 5) $m	2015 Reported results $m
Revenue	**556**	**–**	**556**	570	–	570
Cost of sales	**(274)**	**–**	**(274)**	(293)	–	(293)
Gross profit	**282**	**–**	**282**	277	–	277
Total operating expenses	**(170)**	**(8)**	**(178)**	(159)	(13)	(172)
Segment result	**112**	**(8)**	**104**	118	(13)	105

Injectables **Year ended 31 December 2016**	**2016 Core results $m**	**2016 Exceptional items and other adjustments (note 5) $m**	**2016 Reported results $m**	2015 Core results $m	2015 Exceptional items and other adjustments (note 5) $m	2015 Reported results $m
Revenue	**781**	**–**	**781**	710	–	710
Cost of sales	**(276)**	**–**	**(276)**	(261)	–	(261)
Gross profit	**505**	**–**	**505**	449	–	449
Total operating expenses	**(165)**	**(28)**	**(193)**	(137)	(1)	(138)
Segment result	**340**	**(28)**	**312**	312	(1)	311

Injectables segment includes EUP results.

Notes to the consolidated financial statements continued

4. Segmental reporting continued

Generics Year ended 31 December 2016	2016 Core results $m	2016 Exceptional items and other adjustments (note 5) $m	2016 Reported results $m	2015 Core results $m	2015 Exceptional items and other adjustments (note 5) $m	2015 Reported results $m
Revenue	**604**	**–**	**604**	151	–	151
Cost of sales	**(376)**	**(32)**	**(408)**	(62)	–	(62)
Gross profit	**228**	**(32)**	**196**	89	–	89
Total operating expenses	**(193)**	**(17)**	**(210)**	(43)	(2)	(45)
Segment result	**35**	**(49)**	**(14)**	46	(2)	44

Generics segment includes West-Ward Columbus results.

Others Year ended 31 December 2016	2016 Core results $m	2016 Exceptional items and other adjustments (note 5) $m	2016 Reported results $m	2015 Core results $m	2015 Exceptional items and other adjustments (note 5) $m	2015 Reported results $m
Revenue	**9**	**–**	**9**	9	–	9
Cost of sales	**(6)**	**–**	**(6)**	(6)	–	(6)
Gross profit	**3**	**–**	**3**	3	–	3
Total operating expenses	**(5)**	**–**	**(5)**	(8)	–	(8)
Segment result	**(2)**	**–**	**(2)**	(5)	–	(5)

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

Group Year ended 31 December 2016	2016 Core results $m	2016 Exceptional items and other adjustments (note 5) $m	2016 Reported results $m	2015 Core results $m	2015 Exceptional items and other adjustments (note 5) $m	2015 Reported results $m
Revenue	**1,950**	**–**	**1,950**	1,440	–	1,440
Cost of sales	**(932)**	**(32)**	**(964)**	(622)	–	(622)
Gross profit	**1,018**	**(32)**	**986**	818	–	818
Total operating expense	**(533)**	**(53)**	**(586)**	(346)	(16)	(362)
Segment result	**485**	**(85)**	**400**	472	(16)	456
Unallocated expenses	**(66)**	**(32)**	**(98)**	(63)	(12)	(75)
Operating profit	**419**	**(117)**	**302**	409	(28)	381
Loss/impairment of associates	**–**	**–**	**–**	(2)	(7)	(9)
Finance income	**3**	**9**	**12**	3	–	3
Finance expense	**(63)**	**(41)**	**(104)**	(55)	(2)	(57)
Profit before tax	**359**	**(149)**	**210**	355	(37)	318
Tax	**(80)**	**28**	**(52)**	(67)	3	(64)
Profit for the year	**279**	**(121)**	**158**	288	(34)	254
Attributable to:						
Non-controlling interests	**3**	**–**	**3**	2	–	2
Equity holders of the parent	**276**	**(121)**	**155**	286	(34)	252
	279	**(121)**	**158**	288	(34)	254

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

4. Segmental reporting continued

Segment assets and liabilities 2016	Branded $m	Injectables $m	Generics $m	Corporate and others $m	Group $m
Additions to property, plant and equipment (cost)	**14**	**38**	**56**	**10**	**118**
Acquisition of business property plant and equipment (note 43)	**–**	**11**	**447**	**–**	**458**
Additions to intangible assets	**1**	**40**	**28**	**3**	**72**
Acquisition of business intangible assets (note 43)	**–**	**34**	**1,130**	**–**	**1,164**
Total property, plant and equipment and intangible assets (net book value)	**397**	**576**	**1,667**	**48**	**2,688**
Depreciation and impairment of property, plant and equipment	**21**	**28**	**26**	**3**	**78**
Amortisation, impairment and write-down of intangible assets (including software)	**10**	**26**	**32**	**–**	**68**
Investment in associates and joint ventures	**–**	**–**	**–**	**7**	**7**
Balance sheet					
Total assets	**1,019**	**880**	**2,306**	**158**	**4,363**
Total liabilities	**475**	**404**	**1,015**	**58**	**1,952**

Segment assets and liabilities 2015	Branded $m	Injectables $m	Generics $m	Corporate and others $m	Group $m
Additions to property, plant and equipment (cost)	24	39	15	7	85
Remeasurement of property, plant and equipment*	–	(1)	–	–	(1)
Additions to intangible assets	5	41	8	2	56
Remeasurement of Intangible assets*	–	(8)	–	–	(8)
Total property, plant and equipment and intangible assets (net book value)	478	532	81	23	1,114
Depreciation and impairment	22	19	8	2	51
Amortisation and impairment (including software)	9	11	1	1	22
Investment in associates and joint ventures	–	–	–	7	7
Balance sheet					
Total assets	1,108	829	165	495	2,597
Total liabilities	453	397	309	86	1,245

* Further to Bedford Laboratories ("Bedford") acquisition in 2014, a reduction of $8 million was made to the provisional goodwill recognised on the acquisition of Bedford as a result of the adjustment to inventory, property, plant and equipment and deferred tax made prior to the end of the measurement period on 15 July 2015.

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

	2016 $m	2015 $m
United States	**1,211**	697
Middle East and North Africa	**641**	656
Europe and rest of the world	**95**	82
United Kingdom	**3**	5
	1,950	1,440

The top selling markets were as below:

	2016 $m	2015 $m
United States	**1,211**	697
Saudi Arabia	**143**	162
Algeria	**115**	113
	1,469	972

Included in revenues arising from the Generics and Injectables segments are revenues of approximately $253 million (2015: $173 million) which arose from the Group's largest customer which is in the United States.

Notes to the consolidated financial statements continued

5. Exceptional items and other adjustments

Exceptional items and other adjustments are disclosed separately in the consolidated income statement to assist in the understanding of the Group's core performance.

Exceptional items	**2016 $m**	2015 $m
Acquisition, integration and other costs	**(41)**	(14)
Gain from sale of assets, net	**18**	6
Inventory related adjustments	**(27)**	–
Release of contingent liability	**4**	–
Impairment of property, plant and equipment	**(10)**	–
Impairment of product related intangible assets	**(6)**	–
Write-down of products related intangible assets	**(18)**	–
Severance costs	**–**	(6)
Proceeds from legal claims	**–**	2
Exceptional items included in operating profit	**(80)**	**(12)**
Impairment of investment in associates	**–**	**(7)**
Exceptional items included in profit	**(80)**	**(19)**
Other adjustments		
Intangible amortisation other than software	**(37)**	(16)
Remeasurement of contingent consideration, financial liability and asset, net	**(32)**	(2)
Exceptional items and other adjustments	**(149)**	**(37)**

Exceptional items:

- Acquisition, integration and other related costs are incurred in relation to the acquisition of West-Ward Columbus which was completed on 29 February 2016. Acquisition related expenses are included in the unallocated corporate expenses, while integration and other expenses are included in the general and administrative expense and cost of sales respectively. Acquisition related expenses mainly comprise third party consulting services, legal and professional fees, other costs represent severance and retention payments paid.
- Gain from sale of assets relates to the divestiture of certain products, and is included in other operating income.
- Inventory related adjustments reflect the amortisation of the fair value uplift of the inventory acquired as part of West-Ward Columbus acquisition, and are included in cost of sales.
- Release of contingent liability is due to not achieving certain performance-related milestones in respect of a previous acquisition, and is included in other operating income.
- Impairment loss of property, plant and equipment relates to the write-off of machinery and equipment as a result of previous acquisition, and is included in other operating expenses.
- Impairment of product related intangible assets has been included in the research and development expenses.
- Write-down of product related intangible assets relates to the write-down of certain R&D elements associated with the co-development agreements entered into with third parties since 2011 and has been included in the research and development expenses.

5. Exceptional items and other adjustments continued

Other adjustments:

- Remeasurement of contingent consideration, financial liability and asset arising from acquisition represents the net difference resulting from the valuation of the liabilities and assets associated with the future contingent payments receivables in respect to West-Ward Columbus acquisition (note 43) in addition to the financial liability in relation to the co-development earnout payment agreement (note 32). The remeasurement is included in finance cost/income.

In previous periods exceptional items and other adjustments are related to the following:

- Acquisition and integration related costs were incurred in relation to the acquisition of West-Ward Columbus, which was closed on 29 February 2016. Acquisition related expenses were included in the unallocated corporate expenses, while integration related expenses were included in the general and administrative expense. Acquisition related expenses mainly comprise third party consulting services, legal and professional fees.
- Gain from sale of the assets related to the sale of Bedford manufacturing facilities to Xellia Pharmaceuticals for a cash consideration of $30 million was included in other operating income. The gain is net of hibernation costs related to the assets.
- Severance costs related to restructuring of management teams mainly in MENA and were included in general and administrative expenses.
- Proceeds from legal claims refer to cash received in settlement of an indemnification claim in the US, which was included in other operating income.
- Impairment of investment in associates represented the impairment of the remaining investment balance related to Unimark Remedies limited. Hikma's share in Unimark Remedies Limited has been divested during 2016 for minimal value.
- Remeasurement of the financial liability in relation to the co-development earnout payment agreement represented the difference resulting from the valuation of the liabilities associated with the future earnout payments to be made (note 32).

6. Profit for the year

Profit for the year has been arrived at after charging:

	2016 Core results $m	**2016 Exceptional items and other adjustments (note 5) $m**	**2016 Reported results $m**	2015 Core results $m	2015 Exceptional items and other adjustments (note 5) $m	2015 Reported results $m
Net foreign exchange losses	**21**	**–**	**21**	6	–	6
Depreciation and impairment	**68**	**10**	**78**	51	–	51
Amortisation and impairment (including software)	**25**	**43**	**68**	6	16	22
Research and development (other than staff costs)	**85**	**24**	**109**	17	–	17
Inventories:						
Cost of inventories recognised as an expense	**548**	**27**	**575**	367	–	367
Write-down of inventories	**68**	**–**	**68**	29	–	29
Staff costs (note 7)	**465**	**–**	**465**	356	6	362

Notes to the consolidated financial statements continued

6. Profit for the year continued

On 12 May 2016 PricewaterhouseCoopers LLP was appointed and replaced Deloitte LLP.

The Group auditor's remuneration on a worldwide basis was as below:

	2016 $m	2015 $m
Audit of the Company's annual accounts	**0.6**	0.4
Audit of the Company's subsidiaries pursuant to legislation	**1.6**	1.2
Total audit fees	**2.2**	1.6
Assurance services*	**0.2**	0.1
Total audit and assurance fees	**2.4**	1.7
- Tax compliance services	**–**	0.1
- Tax advisory services	**0.6**	0.3
- Other services**	**–**	2.5
Total non-audit fees	**0.6**	2.9
Total fees	**3.0**	4.6

* Assurance services relate to review procedures in respect of the interim financial information.
** Other services include transaction services, in particular relating to West-Ward Columbus prospectus/class one circular.

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 84 to 90 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

7. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2016 Number	2015 Number
Production	**4,904**	3,896
Sales and marketing	**2,147**	2,164
General and administrative	**992**	865
Research and development	**296**	264
	8,339	7,189

	2016 $m	2015 $m
Their aggregate remuneration comprised:		
Wages, salaries and bonuses	**320**	247
Social security costs	**29**	22
Post-employment benefits	**16**	7
End of service indemnity	**6**	14
Share-based payments (note 38)	**22**	15
Car and housing allowances	**17**	19
Health insurance	**32**	19
Other costs and employee benefits	**23**	19
	465	362

8. Other operating expenses (net)

	2016 Core results $m	2016 Exceptional items and other adjustments (note 5) $m	2016 Reported results $m	2015 Core results $m	2015 Exceptional items and other adjustments (note 5) $m	2015 Reported results $m
Other operating expense	**(97)**	**(10)**	**(107)**	(54)	(5)	(59)
Other operating income	**16**	**22**	**38**	17	13	30
	(81)	**12**	**(69)**	(37)	8	(29)

Core other operating expenses consist mainly of write-down of inventories (note 19) and foreign exchange losses.

Core other operating income consists mainly of foreign exchange gains, proceeds from legal claims and other product – related income.

