

# Strategy

delivers continued growth



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# Hikma is a multinational pharmaceutical group dedicated to improving the health and wellbeing of people in the markets it serves through the development, manufacture and marketing of a broad range of generic and in-licensed pharmaceutical products

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Front cover:

Researcher in our new R&D labs in Amman, Jordan.

# Highlights

## Revenue (\$ million)

# +20.9%

05	262.2
06	317.0

## Operating profit (\$ million)

# +8.7%

05	69.2
06	75.2

## Profit before tax

# +17.4%

05	64.4
06	75.6

## Profit attributable to shareholders (\$ million)

# +24.3%

05	43.9
06	54.5

## Diluted earnings per share (cents)

# +9.5%

05	28.3
06	31.0

## Research and development costs (\$ million)

# +10.8%

05	16.5
06	18.3

- ▶ Continuing to deliver on IPO objectives, through targeted capital investment, acquisitions, new product filings and new licensing agreements
- ▶ Consolidated our position in the fast growing Saudi Arabian and the wider GCC market through the acquisition of the remaining 52.5% share of JPI not previously owned by Hikma
- ▶ Substantially increased capacity across the Group, with the addition of a cephalosporin plant in Portugal, production plant in Algeria, R&D labs in Jordan and a packaging line in the United States
- ▶ Signed marketing distribution agreements with Hospira, enhancing our product offering in Europe
- ▶ Received 191 regulatory approvals across all businesses and geographies, including 14 ANDAs
- ▶ Submitted 88 regulatory filings in Jordan, the US and Europe alone, including 32 ANDAs
- ▶ Launched 23 new products<sup>1</sup> across the Group and signed 2 new licensing agreements for the MENA region
- ▶ Entered the oncology market in early 2007 through the acquisition of Ribosepharm GmbH, a specialist in the marketing and distribution of injectable oncology products in Germany

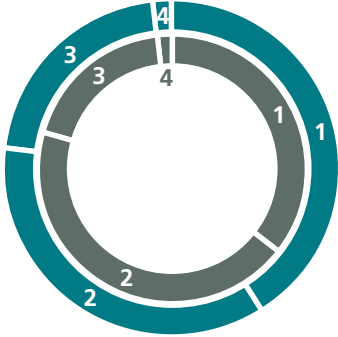
<sup>1</sup>New pharmaceutical compounds that are being launched for the first time by the Group or, for the first time, within another business segment or a new region.

# Group at a glance

## Diversified business

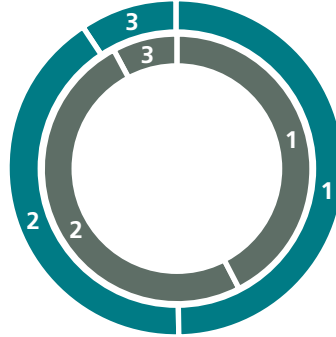
### Revenue by business segment

	06	05
1 Branded	41.0%	35.5%
2 Generics	35.9%	43.9%
3 Injectables	21.3%	18.8%
4 Other	1.8%	1.8%