9. Finance income

	2016 Core results $m	2016 Exceptional items and other adjustments (note 5) $m	2016 Reported results $m	2015 Core results $m	2015 Exceptional items and other adjustments (note 5) $m	2015 Reported results $m
Interest income	**2**	**–**	**2**	2	–	2
Remeasurement of contingent consideration, financial liability and asset, net	**–**	**9**	**9**	–	–	–
Other financial income	**1**	**–**	**1**	1	–	1
	3	**9**	**12**	3	–	3

10. Finance expense

	2016 Core results $m	2016 Exceptional items and other adjustments (note 5) $m	2016 Reported results $m	2015 Core results $m	2015 Exceptional items and other adjustments (note 5) $m	2015 Reported results $m
Interest on bank overdrafts and loans	**26**	**–**	**26**	24	–	24
Interest on Eurobond	**22**	**–**	**22**	16	–	16
Remeasurement of contingent consideration, financial liability and asset, net	**–**	**41**	**41**	–	2	2
Other bank charges	**13**	**–**	**13**	15	–	15
Net foreign exchange loss	**2**	**–**	**2**	–	–	–
	63	**41**	**104**	55	2	57

Notes to the consolidated financial statements continued

11. Tax

	2016 $m	2015 $m
Current tax:		
Foreign tax	**115**	68
Adjustments to prior year	**2**	(1)
Deferred tax (note 17):		
Current year	**(57)**	(5)
Adjustments to prior year	**(8)**	2

UK corporation tax is calculated at 20.0% (2015: 20.3%) of the estimated assessable profit made in the UK for the year.

The Group incurred a tax expense of $52 million (2015: $64 million). The effective tax rate is 24.8%, (2015: 20.1%). The increase in the effective tax rate reflects increased earnings in higher taxed jurisdictions, particularly in the US where the federal corporate tax rate is 35.0%.

Taxation for all jurisdictions is calculated at the rates prevailing in the respective jurisdiction.

The charge for the year can be reconciled to profit before tax per the consolidated income statement as follows:

	2016 $m	2015 $m
Profit before tax	**210**	318
Tax at the UK corporation tax rate of 20. 0% (2015: 20.3%)	**42**	64
Profits taxed at different rates	**13**	(16)
Permanent differences		
– non taxable income	**(17)**	(17)
– non deductible expenditures	**13**	6
– adjustment on intercompany stock	**(14)**	4
– Other	**(1)**	(1)
State and local taxes	**2**	1
Temporary differences for which no benefit is recognised	**13**	11
Change in provision for uncertain tax positions	**5**	11
Unremitted earnings	**2**	–
Prior year adjustments	**(6)**	1
Tax expense for the year	**52**	64

The format of the 2016 tax reconciliation has been expanded to clarify the reconciling items. For consistency, we have re-classified the 2015 comparatives using the same methodology.

Profit taxed at different tax rates relates to profits arising in overseas jurisdictions where the tax rate differs from the UK statutory rate.

Permanent differences relate to items which are non-taxable or no tax relief is ever likely to be due. The major items are differences in GAAP between IFRS and local territory GAAP, expenses and income disallowed where they are covered by statutory exemptions, foreign exchange differences in some territories and statutory reliefs such as R&D and manufacturing tax credits.

Temporary differences for which no benefit is recognised includes items on which it is not possible to book deferred tax and comprise mainly of the impact of creating / (utilising) unrecognised temporary differences.

The change in provision for uncertain provisions relates to the provisions the Group takes in the event of a revenue authority successfully taking an adverse view of the positions adopted by the Group in 2016 and primarily relates to a transfer pricing adjustment.

Changes in deferred tax arise where a difference arises in the timing of the tax and accounting treatment of items.

Prior year adjustments include differences between the tax liability recorded in the tax returns submitted for previous years and estimated tax provision reported in a prior period's financial statements. This category also includes adjustments (favourable or adverse) in respect of uncertain tax positions following agreement of the tax returns with the relevant tax authorities.

12. Dividends on ordinary shares

	2016 $m	2015 $m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2015 of 21.0 cents (2014: 15.0 cents) per share	**51**	30
Interim dividend for the year ended 31 December 2016 of 11.0 cents (2015: 11.0) per share	**26**	22
Special final dividend for the year ended 31 December 2014 of 6.0 cents	**–**	12
	77	64

The proposed final dividend for the year ended 31 December 2016 is 22.0 cents (2015: 21.0 cents).

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 19 May 2017 and has not been included as a liability in these financial statements. Based on the number of shares in issue at 31 December 2016 (239,955,000), the unrecognised liability is $53 million.

13. Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares. The number of ordinary shares used for the basic and diluted calculations is shown in the table below. 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. A reconciliation of the reported and core earnings used is also set out below:

	2016 Core results $m	2016 Exceptional items and other adjustments (note 5) $m	2016 Reported results $m	2015 Core results $m	2015 Exceptional items and other adjustments (note 5) $m	2015 Reported results $m
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	**276**	**(121)**	**155**	286	(34)	252

Number of shares	Number 'm	Number 'm
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	**233**	199
Effect of dilutive potential Ordinary Shares:		
Share-based awards	**1**	2
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**234**	201

	2016 Core earnings per share Cents	2016 Reported Earnings per share Cents	2015 Core earnings per share Cents	2015 Reported Earnings per share Cents
Basic	**118.5**	**66.5**	143.7	126.6
Diluted	**117.9**	**66.2**	142.3	125.4

Notes to the consolidated financial statements continued

14. Intangible assets

	Goodwill $m	Customer relationships $m	Product-related intangibles $m	Trade names $m	Marketing rights and others $m	Software $m	Total $m
Cost							
Balance at 1 January 2015	315	75	256	10	17	34	707
Additions	–	–	35	–	2	19	56
Remeasurement*	(8)	–	–	–	–	–	(8)
Translation adjustments	(14)	(6)	(4)	(1)	(1)	(1)	(27)
Balance at 1 January 2016	293	69	287	9	18	52	728
Additions	–	–	18	–	19	35	72
Acquisition of subsidiaries (note 43)	420	–	743	–	–	1	1,164
Write-down (note 5)			(18)				(18)
Disposals	–	–	(5)	–	(1)	–	(6)
Translation adjustments	(30)	(8)	(19)	–	–	(1)	(58)
Balance at 31 December 2016	683	61	1,006	9	36	87	1,882
Amortisation							
Balance at 1 January 2015	(1)	(33)	(42)	(2)	(8)	(19)	(105)
Charge for the year	–	(5)	(10)	–	(1)	(4)	(20)
Impairment (note 5)	–	–	(2)	–	–	–	(2)
Translation adjustments	–	3	2	–	–	1	6
Balance at 1 January 2016	(1)	(35)	(52)	(2)	(9)	(22)	(121)
Charge for the year	–	(5)	(30)	(1)	(1)	(7)	(44)
Adjustments to beginning balance	–	–	(2)	–	2	–	–
Impairment	–	–	(6)	–	–	–	(6)
Translation adjustments	–	4	3	–	–	1	8
Balance at 31 December 2016	(1)	(36)	(87)	(3)	(8)	(28)	(163)
Carrying amount							
At 31 December 2016	**682**	**25**	**919**	**6**	**28**	**59**	**1,719**
At 31 December 2015	292	34	235	7	9	30	607

* Further to Bedford Laboratories (Bedford) acquisition in 2014, a reduction of $8 million was made to the provisional goodwill recognised on the acquisition of Bedford as a result of the adjustment to inventory, property plant and equipment and deferred tax made prior to the end of the measurement period on 15 July 2015.

As at 31 December 2016, the Group had intangible assets under development amounting to $604 million (2015: $156 million) which are not subject to amortisation until ready for use. Within the balance, there is $496 million in relation to West-Ward Columbus acquisition.

The Group tests the product-related intangible assets under development for impairment annually using five-year projected cash flows based on sales growth rates, profit margin discounted at discount rates consistent with the Group WACC and adjusted where appropriate.

The majority of the Group's product-related intangible assets are marketed in the US region, and the carrying values of individually significant assets within the product-related intangibles are presented below.

	As at 31 December	
	2016 $m	2015 $m
Generic Advair	**306**	–

14. Intangible assets continued

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	As at 31 December	
	2016 $m	2015 $m
Branded	**164**	187
Injectables:	**75**	75
- MSI	**32**	32
- Bedford	**43**	43
West-Ward Columbus	**407**	–
Oncology*	**36**	30
Total	**682**	292

* EUP CGU is included within Oncology.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill may be impaired.

Details related to the discounted cash flow models used in the impairment tests of CGUs are as follows:

Valuation basis	Higher of fair value less costs of disposal and value in use		
Key assumptions	Sales growth rates Profit margins Terminal growth rate Discount rate		
Determination of assumptions	Growth rates are internal forecasts based on both internal and external market information. Margins reflect past experience, adjusted for expected changes. Terminal growth rates based on management's estimate of future long–term average growth rates. Discount rates based on Group WACC, adjusted where appropriate.		
Period of specific projected cash flows	5 years		
Terminal growth rate and discount rate		Terminal growth rate (perpetuity)	Pre–tax discount rate
	Branded	2%	16%*
	MSI	2%	13%
	Bedford	2%	13%
	West-Ward Columbus	2%	17%**
	Oncology	2%	12%

* Branded discount rate is blended according to the operating profits of the associated market/country included in the cash flows of the CGU.
** A higher discount rate was used for West-Ward Columbus to account for the additional uncertainties assumed in the higher growth rates being reflected in the financial projections, given the historical financial performance.

The Group has conducted a sensitivity analysis on the impairment of each CGU's carrying value. Whilst the headroom* varies for each CGU, the CGU with the least relative headroom is West-Ward Columbus. There is a reasonably possible chance that changes to the key assumptions could result in impairment. The most uncertain assumptions are sales and the discount rate. The discount rate is expected to reduce over time as any risk-premium associated with the acquisition should reduce. Also, any change in expected product launch dates is likely to result in potential operational changes which could mitigate any potential impairment charges.

Whilst there is some uncertainty regarding the short-term impact of the political events in the MENA, the Group does not consider that the likelihood of impairment losses in the long-term has increased.

* Headroom is defined as the excess of, the higher of fair value and the value in use, compared to the carrying value of a CGU.

14. Intangible assets continued

Other intangible assets

Amortisation of all intangible assets with finite useful lives is charged on a straight-line basis.

Customer relationships: Customer relationships represent the value attributed to the existing direct customers that the Group acquired on the acquisition of subsidiaries. The customer relationships have an average estimated useful life of 15 years (2015: 15 years).

Product related intangibles: Product related intangibles include two types:

a. **Product files and under-licenced products:** The estimated useful life varies from five to sixteen years (2015: five to fifteen years).

b. **In process product files:** Mainly represents files acquired from Bedford and West-Ward Columbus that are not yet ready for use.

Trade name: Trade names were mainly recognised on the acquisition of Hikma Germany GmbH (Germany) and Promopharm.

The trade name recognised on the acquisition of Hikma Germany GmbH (Germany) has an indefinite economic useful life. The carrying value of Hikma Germany GmbH (Germany) trade name is $4 million (2015: $5 million). The trade names recognised on the acquisition of promopharm have useful lives of 10 years.

Marketing rights and others

a. **Marketing rights:** are amortised over their useful lives commencing in the year in which the rights are ready for use.

b. **Other acquisition related:** This mainly represents intangible assets recognised on the acquisition of Thymoorgan, which relate to its specialist manufacturing capabilities. The estimated useful life varies from 12 years to an indefinite useful life. The carrying value of assets with indefinite lives is $1 million (2015: $1 million).

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 varies from three to five years.

As at 31 December 2016, the Group had entered into contractual commitments for the acquisition of intangible assets of $19 million (2015: $49 million).

15. Property, plant and equipment

Cost	Land and buildings $m	Machinery and equipment $m	Vehicles, Fixtures and equipment $m	Projects under construction $m	Total $m
Balance at 1 January 2015	**302**	**364**	**84**	**71**	**821**
Additions	8	6	5	66	85
Remeasurement*	–	–	(1)	–	(1)
Disposals	(11)	(17)	(8)	(1)	(37)
Transfers	12	24	8	(44)	–
Translation adjustment	(13)	(17)	(4)	(2)	(36)
Balance at 1 January 2016	**298**	**360**	**84**	**90**	**832**
Additions	8	7	6	97	118
Acquisition of subsidiaries (note 43)	180	144	9	125	458
Adjustments to beginning balance	–	8	–	2	10
Disposals	–	(3)	(1)	(1)	(5)
Transfers	64	44	9	(117)	–
Translation adjustment	(20)	(21)	(9)	(4)	(54)
Balance at 31 December 2016	**530**	**539**	**98**	**192**	**1,359**
Accumulated depreciation					
Balance at 1 January 2015	**(64)**	**(186)**	**(54)**	**(3)**	**(307)**
Charge for the year	(11)	(30)	(9)	–	(50)
Disposals	–	9	7	–	16
Impairment	–	–	–	(1)	(1)
Translation adjustment	5	9	3	–	17
Balance at 1 January 2016	**(70)**	**(198)**	**(53)**	(4)	**(325)**
Charge for the year	(18)	(39)	(11)	–	(68)
Adjustments to beginning balance	–	(7)	–	(3)	(10)
Disposals	–	2	2	–	4
Impairment (note 5)	–	(10)	–	–	(10)
Translation adjustment	4	10	5	–	19
Balance at 31 December 2016	**(84)**	**(242)**	**(57)**	**(7)**	**(390)**
Carrying amount					
At 31 December 2016	**446**	**297**	**41**	**185**	**969**
At 31 December 2015	**228**	**162**	**31**	**86**	**507**

Land is not subject to depreciation

* Further to Bedford Laboratories (Bedford) acquisition in 2014, a reduction of $8 million was made to the provisional goodwill recognised on the acquisition of Bedford as a result of the adjustment to inventory, property plant and equipment and deferred tax made prior to the end of the measurement period on 15 July 2015.

The net book value of the Group's property, plant and equipment includes an amount of $6 million (2015: $8 million) in respect of assets held under finance lease.

As at 31 December 2016, the Group had pledged property, plant and equipment having a carrying value of $42 million (2015: $45 million) as collateral for various long-term loans. This amount includes both specific items around the Group and the net property, plant and equipment of the Group's businesses in Portugal, Germany and Tunisia (2015: Portugal, Germany and Tunisia).

As at 31 December 2016, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $9 million (2015: $9 million).

Notes to the consolidated financial statements continued

16. Investments in associates and joint ventures

The Group's share in Hubei Haosun Pharmaceutical Co Ltd (China) is 30.1% at 31 December 2016 (31 December 2015: 30.1%) with an investment balance of $4 million at 31 December 2016 (31 December 2015: $4 million),

The Group's share of the results of Hubei Haosun Pharmaceutical Co. Ltd is $nil (2015: share of the results of Unimark Remedies Limited and Hubei Haosun Pharmaceutical Co Ltd is a loss of $2million).

In previous periods, the Group impaired the remaining investment balance related to Unimark Remedies Limited of $7 million which was due to the continuous financial difficulties. Hikma's share in Unimark Remedies Limited has been divested during 2016 for minimal value.

The below represents the Group's share of the result of Hikma Cure and Hubei Haosun Pharmaceutical Co Ltd. which is included in the consolidated income statement.

	For the year ended 31 December 2016			For the year ended 31 December 2015		
	Joint ventures $m	Associates $m	Total $m	Joint ventures $m	Associates $m	Total $m
Balance at 1 January	**3**	**4**	**7**	**3**	**13**	**16**
Share of loss	–	–	–	–	(2)	(2)
Impairment of investment (note 5)	–	–	–	–	(7)	(7)
Balance at 31 December	**3**	**4**	**7**	**3**	**4**	**7**

Summarised financial information in respect of the Group's interests in associated companies is set out below:

	As at 31 December 2016 $m	As at 31 December 2015 $m
Total assets	**15**	214
Total liabilities	**5**	160
Net assets	**10**	54
Group's share of net assets of associates	**3**	13

	For the year ended 31 December 2016 $m	For the year ended 31 December 2015 $m
Total revenue	**4**	49
Net loss	**–**	(23)
Group's share of loss of associates	**–**	**(2)**

17. Deferred tax

Certain deferred tax assets and liabilities have been appropriately offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	As at 31 December	
	2016 $m	2015 $m
Deferred tax liabilities	(15)	(21)
Deferred tax assets	172	70
	157	49

17. Deferred tax continued

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting years.

	Tax losses $m	Deferred R&D costs $m	Other short-term temporary differences* $m	Amortisable assets $m	Fixed assets $m	Share-based payments $m	Total $m
At 1 January 2015	4	1	77	(20)	(22)	2	42
Credit/(Charge) to income	1	–	(3)	1	6	–	5
(Charge) to equity	–	–	–	–	–	(1)	(1)
Remeasurement **	–	–	–	–	2	–	2
Exchange differences	(1)	–	–	1	1	–	1
At 1 January 2016	**4**	**1**	**74**	**(18)**	**(13)**	**1**	**49**
Credit/(Charge) to income	2	–	70	10	(16)	(1)	65
Acquisition of subsidiary (note 43)	–	–	61	(20)	(2)	–	39
Exchange differences	–	–	(3)	5	2	–	4
At 31 December 2016	**6**	**1**	**202**	**(23)**	**(29)**	**–**	**157**

* The other short-term temporary differences primarily relate to charge backs, product returns and unrealised intercompany profits in the US.

** Further to Bedford Laboratories ("Bedford") acquisition in 2014, a reduction of $8 million was made to the provisional goodwill recognised on the acquisition of Bedford as a result of the adjustment to inventory, property plant and equipment and deferred tax made prior to the end of the measurement period on 15 July 2015.

No deferred tax asset has been recognised on temporary differences totalling $189 million (2015: $164 million) due to the unpredictability of the related future profit streams. $167 million of these temporary differences relate to losses on which no deferred tax is recognised. None of these losses are expected to expire.

We have recognised a deferred tax liability on temporary differences relating to the unremitted earnings of overseas subsidiaries of $2 million (2015: nil). No deferred tax liability has been recognised on the remaining unremitted earnings of $208 million (2015: $122 million), as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

18. Financial and other non-current assets

	As at 31 December	
	2016 $m	2015 $m
Price adjustment receivable (note 43)	**3**	–
Available-for-sale investments	**7**	2
Other non-current asset	**38**	44
	48	46

Price adjustment receivable represents the non-current portion of the total contingent receivable of $118 million in relation of West-Ward Columbus acquisition (note 30 and 43). During the year, the Group received $82 million in cash as part of certain working capital, milestones and other receivables.

Available-for-sale investments include investments of $6 million in two venture capital companies through the Group's venture capital arm "Hikma international ventures developments LLC".

Other non-current assets mainly represent advance payments made to acquire both products and product related technologies from third parties. During the year, any payments related to product related technologies were reclassified to intangible assets while any payments related to products will be reclassified to inventory once received.

Notes to the consolidated financial statements continued

19. Inventories

	As at 31 December	
	2016 $m	2015 $m
Finished goods	120	55
Work-in-progress	73	33
Raw and packing materials	229	144
Goods in transit	18	11
Spare parts	19	8
	459	251

Inventories are stated net of provision as follows:

	As at 31 December 2015 $m	Additions $m	Utilisation $m	Translation adjustments $m	As at 31 December 2016 $m
Provisions against inventory	47	70	(50)	(2)	65

20. Trade and other receivables

	As at 31 December	
	2016 $m	2015 $m
Trade receivables	699	432
Prepayments	44	39
VAT and sales tax recoverable	14	15
Employee advances	2	2
	759	488

Trade receivables are stated net of provisions for chargebacks and doubtful debts as follows:

	As at 31 December 2015 $m	Additions $m	Utilisation $m	Translation adjustments $m	Acquisition of subsidiaries $m	As at 31 December 2016 $m
Chargebacks and other allowances	85	1,575	(1,563)	–	164	261
Doubtful debts	43	12	–	(1)	–	54
	128	1,587	(1,563)	(1)	164	315

The following table provides a summary of the age of trade receivables:

		Past due				
At 31 December 2016	Not past due on the reporting date $m	less than 90 days $m	between 91 and 180 days $m	between 181 and 360 days $m	Over one year $m	Impaired $m	Total $m
Total trade receivables as at 31 December 2016	841	70	13	24	12	54	1,014
Related allowance for doubtful debts						(54)	(54)
	841	70	13	24	12	–	960
Chargebacks and other allowances							(261)
Net receivables							699

20. Trade and other receivables continued

At 31 December 2015	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	Impaired $m	Total $m
Total trade receivables as at 31 December 2015	423	50	25	15	4	43	560
Related allowance for doubtful debts						(43)	(43)
	423	50	25	15	4	–	517
Chargebacks and other allowances							(85)
Net receivables							432

The Group establishes an allowance for impairment that represents its estimate of losses in respect of specific trade and other receivables, where it is deemed that a receivable may not be recoverable. When the receivable is deemed irrecoverable, the allowance account is written-off against the underlying receivable.

More details on the Group's policy for credit and concentration risk are provided in Note 30.

21. Collateralised and restricted cash

Collateralised and restricted cash amounted to $7 million mainly represent restricted cash held in an escrow account of $2 million (2015: $38 million) related to the acquisition of EIMC United Pharmaceuticals (note 43), and restricted cash retained against short-term bank transactions granted to the Group's Sudanese, Algerian and US operations of $5 million (2015: Sudanese, Algerian, Jordanian and US operations of $2 million).

22. Cash and cash equivalents

	As at 31 December 2016 $m	2015 $m
Cash at banks and on hand	**77**	102
Time deposits	**68**	429
Money market deposits	**10**	22
	155	553

Cash and cash equivalents include highly liquid investments with maturities of three months or less.

23. Other current assets

	As at 31 December 2016 $m	2015 $m
Price adjustment receivable (note 43)	**34**	–
Investment designated at fair value	**20**	20
Others	**12**	5
	66	25

Price adjustment receivable represents the current portion of the total contingent receivable of $118 million in relation of West-Ward Columbus acquisition (note 30, and 43). During the year, the Group received $82 million in cash as part of certain working capital, milestones and other receivables.

Investment designated at fair value: represents the agreement the Group entered in 2015 with an asset management firm to manage a $20 million portfolio of underlying debt instruments. The asset is measured at fair value and classed as level 1 as it uses quoted prices in active markets.

Notes to the consolidated financial statements continued

24. Bank overdrafts and loans

	As at 31 December	
	2016 $m	2015 $m
Bank overdrafts	**10**	8
Import and export financing	**63**	58
Short-term loans	**–**	4
Current portion of long-term loans (note 28)	**44**	45
	117	115

	2016 %	2015 %
The weighted average interest rates paid were as follows:		
Bank overdrafts	**4.32**	6.19
Bank loans (including the non-current bank loans)	**3.26**	2.77
Eurobond	**4.25**	4.25
Import and export financing	**3.75**	3.09

Import and export financing represents short-term financing for the ordinary trading activities of the business, and is mainly denominated in US Dollars, Algerian Dinar, and in Saudi Riyals.

25. Trade and other payables

	As at 31 December	
	2016 $m	2015 $m
Trade payables	**172**	139
Accrued expenses	**157**	122
Other payables	**14**	15
	343	276

Other payables mainly include employees' provident fund liability of $5 million (31 December 2015: $5 million), which mainly represents the outstanding contributions to the Hikma Pharmaceuticals Ltd (Jordan) retirement benefit plan, on which the fund receives 3.5% interest.

26. Other provisions

Other provisions represent the end of service indemnity provisions for employees of certain Hikma Group subsidiaries. This provision is calculated based on relevant laws in the countries where each Group company operates, in addition to their own policies.

Movements on the provision for end of service indemnity:

	2016 $m	2015 $m
1 January	**28**	25
Additions	**1**	5
Utilisation	**(2)**	(2)
At 31 December	**27**	28

27. Other current liabilities

	As at 31 December	
	2016 $m	2015 $m
Deferred revenue	**13**	16
Return and free goods provision	**109**	49
Co-development and earnout payment (note 32)	**4**	3
Contingent consideration and liability (note 43)	**123**	–
Finance lease obligatations	**1**	1
Others	**69**	29
	319	98

Co-development and earnout payment agreement: The liability mainly relates to the present value of future payments on a co-development and earnout agreement. As part of this agreement, milestone payments dependent on successful clinical development of defined products are received by the Group. In return of receiving such milestone payments, the Group has agreed to pay the contracting party a certain percentage of future sales of those products. As at 31 December 2016 and 31 December 2015, the liability associated with these earnout payments was adjusted to reflect the present value of the expected future cash outflows and the difference is presented as a finance cost/income. The current portion of the year-end balance is $4 million.

Contingent consideration and liability represent the current portion of the Group's contractual contingent consideration and liabilities in relation to West-Ward Columbus acquisition of a total of $220 million (note 30 and 43) and $119 million (note 43) respectively. During the year, the Group paid a total of $20 million in respect to the contingent consideration and $10 million for the contingent liability.

The current portion of the year-end balance is $93 million related to the contingent consideration and another $30 million related to the opening balance sheet contingent liability.

Others include indirect rebate liabilities across the Group.

28. Long-term financial debts

	As at 31 December	
	2016 $m	2015 $m
Long-term loans	**270**	141
Long-term borrowings (Eurobond)	**495**	494
Less: current portion of long term loans (note 24)	**(44)**	(45)
Long-term financial loans	**721**	590
Breakdown by maturity:		
Within one year	**44**	45
In the second year	**29**	35
In the third year	**171**	20
In the fourth year	**519**	17
In the fifth year	**2**	513
Thereafter	**–**	5
	765	635
Breakdown by currency:		
US dollar	**746**	589
Euro	**1**	3
Algerian dinar	**2**	6
Saudi riyal	**1**	1
Egyptian pound	**13**	33
Tunisian dinar	**2**	3
	765	635

The loans are held at amortised cost.

Long-term loans amounting to $3 million (2015: $8 million) are secured on certain property, plant and equipment.

28. Long-term financial debts continued

Included in the table above are the following major arrangements entered into by the Group:

(a) A syndicated revolving credit facility of $1,175 million was entered on 27 October 2015. The facility has an outstanding balance of $145 million at 31 December 2016 (with a fair value of $145 million) and a $1,030 million unused available limit. The facility matures on 24 December 2019 and can be used for general corporate purposes. Proceeds of $145 million were used mainly to finance part of the cash consideration of West-Ward Columbus acquisition.

(b) A $500 million (with a fair value of $495 million) 4.25% Eurobond due April 2020 with the rating of (BB+/Ba1). The proceeds were used to refinance existing debt and to finance part of the cash consideration of West-Ward Columbus acquisition.

(c) A nine-year $110 million loan from the International Finance Corporation (IFC) was entered on 19 December 2011. The loan has an outstanding balance of $74 million at 31 December 2016 (with a fair value of $73 million). Quarterly equal repayments for the term loan commenced on 15 November 2013 and will continue until 15 August 2020. The loan has been used to finance acquisitions in the MENA region and MENA's capital expenditure.

29. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2016 $m	2015 $m	**2016 $m**	2015 $m
Amounts payable under finance leases:				
Within one year *	**2**	2	**1**	1
In the second to fifth years inclusive	**23**	25	**21**	22
	25	27	**22**	23
Less: Interest lease charges	**(3)**	(4)		
Present value of minimum lease payments payable	**22**	23		

* The current portion of the obligations under finance lease is included within Other Current Liabilities (note 27).

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is 5 years (2015: 5 years). For the year ended 31 December 2016, the average effective borrowing rate was between 1.88% and 14.00% (2015: between 0.87% and 9.61%).