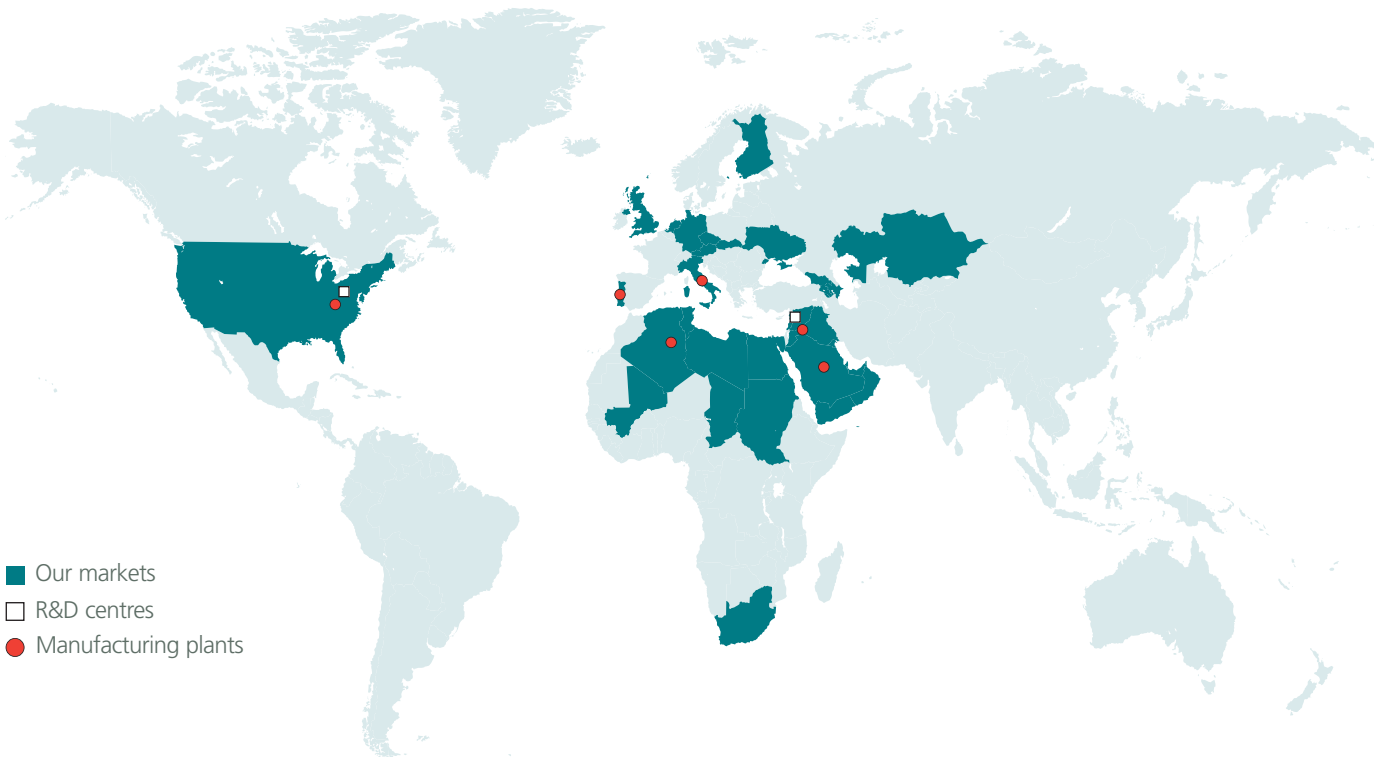


### Revenue by region

	06	05
1 Middle East and North Africa	49.7%	42.4%
2 United States	40.9%	49.8%
3 Europe and ROW	9.3%	7.8%



## Geographic coverage



- Our markets
- R&D centres
- Manufacturing plants

## Broad product portfolio

Hikma sells 176 pharmaceutical products in 397 dosage strengths and forms in 40 countries. 26 of these products are sold under promotion and distribution agreements with, or licences from, 16 originator pharmaceutical companies and three generic pharmaceutical companies<sup>1</sup>. The majority of Hikma's operations are in the the Middle East and North Africa, the United States and Europe.

<sup>1</sup>Two additional in-licensed products were launched in early 2007 and a further five in-licensed products are pending launch.

2006

Branded	Generics	Injectables
<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>
\$130.1 million	\$113.7 million	\$67.6 million
<b>Products</b>	<b>Products</b>	<b>Products</b>
83	43	50
branded generic products including	non-branded solid generic products	branded and non-branded injectable products including
18		8
products under licence		products under licence
<b>Key markets</b>	<b>Key markets</b>	<b>Key markets</b>
Algeria, Jordan Saudi Arabia	US	Europe, MENA US
<b>Top products</b>	<b>Top products</b>	<b>Top products</b>
Amoclan Oprazole Penamox Prograf Suprax	ABC blue doxycycline lisinopril lithium carb SR methocarbamol	cefazolin cefotaxime ceftriaxone cefuroxime vancomycin

## Chairman and Chief Executive's review

“We are very pleased with the performance of Hikma in our first full year as a listed company.”