30. Financial policies for risk management and their objectives

Credit and concentration of risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables, and investments.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts, chargebacks, without recourse discounts, and other allowances. A provision for impairment is made where there is an identified loss event, which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds, investments and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

In line with local market practice, customers in the MENA region are offered relatively long payment terms compared to customers in Europe and the US. During the year ended 31 December 2016, the Group's largest two customers in the MENA region represented 7.4% of Group revenue, 4.7% from one customer in Saudi Arabia, and 2.7% from a customer in Algeria. At 31 December 2016, the amount of receivables due from all customers based in Saudi Arabia was $113 million (2015: $119 million), and in Algeria was $87 million (2015: $66 million).

During the year ended 31 December 2016, three key US wholesalers represented 36.1% of Group revenue (2015: 32.6%). The amount of receivables due from all US customers at 31 December 2016 was $369 million (2015: $109 million).

The Group manages this risk through the implementation of stringent credit policies, procedures and certain credit insurance agreements.

Trade receivable exposures are managed locally in the operating units where they arise. Credit limits are set as deemed appropriate for the customer, based on a number of qualitative and quantitative factors related to the creditworthiness of a particular customer. The Group is exposed to a variety of customers ranging from government-backed agencies and large private wholesalers to privately owned pharmacies, and the underlying local economic risks vary across the Group. Typical credit terms in the US range from 30-90 days, in Europe 30-120 days, and in MENA 180-360 days. Where appropriate, the Group endeavours to minimise risk by the use of trade finance instruments such as letters of credit and insurance.

30. Financial policies for risk management and their objectives continued

Market risk

The Group is exposed to foreign exchange and interest rate risk. The Group's objective is to reduce, where it is appropriate to do so, fluctuations in earnings and cash flow associated with changes in interest rates and foreign currency rates. Management actively monitors these exposures to manage the volatility relating to these exposures by entering into a variety of derivative financial instruments.

Capital risk management

The Group manages its capital and monitors its liquidity to have reasonable assurance that the Group will be able to continue as a going concern and deliver its growth strategy objectives whilst reducing its cost of capital and maximising the return to shareholders through the optimisation of the debt and equity mix. The Group regularly reviews the capital structure by considering the level of available capital and the short to medium-term strategic plans concerning future capital spend, as well as the need to meet dividends, banking covenants, and borrowing ratios.

The Group defines capital as equity plus net funds, which include bank overdrafts and loans (note 24), obligations under finance leases (note 29), long-term financial debts (note 28), net of cash and cash equivalents (note 22), and collateralised and restricted cash (note 21).

During the year, the Group continued its strategy of obtaining debt financing at both the Group level and at the operating entities level, this enables the Group to borrow at competitive rates and to build relationships with local, regional and international banks and is therefore deemed to be the most effective means of raising finance, while maintaining the balance between borrowing cost, asset and liability management, and balance sheet currency risk management.

In order to monitor the available net funds, management reviews financial capital reports on a monthly basis in addition to the continuous review by the Group treasury function.

At 31 December 2016 the Group's gearing (total debt/equity) was 35% (2015: 54%); the decrease in the Group's gearing ratio is due to the increase in shareholders' equity following the issuance of 40 million shares to Boehringer Ingelheim, as part of the West-Ward Columbus acquisition.

Cash management

The Group manages the deployment of cash balances to predefined limits approved by the Board of Directors under the cash / risk management policy. Per the policy, the group's excess cash should be held with highly rated global and regional financial institutions. The aim of the policy is to mitigate the risk of holding cash in certain currencies, countries and financial institutions, through a specific threshold. The group reviews the policy periodically to meet Hikma's risk appetite.

Foreign exchange risk and currency risk

The Group uses the US dollar as its presentation currency and is therefore exposed to foreign exchange movements primarily in the Euro, Algerian dinar, Sudanese pound, Japanese yen, Egyptian pound, Tunisian dinar and Moroccan dirham. Consequently, where possible, the Group enters into various contracts, which change in value as foreign exchange rates change, to hedge against the risk of movement in foreign denominated assets and liabilities. Due to the lack of open currency markets, the Algerian dinar, the Sudanese pound, the Tunisian dinar, the Moroccan dirham and the Egyptian pound cannot be hedged at reasonable cost. Where possible, the Group uses financing facilities denominated in local currencies to mitigate the risks. The Jordanian dinar and the Saudi riyal had no impact on the consolidated income statement as those currencies are pegged against the US dollar.

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is other than the functional currency of an entity and being of a monetary nature.

The currencies that have a significant impact on the Group accounts and the exchange rates used are as follows:

	Period end rates		Average rates	
	2016	2015	**2016**	2015
USD/EUR	**0.9500**	0.9168	**0.9053**	0.9006
USD/Sudanese pound	**15.9490**	9.6600	**12.0919**	9.6600
USD/Algerian dinar	**110.5274**	107.1317	**109.4432**	100.4033
USD/Saudi riyal	**3.7495**	3.7495	**3.7495**	3.7495
USD/British pound	**0.8077**	0.6754	**0.7432**	0.6540
USD/Jordanian dinar	**0.7090**	0.7090	**0.7090**	0.7090
USD/Egyptian pound	**18.2482**	7.8309	**10.1112**	7.7160
USD/Japanese yen	**116.8907**	120.3800	**116.8907**	121.0700
USD/Moroccan dirham	**10.0699**	9.8476	**9.7920**	9.8008
USD/Tunisian dinar	**2.3386**	2.0321	**2.1482**	1.9623

Notes to the consolidated financial statements continued

30. Financial policies for risk management and their objectives continued

2016	US dollar $m	Euro $m	British pound $m	Algerian dinar $m	Japanese yen $m	Others* $m
	Net foreign currency financial assets/(liabilities)					
Functional currency of entity:						
– Jordanian dinar	**59**	**16**	**–**	**(21)**	**(2)**	**52**
– Euro	**(12)**	**–**	**–**	**–**	**–**	**–**
– Algerian dinar	**(73)**	**–**	**–**	**–**	**–**	**–**
– Saudi riyal	**42**	**(2)**	**–**	**–**	**(2)**	**–**
– Sudanese pound	**(14)**	**–**	**–**	**–**	**–**	**–**
– Egyptian pound	**(32)**	**(2)**	**–**	**–**	**(1)**	**–**
– Tunisian dinar	**(3)**	**2**	**–**	**–**	**–**	**1**
– Moroccan dirham	**(2)**	**(8)**	**–**	**–**	**–**	**–**
– Lebanese pound	**(3)**	**–**	**–**	**–**	**–**	**–**
– US dollar	**–**	**13**	**–**	**–**	**–**	**9**
	(38)	**19**	**–**	**(21)**	**(5)**	**62**

* Others include Saudi riyal and Jordanian dinar.

2015	US dollar $m	Euro $m	British pound $m	Algerian dinar $m	Japanese yen $m	Others* $m
	Net foreign currency financial assets/(liabilities)					
Functional currency of entity:						
– Jordanian dinar	91	29	–	(32)	(2)	24
– Euro	(11)	–	–	–	–	–
– Algerian dinar	(82)	(6)	–	–	–	–
– Saudi riyal	26	(2)	–	–	(2)	–
– Sudanese pound	(26)	–	–	–	–	1
– Egyptian pound	(8)	(1)	–	–	(1)	–
– Tunisian dinar	(4)	2	–	–	–	–
– Moroccan dirham	(1)	(6)	–	–	–	–
– Lebanese pound	(3)	–	–	–	–	(7)
– US dollar	–	17	2	–	–	37
	(18)	33	2	(32)	(5)	55

* Others include Saudi riyal and Jordanian dinar.

A sensitivity analysis based on a 10% movement in foreign exchange rates has no material impact on the Group results and Group statement of changes in equity.

The Group sets certain limits on liquid funds per currency (other than the functional currency of the Group) and per country.

Interest rate risk

The Group manages its exposure to interest rate risk by changing the proportion of debt that is floating by entering into interest rate swap agreements. Using these derivative financial instruments have not had a material impact on the Group's financial position as at 31 December 2016 or the Group's results of operations for the year then ended.

	Fixed rate $m	Floating rate $m	Total $m	Fixed rate $m	Floating rate $m	Total $m
	As at 31 December 2016			As at 31 December 2015		
Financial liabilities						
Interest-bearing loans and borrowings	**514**	**346**	**860**	522	206	728
Financial assets						
Cash and cash equivalents	**–**	**78**	**78**	–	451	451

An interest rate sensitivity analysis assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2016, with all other variables held constant. Based on the composition of the Group's debt portfolio as at 31 December 2016, a 1% increase/decrease in interest rates would result in an additional $3 million (2015: $3 million) in finance cost/income being incurred per year and would not be material to the Group.

30. Financial policies for risk management and their objectives continued

Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Management classifies items that are recognised at fair value based on the level of inputs used in their fair value determination as described below:

- **Level 1:** Quoted prices in active markets for identical assets or liabilities
- **Level 2:** Inputs that are observable for the asset or liability
- **Level 3:** Inputs that are not based on observable market data

The Group has the following Level 1 financial assets and liabilities;

- Investment designated at fair value amounted to $20 million (note 23).
- A $500 million Eurobond amounted to $495 million (note 28).

The Group has the following level 3 financial assets and liabilities;

- Contingent consideration and receivables (note 43).
- Co-development and earnout payment agreement (note32).

The following table presents the changes in Level 3 items for the period ended 31 December 2016 and the year ended 31 December 2015:

	Financial Assets	Financial Liabilities
Balance at 1 January 2015	–	4
Additions	–	19
Remeasurement through income statement	–	2
Balance at 31 December 2015	–	25
Additions	**–**	**5**
Release	**–**	**(4)**
Received/Settlement	**(82)**	**(23)**
Acquisition of subsidiaries (note 43)	**118**	**220**
Remeasurement through income statement (note 5)	**2**	**35**
Balance at 31 December 2016	**38**	**258**

The Group has no material fair value financial assets and liabilities except for the disclosed below.

The following methods and assumptions were used to estimate the fair value:

- Cash and cash equivalents – due to the short-term maturities of these financial instruments and given that generally they have negligible credit risk, management considers the carrying amounts to be not significantly different from their fair values;
- Short-term loans and overdrafts – approximates to the carrying amount because of the short maturity of these instruments;
- Long-term loans – the majority of the loans are variable rate and re-price in response to any changes in market rates and so management considers the carrying amount to be not significantly different from their fair market value. For fixed-rate loan exposures, fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities of such loans;
- Over the counter (OTC) derivative contracts may include forward, swap, and option contracts relating to interest rates or foreign currencies and are valued based on level 2 market prices and prevailing exchange rates at the balance sheet date;
- Receivables and payables – the fair values of receivables and payables are estimated to be equal to the respective carrying amounts;
- Lease obligations – are valued at the present value of the minimum lease payments.
- Financial liability related to the co-development and earn out payment – the key input of the financial liabilities is dependent on the net revenues from the sale of products which are subject to an aggregate cap of $200 million.
- The key input of the contingent consideration related to the expected cash inflows, milestones, and approvals of certain products discounted using a Monte Carlo analysis.

  If expected cash flows were 10% higher or lower, the fair value of both the contingent consideration and the financial liability at profit or loss will increase/decrease by $17 million.

Notes to the consolidated financial statements continued

30. Financial policies for risk management and their objectives continued

Liquidity risk of assets/(liabilities)

Liquidity risk

2016	Less than one year $m	Two to five years $m	More than five years $m	Total $m
Cash and cash equivalents	**155**	**–**	**–**	**155**
Trade receivables	**699**	**–**	**–**	**699**
Interest-bearing loans and borrowings	**(73)**	**(787)**	**–**	**(860)**
Interest-bearing overdrafts	**(10)**	**–**	**–**	**(10)**
Interest-bearing Import and Export loans	**(64)**	**–**	**–**	**(64)**
Trade payables and accruals	**(329)**	**–**	**–**	**(329)**
	378	**(787)**	**–**	**(409)**

2015	Less than one year $m	Two to five years $m	More than five years $m	Total $m
Cash and cash equivalents	553	–	–	553
Trade receivables	432	–	–	432
Interest-bearing loans and borrowings	(72)	(666)	(5)	(743)
Interest-bearing overdrafts	(12)	–	–	(12)
Interest-bearing Import and Export loans	(59)	–	–	(59)
Trade payables and accruals	(261)	–	–	(261)
	581	(666)	(5)	(90)

At 31 December 2016 the Group had undrawn facilities of $1,289 million (2015: $1,580 million). Of these facilities, $1,093 million (2015: $1,381 million) was committed and the remainder was uncommitted.

31. Derivative financial instruments

Foreign exchange forward contracts

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group uses foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts that the Group was committed to have been translated at 31 December exchange rates as below:

	2016 $m	2015 $m
Foreign exchange forward contracts (JPY)	**6**	–

31. Derivative financial instruments continued

In December 2016, the Group entered arrangements designed to address the (JPY) exchange exposure for the upcoming year. These forward contracts are designated as effective cash flow hedges and the movement in fair value in the year resulted in a loss of $nil, which has been reflected in other comprehensive income. These amounts are based on market values of equivalent instruments at the balance sheet date.

The Group believes that the effect on the value of cash flow hedges of currency fluctuations is not significant and will not materially affect the financial position of the Group.

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. These contracts have nominal values of $nil (2015: $4 million) and have fixed interest payments at a rate of 4.34% (2015: 1.94% to 4.34%) for periods up until 2017 and have floating interest receipts at EURIBOR.

The fair value of swaps entered by the Group is estimated as a liability of $nil (2015: liability of $nil). These amounts are based on fair values provided by the banks that originated the swaps and are based on equivalent instruments at the balance sheet date. The interest rate swaps that the Group was committed to at the year-end are held at fair value through profit and loss.

The Group believes that the effect on the value of interest rate swaps by interest rate fluctuations will not materially affect the financial position of the Group.

32. Other non-current liabilities

	As at 31 December	
	2016 $m	2015 $m
Contingent consideration and liability (note 43)	**226**	–
Supply Manufacturing Agreement	**33**	–
Co-development and earnout payment	**14**	18
Others	**4**	2
	277	20

Contingent consideration and liability: In respect to note 27, the non-current portion of the year-end balance is $146 million related to the contingent consideration and another $80 million related to the opening balance sheet contingent liability.

Supply Manufacturing Agreement: As part of the acquisition of West-Ward Columbus, the Group entered into supply and manufacturing contracts with Boehringer.

Co-development and earnout payment agreement: In respect to note 27, the non-current portion of the year-end balance is $14 million.

33. Share capital

Issued and fully paid – included in shareholders' equity:

	2016		2015	
	Number 'm	**$m**	Number 'm	$m
At 1 January	**200**	**35**	199	35
Issued during the year (ordinary shares of 10p each)	**41**	**5**	1	–
At 31 December	**241**	**40**	200	35

34. Non-controlling interests

	2016 $m	2015 $m
At 1 January	**15**	19
Share of profit	**3**	2
Dividends paid	**(1)**	(2)
Currency translation loss	**(3)**	(4)
Acquisition of subsidiaries	**1**	–
At 31 December	**15**	15

Notes to the consolidated financial statements continued

35. Own shares

The Employee Benefit Trust ('EBT') of Hikma holds 40,831 (2015: 40,831) Ordinary Shares in the Company. The trustee of the EBT is Capita Trustees Limited, an independent trustee. The market value of the Ordinary Shares held in the EBT at 31 December 2016 was $1 million (2015: $1 million). The book value of the retained own shares at 31 December 2016 are $1 million (2015: $1 million). The Ordinary Shares held in the EBT will be used to satisfy long-term commitments arising from the employee share plans operated by the Company.

36. Net cash from operating activities

	2016 $m	2015 $m
Profit before tax	**210**	318
Adjustments for:		
Depreciation, amortisation, impairment, and write-down of:		
Property, plant and equipment	**78**	51
Intangible assets	**68**	22
Investment in associate	**–**	7
Gain on disposal of property, plant and equipment (note 5)	**–**	(11)
Gain on disposal of intangible assets (note 5)	**(18)**	–
Movement on provisions	**(1)**	3
Cost of equity-settled employee share scheme	**22**	15
Finance income	**(12)**	(3)
Interest and bank charges	**102**	57
Results from associates	**–**	2
Foreign exchange loss*	**19**	–
Release of contingent Liability	**(4)**	–
Cash flow before working capital	**464**	461
Change in trade and other receivables	**(128)**	(78)
Change in other current assets	**1**	(1)
Change in inventories	**(32)**	4
Change in trade and other payables	**46**	28
Change in other current liabilities	**15**	3
Change in other non-current liabilities	**3**	–
Cash generated by operations	**369**	417
Income tax paid	**(76)**	(51)
Net cash generated from operating activities	**293**	366

* The presentation of 2016 has been amended to show the foreign exchange loss in a separate line item. We have not restated the 2015 comparatives in this respect on the basis that it is only a disclosure as the amount was immaterial and embedded in the net cash generated from operating activities.

37. Contingent liabilities

A contingent liability existed at the balance sheet date in respect of external guarantees and letters of credit totalling $49 million (31 December 2015: $50 million).

In January 2017 the Group received a subpoena from a state attorney general, requesting certain pricing and costing information. Management do not believe sufficient evidence exists to provide for this currently.

38. Share-based payments

Equity-settled share option scheme

During the year ended 31 December 2016, the Company had one stock option compensation scheme settled by equity instruments, with four separate grant dates. The options over these instruments are settled in equity once exercised.

Details of the grants under the scheme are shown below:

Date of grants	Number granted	The estimated fair value of each share option granted $	The share price at grant date $	Exercise price $	Expected volatility	Expected dividend yield	Expected average contractual life	Risk - free interest rate
4–Nov–2008	85,000	1.14	5.45	5.45	34.90%	1.21%	4.0 years	4.11%
29–Apr–2008	1,041,500	2.61	9.19	9.19	31.50%	0.08%	3.8 years	4.54%
13–Oct–2005	1,600,000	0.74	4.50	4.50	26.20%	6.67%	7.5 years	4.54%
12–Oct–2004	9,520,000	0.35	0.91	0.91	44.80%	3.85%	7.5 years	4.22%

All of the general employees share option plans have a ten-year contractual life and vesting conditions of 20% per year for five years beginning on the first anniversary of the grant date.

The estimated fair value of each share option granted in the general employee share option plans was calculated by applying a binomial option pricing model.

It was assumed that each option tranche will be exercised immediately after the vesting date.

Further details of the general employee share option plan are as follows:

	2016		2015	
	Number of share options	**Weighted average exercise price (in $)**	Number of share options	Weighted average exercise price (in $)
Outstanding at 1 January	**12,500**	**9.18**	143,500	7.60
Exercised during the year	**(12,500)**	**9.18**	(79,700)	7.59
Expired during the year	**–**	**–**	(51,300)	7.10
Outstanding at 31 December	**–**	**–**	12,500	9.18
Exercisable at 31 December	**–**	**–**	12,500	9.18

The weighted average share price at the date of exercise for share options exercised during the year was $9.18.

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 fifteen 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. The threshold and maximum performance requirements for the revenue growth, earnings per share and return on invested capital performance conditions are detailed in pages 104-135 of the remuneration report and a measured against the audited financial statements for the closest three year financial period to the grant and vesting dates.

Notes to the consolidated financial statements continued

38. 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 granted are as follows:

Year 2016	2014 grants 03 Dec Number	2014 grants 14 June Number	2014 grants 29 May Number	2014 grants 3 Apr Number	2013 grants 6 Nov Number	2013 grants 17 May Number	2012 grant 16 March Number	2007 grants 23 April Number	Total Number
Outstanding at 1 January	5,899	151,429	109,000	84,954	20,802	431,876	27,820	13,000	844,780
Exercised during the year	–	–	–	–	(13,529)	(346,295)	(5,600)	–	(365,424)
Expired during the year performance condition	–	–	–	–	(2,093)	(53,595)	–	–	(55,688)
Outstanding at 31 December	5,899	151,429	109,000	84,954	5,180	31,986	22,220	13,000	423,668
Exercisable at 31 December	–	–	–	–	5,180	31,986	22,220	13,000	72,386

Year 2015	2014 grants 03 Dec Number	2014 grants 14 June Number	2014 grants 29 May Number	2014 grants 3 Apr Number	2013 grants 6 Nov Number	2013 grants 17 May Number	2012 grant 16 March Number	2007 grants 23 April Number	Total Number
Outstanding at 1 January	5,899	151,429	109,000	84,954	20,802	431,876	468,250	13,000	1,285,210
Exercised during the year	–	–	–	–	–	–	(440,430)	–	(440,430)
Outstanding at 31 December	5,899	151,429	109,000	84,954	20,802	431,876	27,820	13,000	844,780
Exercisable at 31 December	–	–	–	–	–	–	27,820	13,000	40,820

The cost of the LTIP of $3 million (2015: $5 million) has been recorded in the consolidated income statement as part of general and administrative expenses.

38. Share-based payments continued

Management incentive plan

The 2009 Management Incentive Plan ("MIP") was approved by shareholders at the 2010 Annual General Meeting, whereby shareholders consented to the Company satisfying awards under the MIP from newly issued shares. Under the MIP, the Company makes grants of conditional awards to management across the Group below senior management level. Awards are dependent on the achievement of individual and Group KPIs over one year and are then subject to a two year holding period. The 2009 MIP awards were made at the start of the KPI performance period, whereas the 2011 awards and future awards will be made at the end of the KPI performance period.

Details of the grants under the plan are shown below:

Year 2016	2016 grants 11–May Number	2015 grants 14–May Number	2014 grants 11–Jun Number	2013 grants 17 May Number	Total Number
Outstanding at 1 January	–	140,594	214,009	9,973	364,576
Granted during the year	196,373	–	–	–	196,373
Exercised during the year	–	–	(190,400)	–	(190,400)
Expired during the year	(3,648)	(8,152)	(10,977)	–	(22,777)
Outstanding at 31 December	**192,725**	**132,442**	**12,632**	**9,973**	**347,772**

Year 2015	2015 grants 14-May Number	2014 grants 11-Jun Number	2013 grants 17 May Number	Total Number
Outstanding at 1 January	–	219,296	229,081	448,377
Granted during the year	145,918	–	–	145,918
Exercised during the year	–	(725)	(211,554)	(212,279)
Expired during the year	(5,324)	(4,562)	(7,554)	(17,440)
Outstanding at 31 December	140,594	214,009	9,973	364,576

The cost of the MIP of $6 million (2015: $6 million) has been recorded in the consolidated income statement as part of general and administrative expenses.

The fair value per share is the face value of shares on the date of grant less the present value of dividends expected to be paid during this period. Valuation is based on Black-Scholes methodology for nil-cost options.

	Date of grants	Number granted	The estimated fair value of each share option granted $	The share price at grant date $
MIP's 1	19/03/2009	340,000	4.89	5.11
MIP's 2	28/03/2010	147,561	9.15	9.36
MIP's 3	11/05/2011	356,894	12.96	13.23
MIP's 4	18/05/2012	412,056	9.47	9.72
MIP's 5	17/05/2013	252,482	14.61	14.93
MIP's 6	11/06/2014	225,904	27.73	28.33
MIP's 7	11/05/2015	145,918	32.17	32.63
MIP's 8	11/05/2016	196,372	31.73	32.20

Notes to the consolidated financial statements continued

38. Share-based payments continued

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 share (element C) scheme. Under the EIP, the Company makes grants of conditional awards and $nil cost options under elements B and C to the executive directors and senior executives of the Group. Awards under all elements are dependent on the achievement of individual and Group KPIs over one year prior to grant. The shares awarded under element B are not released for a period of two years during which they are subject to a forfeiture condition. The shares awarded under element C are not released for a period of three years, but are not subject to a forfeiture condition. Members of the Executives committee must retain 50% of the shares received from elements B and C for a period of five years from the date of grant.

Year 2016	2016 grants 11-May	2016 grants 17-Mar	2015 grants 15-May	2015 grants 10-Apr	Total Number
Beginning Balance	–	–	118,000	338,808	456,808
Granted during the year	165,553	448,875	–	–	614,428
Outstanding at 31 December	**165,553**	**448,875**	**118,000**	**338,808**	**1,071,236**

Year 2015	2015 grants 15-May	2015 grants 10-Apr	Total Number
Beginning Balance	118,000	338,808	456,808
Granted during the year	–	–	–
Outstanding at 31 December	**118,000**	**338,808**	**456,808**

The cost of the EIP of $13 million (2015: $4 million) has been recorded in the consolidated income statement as part of general and administrative expenses.

The fair value per share is the face value of shares on the date of grant.

	Date of grants	Number granted	The estimated fair value of each share option granted $	The share price at grant date $
EIP's 1	10/4/2015	338,808	33.24216	33.24216
EIP's 2	15/5/2015	118,000	33.11449	33.11449
EIP's 3 B	17/3/2016	242,608	26.97918	26.97918
EIP's 3 C	17/3/2016	206,267	26.97918	26.97918
EIP's 4	11/5/2016	165,553	32.15333	32.15333

39. Operating lease arrangements

	2016 $m	2015 $m
Minimum lease payments under operating leases recognised in profit or loss for the year	**7**	8

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 $m	2015 $m
Within one year	**7**	4
In the two to five years inclusive	**18**	9
After five years	**12**	4
	37	17

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a term of one to eight years.

40. Related parties

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates and other related parties are disclosed below.

Trading transactions:

During the year, Group companies entered into the following transactions with related parties:

Boehringer Ingelheim GmbH (BI): is a related party of Hikma because BI owns 16.7% (2015: 0.0%) of the share capital of Hikma, controls 11.7% (2015: 0.0%) of the voting capital of Hikma, has the right to appoint a director of Hikma and a senior executive of BI holds a directorship of Hikma. During the year, the Group total sales to BI amounted to $90.1 million (2015: $nil) and the Group total purchases from BI amounted to $10.3 million. As at the year end, the amount owed from BI to the Group was $45.2 million (2015: $nil). Additionally, balances arising from the acquisition of West-Ward Columbus from BI relating to contingent consideration are disclosed in note 30 and purchase price adjustments which are outstanding are disclosed in note 43.

Capital Bank, Jordan (Capital Bank): is a related party of Hikma because one director of Hikma is a director, the founder and former Chief Executive Officer of Capital Bank. At the year end, total cash balance at Capital Bank was $11.3 million (2015: $9.4 million) and utilisation of facilities granted by Capital Bank to the Group amounted to $8.3 million (2015: $nil). The interest expense/income is within market rate

Darhold Limited (Darhold): is a related party of Hikma because three directors of Hikma jointly constitute the majority of directors and shareholders (with immediate family members) in Darhold and because Darhold owns 25.00% (2015: 29.06%) of the share and voting capital of Hikma.

Other than dividends (as paid to all shareholders), there were no transactions between the Group and Darhold Limited during the year.

HikmaCure Limited (HikmaCure): is a related party of Hikma because HikmaCure is a 50:50 joint venture (JV) with MIDROC Pharmaceuticals Limited ('MIDROC'). Hikma and MIDROC invested in HikmaCure in equal proportions and have committed to provide up to $22 million each in cash, of which $2.5 million has been paid (2015: $2.5 million).

Hubei Haosun Pharmaceutical Co. Ltd (Haosun): is a related party of Hikma because the Group holds a non-controlling interest of 30.1% (2015: 30.1%) in Haosun. During 2016, total purchases from Haosun were $0.4 million (2015: $0.6 million). At 31 December 2016, the amount owed from Hubei Haosun Pharmaceutical to the Group amounted to $1.7 million (2015: $nil).