**Samih Darwazah**  
Chairman and CEO

### Overview

In our first full year as a listed company, Hikma has delivered strong financial results, benefiting from the strength and diversity of our business model. In accordance with our strategy, we have achieved excellent performances in both the Branded and Injectable businesses, which have more than compensated for the challenging market conditions in our Generic business in the United States.

We are already well on our way to achieving the main objectives set out at the time of our IPO. Since then, we have repaid \$50 million in outstanding debt. We have increased capacity, having completed and commenced production at our Algerian plant, completed the construction of our new dedicated cephalosporin plant in Portugal and invested in improvements at our Jordanian, Italian and US manufacturing facilities. We have also begun to execute our acquisition strategy, through two significant acquisitions.

### Financial results

The Group performed well in 2006, achieving revenue of \$317.0 million, up 20.9% from 2005. Gross margin for the Group was 50.0%, down from 51.8% in 2005, but still very strong when compared to our industry peers. Operating profit grew by 8.7% to \$75.2 million, while operating margins decreased to 23.7%, compared to 26.4% in 2005, primarily as a result of increased overheads related to our new Algerian plant, the continued price erosion in the Generic business and an increase in the Group's general and administrative expenses. The Group's profit attributable to shareholders increased by 24.3% to \$54.5 million and diluted earnings per share increased by 9.5% to 31.0 cents.

### Business highlights

We ended 2006 with a total of 176 products in our portfolio in 397 dosage strengths and forms, including the 23 products launched during the year and 26 under-licence products. During 2006, we were granted 191 regulatory approvals across all geographies. In addition, we submitted a total of 88 regulatory filings, including 54 new product applications. As of 31 December 2006, we had a total of 117 pending approvals in Jordan, the United States and Europe alone, and 105 products under development. In addition, at JPI we have 125 products pending approval.<sup>1</sup>

In our Branded business, we were able to leverage the investment made in sales and marketing in 2005 to drive significant growth across both existing and newer markets. Through these efforts we achieved market share gains in each of our three largest markets – Algeria, Saudi Arabia and Jordan. These results were achieved despite disruption in the Algerian market caused by the implementation of a new reference pricing regime. In Algeria, we have delivered double-digit growth, compared to 2005 as a result of the introduction of new products and the commencement of production at our new manufacturing facility.

<sup>1</sup>Definitions of products, filings and approvals are provided in the Business and financial review.

We have continued to consolidate our strong position in the MENA region through the acquisition of the remaining 52.5% shareholding in JPI. The benefits of the excellent platform we have created for accessing the GCC market are already being seen. JPI contributed \$11.7 million in sales for the four months ended 31 December 2006. For the first eight months of the year, and in previous years, JPI was treated as an associate.

In our Injectable business, we delivered strong sales growth as we continued to develop our sales and marketing infrastructure across all three regions. We now have a strong platform from which to drive future sales in each region. Sales were particularly strong in the MENA region, especially in Saudi Arabia and Sudan, where we established new customer relationships and distribution channels. Sales growth was also strong in Europe, and especially in Germany, where our distribution agreements with Hospira are enhancing our product offering and facilitating the penetration of our products in the European market. In the United States we set up a specialised distribution company, Hikma Pharmaceuticals (USA) Inc., with a dedicated sales force for injectables.

In our Generic business, sales declined by 1.3% compared to 2005 as a result of continued price erosion and a limited contribution from new product launches. However, we were successful in renewing for the fourth option year our sales contract with the Department of Veterans Affairs, an agency of the government of the United States, for the supply of lisinopril.

Overall, we enhanced our manufacturing facilities across the Group during the year, significantly increasing our manufacturing capacity in order to meet the growing demand across our core businesses. Early in 2006, we opened a new manufacturing plant in Algeria and we announced FDA approval of the facilities of JPI for the manufacture of oral cephalosporin products for sale in the US market. The construction of our new injectable cephalosporin plant in Portugal was completed by the year end and continues to be on track to begin commercial production in the first half of 2007.