Labatec Pharma (Labatec): is a related party of the Group because Labatec is owned by the family of two directors of Hikma. During 2016, total Group sales to Labatec amounted to $1.4 million (2015: $0.9 million). As at the year end, the amount owed by Labatec to the Group was $0.3 million (2015: $0.2 million).

Remuneration of key management personnel

The remuneration of the key management personnel (comprising the Executive and Non-Executive Directors and certain of senior management as set out in the Directors' Report) of the Group is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of the individual Directors is provided in the audited part of the Remuneration Committee Report on pages 104 to 135.

	2016 $m	2015 $m
Short-term employee benefits	**14.2**	14.1
Share-based payments	**11.5**	6.2
Post-employment benefits	**–**	0.1
Other benefits	**0.3**	0.1
	26.0	20.5

Notes to the consolidated financial statements continued

41. Subsidiaries, associate and joint venture

The subsidiaries, associate and joint venture of Hikma Pharmaceuticals PLC are as follows:

			Group		PLC "The Company"	
Company's name	Incorporated in	Address of the registered office	Ownership% Ordinary shares At 31 December 2016	Ownership% Ordinary shares At 31 December 2015	Ownership% Ordinary shares At 31 December 2016	Ownership% Ordinary shares At 31 December 2015
Algerie Industrie Mediterraneene Du Medicament S.A.R.L.	Algeria	Zone d'Activité 16/15 Staoueli, Algeria	97%	97%	–	–
Jazeera Pharmaceutical Industry SARL	Algeria	Zone d'Activité, Propriété N° 379 Section N° 04 Staoueli, Algeria	99%	99%	–	–
Hikma Pharma Algeria SARL	Algeria	Zone d'Activité 15/16 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%	–	–
Hikma Pharma SAE*	Egypt	12 El-Esraa Street, El-Mohandeseen, Lebanon Square, Giza, Egypt	100%	100%	–	–
Hikma Specialized Pharmaceuticals SAE	Egypt	10 D, 11 D, Industrial Zone, Badr City, Cairo, Egypt	98%	–	–	–
Hikma for Importation Co. LLC	Egypt	12 El-Esraa Street, El-Mohandeseen, Lebanon Square, Giza, Egypt	99%	99%	–	–
Egyptian Co. for Pharmaceutical and Chemical Industries S.A.E.	Egypt	16 Ahmed Hosny Street, First Zone, Naser City, Cairo, Egypt	100%	100%	–	–
Hikma Pharma Share Co	Ethiopia	Addis Ababa, Ethiopia, Bole Sub City, Kebele 16, Woreda	100%	100%	–	–
Hikma Pharma GmbH	Germany	Lochhamer Strasse 13 82152 Martinsried, Germany	100%	100%	–	–
Thymoorgan Pharmazie GmbH	Germany	Schiffgraben 23, 38690 Goslar OT Vienenburg, Germany	100%	100%	–	–
Thymoorgan GmbH*	Germany	Schiffgraben 23, 38690 Goslar OT Vienenburg, Germany	100%	100%	–	–
Hikma Finance Ireland Limited	Ireland	2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland	100%	–	–	–
Hikma Italia S.p.A	Italy	Viale Certosa, 10, Pavia, 27100, Italy	100%	100%		
Hikma Pharma Limited*	Jersey	47 Esplanade, St Helier, JE1 0BD, Jersey	100%	100%	100%	100%
Arab Pharmaceutical Manufacturing PSC*	Jordan	Al Buhaira – Salt, P.O. Box 42, 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 International Pharmaceuticals LLC	Jordan	122 Queen Zain AlSharaf Street, Bayader Wadi Al-Seer, Amman, Jordan	100%	100%	–	–
Hikma International Ventures and Development LLC	Jordan	21 Saleem Bin Al-Hareth Street, Industrial Area, Bayader Wadi Al-Seer, Amman, Jordan	100%	–	–	–
Arab Medical Containers LLC*	Jordan	P.O. Box 80, Sahab Industrial Estate, 11512, Jordan	100%	100%	–	–
Hikma Sofia Travel and Tourism	Jordan	Mustafa Semreen Complex Building No. 29, Jamal Qaytoqa Street, Bayader Wadi Al-Seer, Amman, Jordan	100%	100%	–	–
International Pharmaceutical Research Centre LLC	Jordan	P.O. Box 963166, Amman, 11196, Jordan	51%	51%	–	–
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	21 Saleem Bin Al-Hareth Street, Industrial Area, Bayader Wadi Al-Seer, P.O. Box 182400, Amman, 11118, Jordan	100%	–	–	–
Specialized 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%	–	–	–
Future Pharmaceutical Industries LLC	Jordan	P.O. Box 80, Sahab Industrial Estate, 11512, Jordan	100%	100%	–	–
Hikma CIS JSC	Kazakhstan	Apt. 1, House 7, Building-28, "Keremet" Microdistrict, Bostandykskiy District, A15C8X2, Almaty, Kazakhstan	100%	100%	–	–
Hikma Pharma Kazakhstan	Kazakhstan	Apt. 1, House 7, Building-28, "Keremet" Microdistrict, Bostandykskiy District, A15C8X2, Almaty, Kazakhstan	100%	100%	–	–
Al Jazeerah Pharmaceutical Industries Ltd*	KSA	Riyadh Gallery, Olaya Street, Riyadh, P.O. Box 106229, Riyadh-11666, Kingdom of Saudi Arabia	100%	100%	52.5%**	52.5%**

41. Subsidiaries, associate and joint venture continued

Company's name	Incorporated in	Address of the registered office	Group Ownership% Ordinary shares At 31 December 2016	Group Ownership% Ordinary shares At 31 December 2015	PLC "The Company" Ownership% Ordinary shares At 31 December 2016	PLC "The Company" Ownership% Ordinary shares At 31 December 2015
Hikma Liban S.A.R.L	Lebanon	Saria Building, Ground Floor, Embassies Street, Bir Hassan, Beirut, Lebanon	67%	67%	–	–
Hikma Finance (Luxembourg) SARL	Luxembourg	20 rue des Peupliers, L-2328 Luxembourg	100%	100%	–	100%
Société de Promotion Pharmaceutique du Maghreb (Promopharm S.A.)*	Morocco	Zone Industrielle du Sahel, Rue N. 7, Had Soualem, Province de Settat, Morocco	94%	94%		
Hikma Pharma Benelux B.V	Netherlands	Nieuwe Steen 36 1625 HV HOORN, The Netherlands	100%	100%	–	–
Hikma International N.V	Netherlands	Herikerbergweg 238, 1101CM, Amsterdam Zuidoost, The Netherlands	100%	100%	100%	100%
Eurohealth N.V	Netherlands Antilles	Pareraweg 45, P.O. Box 4914, Curaçao	100%	100%	–	–
Lifotec Farmaceutica S.G.P.S S.A*	Portugal	Estrada Nacional 9, Fervença, São João das Lampas e Terrugem, Sintra	100%	100%	–	–
Hikma Farmaceutica S.A	Portugal	Estrada do Rio da Mó, 8, A/B, Fervença, 2705-906 Terrugem, Sintra, Portugal	100%	100%	–	–
Hikma Slovakia s.r.o	Slovakia	Seberíniho 1, 821 03 Bratislava	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 Ltd	Sudan	Riyad Area, Obied Khatim Street, P.O. Box 10461, Block No. 21, House No. 420, Khartoum, Sudan	100%	100%	–	–
Eurohealth International SARL	Switzerland	rue des Battoirs 7,1205 Genève, Switzerland	100%	100%	100%	100%
STE Hikma Pharma Tunisie	Tunisia	Impasse N°4-Energie Solaire, Zone Industrielle La Charguia 1, Tunis-Carthage 2035, Tunisia	100%	100%	–	–
STE D'Industriee Pharmaceutique Ibn Al Baytar*	Tunisia	11 Rue 8610 Charguia 1-2035 Tunis-Carthage, Tunisia	66%	66%	–	–
APM Tunisie SARL	Tunisia	Impasse N°4-Energie Solaire, Zone Industrielle La Charguia 1, Tunis-Carthage 2035, Tunisia	99%	99%	–	–
STE Medicef	Tunisia	Avenue Habib Bourguiba, Sidi Thabet, 2020 Ariana, Tunisia	100%	100%	–	–
AMKI Hikma MENA Holdings Limited	UAE	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%	100%	100%
Hikma Emerging Markets and Asia Pacific FZ-LLC	UAE	Premises 202-204, Floor 2, Building 26, Dubai, UAE	100%	100%	100%	100%
Hikma MENA Holdings Limited*	UAE	The Oberoi Centre, Level 15, Business Bay, P.O. Box 36282, Dubai, United Arab Emirates	100%	100%	100%	100%
Hikma Ventures Limited*	UK	13 Hanover Square, London, W1S 1HW, United Kingdom	100%	100%	100%	100%
Hikma Acquisitions (UK) Limited*	UK	13 Hanover Square, London, W1S 1HW, United Kingdom	100%	100%	100%	100%
Hikmacure Limited*	UK	13 Hanover Square, London, W1S 1HW, United Kingdom	50%	50%	–	–
Hikma Holdings (UK) Limited*	UK	13 Hanover Square, London, W1S 1HW, United Kingdom	100%	100%	–	–
Hikma UK Limited*	UK	13 Hanover Square, London, W1S 1HW, United Kingdom	100%	100%	–	–
Hikma (Maple) Limited	UK	13 Hanover Square, London, W1S 1HW, United Kingdom	100%	100%	–	–
West-Ward Holdings Limited*	UK	13 Hanover Square, London, W1S 1HW, United Kingdom	100%	100%	–	–
Eurohealth (USA) Inc*	USA	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, Delaware 19801	100%	100%	–	–
West-Ward Pharmaceuticals Corp	USA	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, Delaware 19801	100%	100%	–	–
West-Ward Injectables, Inc	USA	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, Delaware 19801	100%	100%	–	–
Hikma Americas Inc	USA	800 S Gay Street, Suite 2021, Knoxville, Tennessee 38118–7809	100%	100%	–	–
Bedford Property Holdings, Inc.	USA	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, Delaware 19801	100%	100%	–	–
Roxane Laboratories Inc.	USA	Corporation Trust Company of Nevada 701 S Carson Street Suite 200 Carson City, Nevada 89701	100%	–	–	–
West-Ward Columbus Inc.	USA	Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, Delaware 19801	100%	–	–	–
Hubei Haosun Pharmaceutical Co Ltd	China	No 20 Juxian Road, Gedian Economic and Technology Development Zone, Ezhou City, Hubei Province, PRC	30%	30%	–	–
Hikmacure Limited*	UK	13 Hanover Square, London, W1S 1HW, United Kingdom	50%	50%		

The investments in subsidiaries are all stated at cost.

The Group's subsidiaries principally operate in trading pharmaceuticals products and associated goods and services. Companies marked (*) were incorporated as holding companies.

** The remaining shares are held by other Group companies.

42. Defined contribution retirement benefit plan

Hikma Pharmaceuticals PLC has defined contribution retirement plans in five of its subsidiaries: Hikma Pharmaceuticals PLC – United Kingdom, Hikma Pharmaceuticals Limited (Jordan), Arab Pharmaceutical Manufacturing Co, West-Ward Pharmaceuticals Corp and West-Ward Columbus Pharmaceuticals. The details of each contribution plan are as follows:

Hikma Pharmaceuticals PLC – United Kingdom

The Group currently has a defined contribution pension plan available for staff working in the United Kingdom whereby the Group contributes 10% of salary. Contributions commence after three months' employment. Employees are immediately entitled to 100% of the Group's contributions. The Group's contributions for the year ended 31 December 2016 were $0.2 million (2015: $0.2 million).

Hikma Pharmaceuticals LLC – Jordan:

The Group currently has an employee savings plan whereby the Group fully matches employees' contributions, which are fixed at 10% (up to 2011 was 5%) of salary. Employees are entitled to 30% of the Group contributions after three years of employment with the Group and an additional 10% for each subsequent year. Employees are entitled to 100% of the company contributions after ten years of employment with the company. The Group's contributions for the year ended 31 December 2016 were $2 million (2015: $2 million).

Arab Pharmaceutical Manufacturing PSC – Jordan:

The Group currently has an employee saving plan whereby the employees contribute at 10%, and the company at 15% of basic salary. After three years of employment with the company, employees are entitled to 100% of the company contributions. The Group's contributions for the year ended 31 December 2016 were $1 million (2015: $1 million).

West-Ward Pharmaceuticals Corp: (401 (k) salary saving plan)

West-Ward Pharmaceutical Corp has a 401 (k) defined contribution plan, which allows all eligible employees to defer a portion of their income through contributions to the plan. All employees not covered by any collective bargaining agreement are eligible after being employed for 90 days. Employees can defer up to 95% of their gross salary into the plan, not to exceed $18,000 (2015: $18,000), not including catch-up contributions available to eligible employees as outlined by the Internal Revenue Service. The company matches 40% of the employees' eligible contribution. Employer contributions do not vest for up to two years of service, 50% after two years of service and 100% after three years of service. Employees are considered to have completed one year of service for the purposes of vesting upon the completion of 1,000 hours of service at any time during a plan year. Employer contributions to the plan for the year ended 31 December 2016 were $3 million (2015: $3 million).