#### **Board appointments**

In December 2006, Dr. Ronald Goode was appointed to the Board. Dr. Goode serves as an independent non-executive Director and as a member of both the Audit and Remuneration Committees. He has spent over 30 years in the international pharmaceutical industry, including having held senior positions with Pfizer and Searle, and is currently a director of Genitope Corporation, a NASDAQ-listed company. Dr. Goode was formerly President and Chief Executive Officer of Unimed Pharmaceuticals, Inc. and eXegenics Inc., and a director of several other companies, including Hokuriku Seiyaku and Vitro Diagnostics.

#### **Dividend**

The Board has recommended a final dividend for the year to 31 December 2006 of 4.0 cents per share (approximately 2.1 pence per share), which makes a total of 7.0 cents per share for the year. The proposed final dividend will be paid on 18 June 2007 to shareholders on the register on 18 May 2007, subject to approval at the Annual General Meeting.

#### **Developments in 2007**

In January 2007, we announced the acquisition of Ribosepharm GmbH, an oncology company specialising in the marketing and distribution of injectable oncology products both to private practices and hospitals in Germany. This acquisition enhances our injectable product portfolio, develops our sales and marketing capabilities and provides us with an excellent platform from which to enter the large and fast-growing oncology market.

Our product portfolio and product pipeline have continued to develop in 2007. In the first two months of the year we received a total of 14 regulatory approvals, submitted 9 regulatory filings and launched 4 new products.

#### **Looking forward**

We expect both our Branded and Injectable businesses to deliver strong sales growth in 2007, through a focus on key products, the launch of new products and expansion into new markets. We expect the pricing environment in the United States to remain competitive. However, we will work diligently to minimise the effects of this pricing pressure on our Generic business by introducing new products and retaining our strategic focus on reducing raw material costs.

The integration of JPI has been successfully completed and the integration of Ribosepharm is proceeding in line with expectations. Further development of our injectable product portfolio and our injectable sales, marketing and manufacturing capabilities is essential to our growth strategy for this business and we will continue to work to achieve this both through organic growth and acquisitions. At the same time, we remain focused on our aim to consolidate our strong position in the MENA region and we continue to evaluate acquisition opportunities in our target markets – Egypt, Morocco and Turkey. We are confident that the strength and diversity of our business will enable us to continue our track record of delivering strong growth within the Group.



**Samih Darwazah**

Chairman and Chief Executive Officer



## Directors' report

# Business and financial review

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The Directors are pleased to present their report and audited financial statements for the year ended 31 December 2006. For the purposes of this report, "Company" means Hikma Pharmaceuticals PLC and "Group" means the Company and its subsidiary and associated undertakings.

### Our business

Hikma is a multinational pharmaceutical group focused on developing, manufacturing and marketing a broad range of generic and in-licensed pharmaceutical products in solid, semi-solid, liquid and injectable final dosage forms. At the end of 2006, we had 176 generic pharmaceutical products in 397 dosage strengths and forms in our product portfolio, including 26 pharmaceutical products<sup>1</sup> under promotion and distribution agreements with, or licences from, 16 originator pharmaceutical companies and three generic pharmaceutical companies.

The majority of our operations are in the Middle East and North Africa ("MENA") region, the United States and Europe.

Our strategy for growth is to build a strong and diverse product portfolio; to expand our geographic reach; to develop and leverage our global research and development capabilities and API sourcing strengths; and to continue to maintain the very high standards of our manufacturing capabilities.

Across our three business segments – Branded, Injectables and Generics, we have three key strategic aims:

**Consolidate our strong market position in the MENA region** by launching new products, expanding our geographic reach and increasing market share;

**Grow our Injectables business** by expanding our product portfolio, developing our manufacturing capabilities and strengthening our sales and marketing network; and,

**Continue to pursue profitable growth in the United States** by focusing on high margin, niche product opportunities.

In 2006, we continued to make significant progress towards achieving these objectives. During the year we achieved market share gains in each of our three largest markets in the Branded business – Algeria, Saudi Arabia and Jordan, by launching new products and leveraging our sales and marketing capabilities. We have also expanded into new markets and strengthened our position in the fast growing Gulf Cooperation Council ("GCC") region through the acquisition of the remaining 52.5% of our associate Al-Jazeera Pharmaceutical Industries ("JPI") that we did not previously own. We continue to drive growth in our Injectable business, where we have significantly developed our sales and marketing capabilities. In the challenging US generic market, we achieved gross margin of 52.6% despite continued price erosion and a limited contribution from new product launches.