West-Ward Columbus Pharmaceuticals Corp: (401 (k) salary saving plan)

West-Ward Columbus Pharmaceutical Corp has a 401 (k) defined contribution plan, which allows all eligible employees to defer a portion of their income through contributions to the plan. All employees not covered by any collective bargaining agreement are eligible after being employed for 90 days. Employees can defer up to 95% of their gross salary into the plan, not to exceed $18,000 for 2016, not including catch-up contributions available to eligible employees as outlined by the Internal Revenue Service. The company matches 100% on first 5% of the employees' eligible contribution. Employer contributions do not vest for up to two years of service, 20% after two years of service and 100% after six years of service. Employees are considered to have completed one year of service for the purposes of vesting upon the completion of 1,000 hours of service at any time during a plan year. Employer contributions to the plan for the year ended 31 December 2016 were $8.1 million. The assets of the plans are held separately from those of the Group. The only obligation of the Group with respect to the retirement benefit plans is to make specified contributions.

43. Acquisition of businesses

During the year, Hikma acquired two businesses: West-Ward Columbus and EUP.

West-Ward Columbus

On 28 July 2015 Hikma announced that it had agreed to acquire West-Ward Columbus, from Boehringer Ingelheim (Boehringer).West-Ward Columbus is a well-established US specialty generics company with a highly differentiated product portfolio and best-in-class R&D capabilities.

The acquisition of West-Ward Columbus will transform Hikma's position and scale in the US generics market, expand the manufacturing capacity and technological capabilities, add significant breadth to Hikma's US portfolio, create sustainable long-term growth potential.

On 29 February 2016, Hikma completed the acquisition of West-Ward Columbus. The total fair value of the consideration was $1,725 million comprising of net cash consideration of $575 million (net of certain working capital and other adjustments); 40 million Ordinary Shares issued to Boehringer based on Hikma's share price of £18.81 and the US: GBP exchange rate of 1.3879:1 (representing an estimated 16.71 per cent. of Hikma issued share capital immediately following the issuance); a contingent consideration of $224 million based on future performance; and a purchase price adjustment of $118 million reflecting further working capital adjustments as well as amounts receivable from Boehringer in respect of milestones and other conditions.

The goodwill arising represents the sustainable long-term growth, the addition of West-Ward's Columbus experienced R&D team with a successful track record of bringing new and differentiated products to market, the possibility to launch additional pipeline products including those to launch beyond 2020 (future potential unidentified assets) and expected synergies not attributable to intangible assets.

The net assets acquired in the transaction and the goodwill arising have been valued by a third party expert as set out below.

Net assets acquired	Fair Value $m	
Trade and other receivables	170	a
Inventories	200	b
Other Current Assets	4	
Intangible assets	723	c
Property, plant and equipment	447	d
Deferred tax assets	60	
Trade and other payables	(34)	
Other current liabilities	(85)	
Deferred tax liabilities	(15)	
Other non-current liabilities	(152)	e
Net assets acquired	1,318	
Goodwill	407	
Total consideration	1,725	
Discharged by:		
Cash consideration	575	
Issuance of share	1,044	
Contingent consideration	224	f
Adjustment to purchase price	(118)	g
	1,725	
Cash consideration	575	
Cash and cash equivalents acquired	–	

a. Trade and other receivables include a prepayment related to the Transitional Service Agreement between the Group and Boehringer.

The fair value of trade and other receivables is $170 million and includes trade receivables with a fair value of $158 million. The gross contractual amount for trade receivables due is $158 million.

43. Acquisition of businesses continued

b. Inventories have been valued as follows:

- Raw materials at the current replacement cost.
- Finished goods and work in process at the estimated selling prices less a cost to dispose of and complete, less a reasonable profit attributable to the selling effort, this results in an inventory step-up amounted to $27 million (note 5).

c. Intangible assets represent:

- Fair value of "Marketed products" which present the outcome of the R&D efforts, material and formulas. The Multi Period Excess Earnings Method ("MEEM") of the Income Approach has been used to value those products. Useful lives of 9 -14 years have been determined.
- Fair value of products in various stages of development ("Pipeline Products"). The Multi Period Excess Earnings Method ("MEEM") of the Income Approach has been used to value those products. Useful lives of 7 -15 years have been determined.

d. The Property, plant and equipment acquired have been valued by a third party expert at current market values on the basis of Fair Value as defined in IFRS 13 and in accordance with IFRS 3 Business Combinations.

e. As part of the acquisition, Hikma assumed a contingent liability related to the co-development with a third party of two specific products that includes payments for milestones and royalties dependent on the net sales (see note 32). These contingent liabilities were recorded as opening balance sheet liabilities based on a probability weighted present value amount at the time of the acquisition. Subsequent to the acquisition, $10 million of such milestones were paid. In addition, concurrent with the acquisition, Hikma entered into supply and manufacturing contracts with Boehringer.

f. As part of the acquisition of West-Ward Columbus, Hikma agreed to pay Boehringer contingent consideration of $220 million representing a probability weighted present value of potential liabilities related to two specific products subject to the achievement of certain US FDA approval milestones, royalties for each calendar quarter in the first year that certain conditions exist. Additionally, there was also $4 million contingent consideration in relation to retention bonus and special advance payments. Subsequent to the acquisition, $23 million were paid of such milestones and special payments.

g. A purchase price adjustment of $118 million reflecting further working capital adjustments as well amounts receivable from Boehringer in respect of milestones and other conditions (notes 18, 23).

Goodwill recognised is expected to be non-deductible for income tax purposes.

The revenue and core operating profit of West-Ward Columbus from the date of the acquisition, included in the Group's consolidated statement of comprehensive income for the year amounted to $477 million and $34 million, respectively. These numbers exclude acquisition, integration, and other costs amounting to $41 million, the amortisation of the fair value uplift of the inventory of $27 million, and the intangible amortisation of $ 15 million)

EUP

On 8 September 2015 Hikma announced that it had agreed to acquire 97.73% of the share capital of EUP from a consortium of shareholders. EUP is a pharmaceutical manufacturing company specialising in oncology products. The acquisition of EUP will strengthen Hikma's position in the large and fast growing Egyptian market, add an attractive portfolio and pipeline in the key strategic areas of oncology and injectables, add a manufacturing facility in Egypt, with both oral and injectable lines, and leverage Hikma's established market position in Egypt and strong sales and marketing team.

On closing the transaction on Feb 17th 2016, the total fair value of the consideration is deemed to be $38 million. $34 million is cash consideration and the balance of $4 million has been treated as deferred consideration.

43. Acquisition of businesses continued

The goodwill arising represents the synergies that will be obtained by integrating EUP into the existing business.

The net assets acquired in the transaction and the goodwill arising have been valued by a third party expert as set out below.

Net assets acquired	Fair Value $m	
Cash and cash equivalents	1	
Inventories	1	
Intangible Assets	21	a
Property, plant and equipment	11	b
Financial debt	(1)	
Income tax provision	(1)	
Other current liabilities	(2)	
Deferred tax liability	(6)	
Net assets acquired	24	
Non-controlling interest	1	c
Goodwill	13	
Total consideration	38	
Discharged by:		
Cash	34	
Deferred consideration	4	
	38	
Cash consideration	34	
Cash and cash equivalents acquired	(1)	
Net cash outflow arising on acquisition	33	

a. Product rights relating to product licenses and approvals have been valued based on the type of rights acquired. A discounted cash flow approach has been taken based on excess earnings by product group, applying a discount rate applicable for any market participant. The product rights have been valued using a model that reflects a market participant point of view, where assumptions were built based on the expected market performance for these products irrespective of the acquirer's identity.
b. The property, plant and equipment acquired have been valued by a third party expert at current market value.
c. The non-controlling interests have been recognised as a proportion of net assets acquired.

Goodwill recognised is expected to be non-deductible for income tax purposes.

The revenue and core operating loss of EUP from the date of the acquisition that is included in the Group's consolidated statement of comprehensive income for the year amounted to $4 million and $3 million, respectively.

Full period impact of acquisitions:

If the acquisition of West-Ward Columbus and EUP had been completed on the first day of the financial year, the Group's revenues for the period would have been approximately $2,057 million and the Group's profit attributable to equity holders of the parent would have been approximately $154 million. The appropriate additional contribution by entity for the period from the beginning of the year up to the acquisition date is illustrated in the table below:

	Effect on Group's revenues $m	Effect on Group's profit/(loss) $m
West-Ward Columbus	107	1
EUP	–	(2)
	107	(1)

Company balance sheet

At 31 December 2016

	Note	2016 $m	2015 $m
Non-current assets			
Intangible assets	46	**13**	197
Financial and other non-current assets		**6**	8
Investments in subsidiaries	47	**3,179**	1,888
Due from subsidiaries	48	**507**	115
Property, plant and equipment		**3**	–
		3,708	2,208
Current assets			
Inventories		**–**	4
Other current assets	49	**59**	22
Cash and cash equivalents	50	**32**	363
Due from subsidiaries	48	**108**	117
Other receivables		**2**	3
		201	509
Total assets		**3,909**	2,717
Current liabilities			
Other payables	51	**4**	2
Other current liabilities		**13**	22
Income tax provision		**5**	–
Due to subsidiaries	52	**32**	42
		54	66
Net current assets		**147**	443
Non-current liabilities			
Long-term financial debts	53	**640**	495
Due to subsidiaries	52	**55**	45
Other non-current liabilities	54	**–**	18
		695	558
Total liabilities		**749**	624
Net assets		**3,160**	2,093
Equity			
Share capital	61	**40**	35
Share premium	62	**282**	282
Own shares		**(1)**	(1)
Profit for the year	63	77	133
Other reserves		2,762	1,644
Equity attributable to equity holders of the parent		3,160	**2,093**

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

Said Darwazah
Director

Mazen Darwazah
Director

14 March 2017

Company statement of changes in equity

For the year ended 31 December 2016

	Paid up capital $m	Share premium $m	Own shares $m	Merger reserve $m	Retained earnings $m	Total $m
Balance at 1 January 2015	35	281	(1)	707	987	2,009
Issue of equity shares	–	1	–	–	–	1
Cost of equity settled employee share scheme	–	–	–	–	15	15
Profit for the year	–	–	–	–	133	133
Dividends paid	–	–	–	–	(64)	(64)
Effect of change in fair value	–	–	–	–	(1)	(1)
Balance at 31 December 2015 and 1 January 2016	35	282	(1)	707	1,070	2,093
Issue of equity shares	5	–	–	1,039	–	1,044
Cost of equity settled employee share scheme	–	–	–	–	22	22
Profit for the year	–	–	–	–	77	77
Dividends paid	–	–	–	–	(77)	(77)
Effect of change in fair value	–	–	–	–	1	1
Balance at 31 December 2016	**40**	**282**	**(1)**	**1,746**	**1,093**	**3,160**

As permitted by section 408 of the Companies Act 2006, the statement of comprehensive income of the Company is not presented as part of this accounts.

Company cash flow statement

For the year ended 31 December 2016

	2016 $m	2015 $m
Profit before tax	**73**	133
Adjustments for:		
Depreciation, amortisation and impairment of:		
Amortisation of intangible assets	**3**	1
(Gains)/losses on disposal of intangible assets	**(26)**	–
Cost of equity-settled employee share scheme	**5**	3
Finance income	**(15)**	(4)
Interest and bank charges	**53**	33
Change in other current assets	**–**	1
Change in other payables	**2**	1
Change in inventory	**–**	(4)
Change in other receivables	**1**	(1)
Change in amounts due from/to subsidiaries	**13**	15
Change in other current liabilities	**(3)**	5
Release of contingent Liability	**(4)**	–
Non-cash dividend from subsidiaries	**3**	–
Net cash from operating activities	**105**	183
Investing activities		
Change in amounts due from subsidiaries	**47**	(70)
Purchase of property, plant and equipment	**(3)**	–
Purchase of intangible assets	**(15)**	(31)
Proceeds from disposal of intangible assets	**9**	–
Investments designated at fair value	**–**	(20)
Investment in subsidiaries	**2**	24
Acquisition of business undertakings net of cash acquired	**(516)**	–
Interest income	**3**	4
Net cash used in investing activities	**(473)**	(93)
Financing activities		
Decrease in collateralized cash	**–**	5
Proceeds from issue of new shares	**–**	1
Proceeds from issue of long term financial debts	**405**	512
Repayment of long-term financial debts	**(260)**	(66)
Repayment of short-term debts	**–**	(247)
Interest paid	**(33)**	(27)
Dividends paid	**(77)**	(64)
Cumulative effect of change in fair value	**–**	(1)
Proceeds from co-development and earn out payment agreement, net	**2**	17
Net cash generated from financing activities	**37**	130
Net (decrease)/increase in cash and cash equivalents	**(331)**	220
Cash and cash equivalents at beginning of year	**363**	143
Cash and cash equivalents at end of year	**32**	363

44. Adoption of new and revised standards

The impact on the Company of new and revised standards is the same as for the Group. Details are given in Note 1 to the consolidated financial statements.

45. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in Note 2 to the consolidated financial statements with the addition of the policies noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Equity-settled employee share schemes are accounted for in accordance with IFRS 2 'Share based payment', whereby current charge expenses relating to the subsidiaries' employees are recharged to subsidiary companies.

46. Intangible assets

	Goodwill $m	Product related intangibles $m	Software $m	Total $m
Cost				
Balance at 1 January 2015	51	–	–	51
Additions/transfers from subsidiaries	–	145	10	155
Remeasurement*	(8)	–	–	(8)
Balance at 1 January 2016	**43**	**145**	**10**	**198**
Additions/(Transfers to) subsidiaries	–	(140)	3	(137)
Transfer to investment in subsidiaries	(43)	–	–	(43)
Disposals	–	(5)	–	(5)
Balance at 31 December 2016	**–**	**–**	**13**	**13**
Amortisation				
Balance at 1 January 2015				
Charge for the year	–	(1)	–	(1)
Balance at 1 January 2016	**–**	**(1)**	**–**	**(1)**
Charge for the year	–	(2)	–	(2)
Transfers to subsidiaries	–	3	–	3
Balance at 31 December 2016	**–**	**–**	**–**	**–**
Carrying amount				
At 31 December 2016	**–**	**–**	**13**	13
At 31 December 2015	43	144	10	197

* In 2015 an adjustment of $8 million was made to the provisional goodwill recognised on the acquisition of Bedford as a result of the adjustment to property, plant and equipment, inventory and deferred taxes made prior to the end of the measurement period on 15 July 2015.