Our progress on our strategic objectives is monitored by the Board by reference to five key financial performance indicators applied on a Group-wide and segmental basis. These same indicators are used by executive management to manage the business. Performance in 2006 against these indicators is set out in the table below, together with the prior year performance data.

### Hikma's key performance indicators

	Year ended 31 December		Change
	2006	2005	
Revenue growth	<b>20.9%</b>	23.5%	-2.6%
Gross margin	<b>50.0%</b>	51.8%	-1.8%
Operating margin	<b>23.7%</b>	26.4%	-2.7%
R&D costs as a percentage of revenue	<b>5.8%</b>	6.3%	-0.5%
Profit attributable to shareholders	<b>\$54.5m</b>	\$43.9m	+\$10.6m

<sup>1</sup>Two additional under-licensed products were launched in early 2007 and a further five under-licensed products are pending launch, including three products from JPI.



### Group performance

Revenue for the Group increased by 20.9% to \$317.0 million, compared to \$262.2 million in 2005. On an underlying basis, excluding JPI, revenue increased by 16.4%. The increase was primarily due to strong increases in revenue in both the Branded and Injectable businesses.

In 2006, 41.0% of revenue was generated by our Branded business, 35.9% of revenue was generated by our Generic business and 21.3% by our Injectable business. Geographically, 49.7% of revenue was generated in the MENA region, while 40.9% of revenue was generated in the United States and 9.3% in Europe.

The Group's gross profit increased by 16.7% to \$158.5 million, compared to \$135.8 million in 2005. Group gross margins for 2006 were 50.0% of revenue, compared to 51.8% in 2005. On a segmental basis, gross margins improved in the Injectable business, but declined in the Branded business, due to an increase in overheads related to the new Algerian plant and the impact of reference pricing in Algeria, and in the Generic business due to continued price erosion.

Group operating expenses increased in 2006 by 23.8% to \$84.2 million, compared to \$68.0 million for 2005, mainly due to higher sales and marketing expenses in the Injectable business, an increase in corporate expenses related to being a public company and the consolidation of JPI for the last four months of the year.

Sales and marketing expenses increased by 27.9% to \$35.0 million, due primarily to an increase in investment in sales and marketing infrastructure in the Injectable business and the consolidation of the sales and marketing expenses of JPI. Sales and marketing expenses represented 11.0% of Group revenue in 2006, compared to 10.4% in 2005.

The Group's general and administrative expenses increased by 34.1% to \$30.3 million, compared to \$22.6 million in 2005. As anticipated, the change can be attributed to an increase in corporate expenses, which increased by \$5.0 million to \$13.2 million as we continued to strengthen corporate functions to support the demands of being a publicly listed company. General and administrative expenses represented 9.6% of Group revenue in 2006, compared to 8.6% in 2005.

Investment in R&D for the Group increased by 10.8% to \$18.3 million, compared to \$16.5 million in 2005. This increase can be attributed to ongoing investment in the development of our product portfolio. Total investment in R&D represented 5.8% of Group revenue in 2006, compared to 6.3% in 2005.

Other net operating expenses, which consist mainly of provisions against slow moving items partially offset by foreign exchange gains and management fees from an associate, were \$0.6 million, compared to \$1.5 million in 2005.

The share of results of associates was \$0.9 million in 2006, compared to \$1.4 million in 2005. This change reflects JPI's status as an associate business for only eight months of 2006.

Operating profit for the Group increased by 8.7% to \$75.2 million, compared to \$69.2 million in 2005. Group operating margin declined by 2.7 percentage points to 23.7% in 2006, compared to 26.4% of revenue in 2005, primarily as a result of increased overheads related to our new Algerian plant, the continued price erosion in the Generic business and the increase in the Group's general and administrative expenses.