Notes to the Company financial statements continued

For the year ended 31 December 2016

47. Investments in subsidiaries

The details of Investment in subsidiaries are mentioned in note 41.

The following table provides the movement of the investments in subsidiaries:

	2016 $m	2015 $m
Beginning balance	**1,888**	2,033
Additions/Transfers from/(to) subsidiaries	**1,908**	–
Transfer from Goodwill	**43**	–
Reduction in investment*	**(650)**	–
Reduction in paid up capital**	**(10)**	(145)
Ending balance	**3,179**	**1,888**

* This category relates to an intragroup restructuring following the acquisition of West-Ward Columbus.

** In 2016, the capital of Hikma Finance (Luxembourg) SARL was reduced by $10 million, in previous period a reduction of $108 million in Hikma Finance (Luxembourg) SARL, in addition the capital contribution of $37 million to Eurohealth International SARL was reversed as the conditions of the contribution were not satisfied. Part of this capital reduction is related to the transfer of intangibles from sister companies.

48. Due from subsidiaries and sister companies

Non-current assets

	2016 $m	2015 $m
West-Ward Pharmaceuticals Corp.	**8**	56
Hikma Italia S. P. A	**4**	5
Hikma MENA Holdings	**7**	7
West-Ward Pharmaceuticals International Limited *	**488**	–
Eurohealth International SARL	**–**	47
	507	115

* Increase in respect of dividends in specie as part of an intragroup restructuring following the acquisition of West-Ward Columbus.

Current assets

	2016 $m	2015 $m
Hikma Pharmaceuticals - Jordan	**3**	–
Hikma UK Limited	**62**	88
Hikma MENA Holdings	**7**	7
West-Ward Pharmaceutical Corp.	**33**	–
Hikma Pharma SAE	**2**	2
Eurohealth International SARL	**–**	17
Hikma finance (Luxembourg) SARL	**–**	3
Hikma Emerging Markets and Asia Pacific FZ-LLC Dubai	**1**	–
	108	117

49. Other current assets

	2016 $m	2015 $m
Price adjustment receivable (note 43)	**34**	–
Investment designated at fair value	**20**	20
Co-development and earnout Receivable	**3**	2
Others	**2**	–
	59	22

Investment designated at fair value: represents the agreement the Group entered in 2015 with an asset management firm to manage a $20 million portfolio of underlying debt instruments. The asset is measured at fair value and classed as level 1 as it uses 'quoted prices in active markets.

50. Financial assets

Cash and cash equivalents

	As at 31 December	
	2016 $m	2015 $m
Cash at banks and on hand	**–**	–
Time deposits	**5**	324
Money market deposits	**27**	39
	32	363

These comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

51. Financial liabilities

Other payables

The Directors consider that the carrying amount of other payables approximates to their fair value.

52. Due to subsidiaries and sister companies

Non-current liabilities

	2016 $m	2015 $m
Hikma (Maple) Limited	**44**	44
Hikma Investment LLC	**1**	1
Eurohealth International SARL	**10**	–
	55	45

Current liabilities

	2016 $m	2015 $m
Hikma Investment LLC	**5**	5
West-Ward USA	**–**	31
Hikma Farmaceutica S.A	**–**	2
Thymoorgan GmbH	**1**	3
West-Ward Pharmaceuticals International Limited	**24**	–
Hikma Pharma Limited - Jersey	**2**	–
Others	**–**	1
	32	42

Notes to the Company financial statements continued

For the year ended 31 December 2016

53. Long-term financial debts

A $500 million (with a fair value of $495 million) 4.25 per cent. Eurobond due April 2020 with the rating of (BB+/Ba1). The proceeds were used to refinance existing debt and to finance part of the cash consideration of West-Ward Columbus acquisition.

54. Other non-current liabilities

Co-development and earnout payment agreement

In 2015 the liability mainly relates to the present value of future payments on a co-development and earnout agreement. As part of this agreement, milestone payments dependent on successful clinical development of defined products are received by the Group. In return of receiving such milestone payments, the Group has agreed to pay the contracting party a certain percentage of future sales of those products. As at 31 December 2016 and 31 December 2015, the liability associated with these earnout payments was adjusted to reflect the present value of the expected future cash outflows and the difference is presented as a finance cost/income.

During 2016, the total liability was transferred to sister company, however PLC still acts as guarantor for the performance of a number of its affiliates pursuant to various agreements.

55. Financial policies for risk management and their objectives

Currency risk

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature. The following table illustrates financial assets and liabilities for the Company in different currencies:

	Liabilities		Assets	
	2016 $m	2015 $m	**2016 $m**	2015 $m
British Pound	**–**	–	**–**	1

A sensitivity analysis based on a 10% movement in foreign exchange rates has no material impact on the Company results and Company statement of changes in equity.

Further details on how the Company manages the currency risk are given in Note 30.

Interest rate risk

	As at 31 December 2016			As at 31 December 2015		
	Fixed rate $m	**Floating rate $m**	**Total $m**	Fixed rate $m	Floating rate $m	Total $m
Financial liabilities						
Interest-bearing loans and borrowings	**495**	**145**	**640**	494	–	494
Financial assets						
Cash and cash equivalents	**–**	**27**	**27**	–	357	357

An interest rate sensitivity analysis assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2016, with all other variables held constant. Based on the composition of the Company debt and cash portfolio as at 31 December 2016, a 1% increase in interest rates would result in an additional interest expense of $1 million being incurred per year (2015: $4 million of interest income incurred).

55. Financial policies for risk management and their objectives continued

Liquidity risk

2016	Less than one year $m	Two to five years $m	Total $m
Cash and cash equivalents	**32**	**–**	**32**
Accounts receivable	**2**	**–**	**2**
Interest bearing loans and borrowings	**(24)**	**(702)**	**(726)**
Other payables	**(4)**	**–**	**(4)**
	6	**(702)**	**(696)**

2015	Less than one year $m	Two to five years $m	Total $m
Cash and cash equivalents	363	–	363
Accounts receivable	3	–	3
Interest bearing loans and borrowings	(20)	(567)	(587)
Other payables	(2)	–	(2)
	344	(567)	(223)

The Company believes that, given the Group's operating cash flow during 2016, it has the ability to satisfy its liability commitments.

56. Staff costs

Hikma Pharmaceuticals PLC currently has an average of twenty-one employees (2015: sixteen) (excluding Executive Directors); total compensation paid to them amounted to $6 million (2015: $4 million) of which salaries and bonuses compromise an amount of $5 million (2015: $3 million) the remaining balance of $1 million (2015: $1 million) represents national insurance contributions. The cost of share-based payments and other benefits presented below.

57. Stock options

The details of the stock compensation scheme are provided in note 38. As at 31 December 2016, the total number of options granted to employees of the Company under the stock compensation scheme during the life of the scheme was 2,560,000 (2015: 2,560,000).

Notes to the Company financial statements continued

For the year ended 31 December 2016

58. Long-term incentive plans

The details of the LTIP scheme are provided in note 38. As at 31 December 2016, the total number of awards granted to employees of the Company under the LTIPs during the life of the plans was 1,649,615 shares (2015: 1,649,615) and the total amount of the compensation expenses charged to profit and loss is $2 million (2015: $2 million).

59. Management incentive plans

The details of the MIP scheme are provided in note 38. As at 31 December 2016, the total number of awards granted to employees of the Company under the MIP during the life of the plans was 25,716 shares (2015: 18,383 shares) and the total amount of the compensation expenses charged to profit and loss is $nil (2015: $nil).

60. Executive incentive plans

The 2014 Executive Incentive Plan ("EIP") was approved by shareholders at the 2014 Annual General Meeting. The details of the EIP scheme are provided in note 38. As at 31 December 2016, the total number of awards granted to employees of the Company under the EIP during the life of the plans was 364,274 shares (2015:153,209) and the total amount of the compensation expenses charged to profit and loss is $ 3 million (2015: $1 million).

61. Share capital

Issued and fully paid - included in shareholder's equity:

	2016		2015	
	Number 'm	**$m**	Number 'm	$m
At 1 January	**200**	**35**	199	35
Issued during the year (ordinary shares of 10p each)	**41**	**5**	1	–
At 31 December	**241**	**40**	200	35

62. Share premium

	Share premium $m
Balance at 1 January 2016	282
Premium arising on exercise of stock options	–
Balance at 31 December 2016	**282**

63. Profit for the year

As permitted by section 408 of the Companies Act 2006, the statement of comprehensive income of the Company is not presented as part of these accounts. The net income in the Company for the year is $77 million (2015: $133 million).

Included in the net income for the year is an amount of $125 million (2015: $202 million) representing dividends received,$32 million of acquisition cost in relation to West-Ward Columbus acquisition (2015:$12 million), and $5 million (2015: $3 million) representing the current year charge of LTIPs and EIPs whereby the remaining charge $17 million (2015: $12 million) of the Group's stock options, LTIPs, MIPs and EIPs charge is recharged to subsidiary companies.

64. Related parties

Amounts repayable to and from subsidiaries are disclosed in Notes 48 and 52.

Other transactions with related parties include management charges for services provided to the subsidiary companies, equity settled employee share scheme costs relating to the subsidiary companies and transactions with key management personnel. Compensation paid to key management personnel is disclosed in Note 40. Details of Directors remuneration are disclosed in the Remuneration Committee Report on pages 104 to 135.

More details on the general information of the ultimate parent of the Group are disclosed in Note 2.

65. Contingent liabilities

A contingent liability existed at the balance sheet date in respect of Standby Letter of Credit totalling to $9 million (2015: $9 million).

Shareholder information

2017 financial calendar

6 April	2016 final dividend ex-dividend date
7 April	2016 final dividend record date
19 May	Annual General Meeting
25 May	2016 final dividend paid to shareholders
17 August*	2017 interim results and interim dividend announced
24 August*	2017 interim dividend ex-dividend date
25 August*	2017 interim dividend record date
22 September*	2017 interim dividend paid to shareholders

* Provisional dates.

Shareholding enquiries

Enquiries or information concerning existing shareholdings should be directed to the Company's registrars, Capita Registrars either:

- in writing to Shareholder Services, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU;
- by telephone from within the UK on 0871 664 0300;
- by telephone from outside the UK on +44 371 664 0300; or
- through the website www.capitaregistrars.co.uk.

Dividend payments – Currency

The Company declares dividends in US Dollars. Unless you have elected otherwise, you will receive your dividend in US Dollars. Shareholders can opt to receive the dividend in Pounds Sterling or Jordanian Dinar. The Registrar retains records of the dividend currency for each shareholder and only changes them at the shareholder's request. If you wish to change the currency in which you receive your dividend please contact the Registrars.

Dividend payments – Bank Transfer

Shareholders who currently receive their dividend by cheque can request a dividend mandate form from the Registrar and have their dividend paid direct into their bank account on the same day as the dividend is paid. The tax voucher is sent direct to the shareholders' registered address.

Dividend payments – International Payment System

If you are an overseas shareholder the Registrar is now able to pay dividends in several foreign currencies for an administrative charge of £5.00, which is deducted from the payment. Contact the Registrar for further information.

Website

Press releases, the share price and other information on the Group are available on the Company's website www.hikma.com.

Share listings

London Stock Exchange

The Company's Ordinary Shares are admitted to the Official List of the London Stock Exchange. They are listed under EPIC – HIK, SEDOL – B0LCW08 GB and ISIN – GB00B0LCW083.

Further information on this market, its trading systems and current trading in Hikma Pharmaceuticals PLC shares can be found on the London Stock Exchange website www.londonstockexchange.com.

Global Depository Receipts

The Company also has listed Global Depository Receipts (GDRs) on the Nasdaq Dubai. They are listed under EPIC – HIK and ISIN – US4312882081. Further information on the Nasdaq Dubai, its trading systems and current trading in Hikma Pharmaceuticals PLC GDRs can be found on the website www.nasdaqdubai.com.

American depository receipts (ADRs)

Hikma Pharmaceuticals PLC has an ADR programme for which BNY Mellon acts as Depositary. One ADR equates to 2 Hikma Ordinary Shares. ADRs are traded as a Level 1 (OTC) programme under the symbol HKMPY. Enquiries should be made to:

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516

Tel: +1 201 680 6825
Tel: +1 888 BNY ADRS (toll-free within the US)
E-mail: shrrelations@bnymellon.com

Shareholder fraud

The Financial Conduct Authority has issued a number of warnings to shareholders regarding boiler room scams. Over the last year many companies have become aware that shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based "brokers" who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as boiler rooms. These brokers can be very persistent and extremely persuasive. Shareholders are advised to be very cautious of unsolicited advice, offers to buy shares at a discount or offers of free Company reports. If you receive any unsolicited investment advice:

Obtain the correct name of the person and organisations;

Check they are authorised by the FCA by looking the firm up on www.fsa.gov.uk/register;

Report the matter to the FCA either by calling 0800 111 6768 or visit www.fca.org.uk/consumers/scams;

If the caller persists, hang up.

Details of the share dealing facilities sponsored by the Company are included in Company mailings and are on the Company website.

The Company's website is www.hikma.com and the registered office is 13 Hanover Square, London W1S 1HW.
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