### Research and Development<sup>1</sup>

In the year to 31 December 2006, Hikma submitted 88 regulatory filings, including 32 ANDAs. These included filings for new products, which include pharmaceutical compounds not yet launched by Hikma, existing compounds being introduced into new regions and countries, and line extensions (the registration of new dosage strengths or forms of existing products).

	Filings in 2006	New product filings in 2006	Pending approvals as of 31 December 2006	Pending approvals of new products as of 31 December 2006
Generics				
United States	20	17	31	23
Branded				
MENA <sup>2</sup>	28	14	17	9
Europe and RoW	3	1	11	2
	31	15	28	11
Injectables				
United States	12	9	25	20
MENA <sup>2</sup>	15	9	18	9
Europe	10	4	15	8
	37	22	58	37
	88	54	117	71

We estimate that the currently marketed equivalent products of the 71 new products covered by the Group's pending approvals had sales of approximately \$23.7 billion in the year ended 31 December 2006 in the markets covered by our pending approvals<sup>3</sup>.

At 31 December 2006, we had a total of 105 new products under development, the majority of which should receive several marketing authorisations, including separate marketing authorisations in differing strengths and/or product forms between 2007 and 2009.

<sup>1</sup>Products are defined as pharmaceutical compounds sold by the Group. New products are defined as pharmaceutical compounds not previously launched by the Group and existing compounds being introduced into a new segment or a new region.

Line extensions are new forms or dosage strengths of existing compounds. Filings include filings for new products and the first filing of line extensions in a new segment or new region.

Approvals are comprehensive and include approvals for new products and line extensions and approvals in new segments, regions and countries.

Pending approvals include only applications that are pending for new products and the first filing of a line extension in a new segment or a new region.

<sup>2</sup>Includes only the first filing of a product or line extension in the MENA region.

<sup>3</sup> Source: IMS Health. This figure does not include the market potential of our pending injectable approvals in the MENA region.

# Consolidate

our strong market position in the MENA region



### Social dynamics fuelling demand

The availability of healthcare is expanding in the Middle East and North Africa and the need for pharmaceutical products, particularly treatments associated with chronic diseases, is rapidly increasing.



### Fast growing pharmaceutical markets

IMS Health predicts that the world's emerging markets, which currently represent 17% of the global market, will contribute 30% of the global pharmaceutical market growth in 2007.



### Our growing market share

The increase in demand for pharmaceuticals in the MENA region is driving market growth. Through our superior sales force and expanding product portfolio, we continue to grow faster than most of the underlying markets in which we operate.

## Branded

**The pharmaceutical market in the MENA region tends to be a branded market, in which patented, generic and OTC pharmaceutical products are marketed under specific brand names. Our Branded business manufactures branded generic pharmaceutical products for sale across the MENA region and, increasingly, Europe.**

Revenue in the Branded business, our largest business segment, increased by 39.9% to \$130.1 million, compared to \$93.0 million in 2005. Excluding JPI, which contributed \$11.4 million, underlying sales growth was 27.6%, primarily due to focused sales and marketing efforts and new product registrations.

Algeria, Saudi Arabia, Jordan and Sudan were the Branded business's largest markets in 2006. In Algeria we recovered strongly from the disruptions caused by the introduction of reference pricing in the beginning of the year, delivering double-digit sales growth. Following the approval of our new manufacturing facility in Algeria, new product registrations and local manufacturing approvals have helped to drive growth in this market. During the year, we received 26 product approvals in Algeria, including four for new products and 20 local manufacturing approvals. In 2006, our market share in Algeria increased to 3.9%, compared to 3.3% in 2005 and we are now the sixth largest pharmaceutical manufacturer and second largest generic pharmaceutical manufacturer by value in the Algerian market.<sup>1</sup> While we expect the reference pricing system introduced by the Algerian Ministry of Labour and Social Security Affairs in early 2006 will continue to impact prices in the Algerian market, we believe that the strength of our current market position and our developing product portfolio will enable us to mitigate further price reductions.

In Saudi Arabia, we delivered excellent growth as we continued to see the benefits of the investment in sales and marketing that was made in 2005, when 35 sales and marketing representatives were added to the sales team. In 2006, we increased our market share, which includes JPI, to 4.0%, compared to 3.8% in 2005, making us the fifth largest player in the Saudi Arabian market<sup>1</sup>. During the year three new products were launched in Saudi Arabia.

During the year we increased our shareholding in JPI, our associate in Saudi Arabia, to 100% for a cash consideration of \$21.0 million. Through this acquisition we are benefiting from an enhanced product portfolio and faster product delivery in the GCC region, improved registration times, and an increase in the number of sales representatives covering the region. At the end of 2006, JPI had a total of 31 products in 82 dosage strengths in its product portfolio, including 13 products in 21 dosage strengths that are new to Hikma.

Growth in the Jordanian market was also strong in 2006 and well ahead of the underlying market. As in Saudi Arabia, we benefited in the Jordanian market from the investment in sales and marketing that was made in the second half of 2005, when 16 sales representatives were added. We received seven new product approvals and launched three new products in the Jordanian market during the year and increased our market share to 7.3%, compared to 6.8% in 2005, maintaining our position as market leader.<sup>1</sup>

Sudan, the Branded business's fourth largest market, performed extremely well, largely due to an increased product focus and better geographical coverage, combined with a more stable operating environment. While market data is not readily available for the Sudanese market, we believe that we now have a leading position in this market.

We also achieved strong performances in some of our newer and smaller markets, including Libya, UAE and South Africa, driven mainly by better brand recognition and product launches.

Revenue from the Branded business's top-ten sellers represented 73.0% of Branded revenue in 2006. Leading products included Amoclan, Oprozole, Penamox, Prograf and Suprax. Sales from under-licensed products represented 34.1% of sales in 2006. During the year, two new licensing agreements were signed, bringing the total number of products under-licence in the Branded business to 25.<sup>2</sup>

Gross profit of the Branded business increased by 29.3% to \$69.5 million, compared to \$53.7 million in 2005. The Branded Pharmaceuticals business's gross margin decreased to 53.4%, compared to 57.8% in 2005. This change in gross profit margin is attributed to an increase in overheads associated with the new Algerian manufacturing facility that came on stream in early 2006, and an increase in discounts granted in the Algerian market in relation to the new reference pricing system.

The Branded business's operating profit (before associates) increased by 36.9% in 2006, to \$39.4 million. Through a strict focus on operating efficiencies, operating margins in the Branded business remained stable at 30.3% in 2006, compared to 30.9% in 2005, despite the inclusion of additional operating expenses from JPI. As previously indicated, JPI will have a slightly dilutive effect on Branded operating profit margins in 2007. We expect this will be most apparent in the first half of the year, given the seasonality we traditionally see in the Branded business.

In line with our strategic objectives for the Branded business, we launched a total of six new products in 2006, three in Jordan and three in Saudi Arabia. The total number of Branded sales and marketing staff at year end was 443, which includes 128 sales and marketing staff at JPI. Excluding JPI, the number of sales and marketing staff increased slightly to 315, compared to 286 in 2005, as we benefited from the investment in sales and marketing that was made in 2005.

<sup>1</sup>Source: IMS Health.

<sup>2</sup>At the end of 2006, 18 of these products were sold in the Branded business. A further two were launched in the beginning of 2007 and an additional five are pending launch.



# Grow

our Injectable business



### Developing our sales reach

We now have 58 sales representatives marketing injectables in the MENA region. In addition, we have 14 sales representatives in Europe and five in the United States.

### Building a strong pipeline

We currently have 37 new molecules pending approval in the Injectable business, including 20 ANDAs. We have a further 21 line extensions pending, as well as 97 applications pending in new markets.

## Injectables

**Our Injectable business manufactures injectable generic pharmaceutical products in powder, liquid and lyophilised forms for sale across the MENA region, Europe and the United States. The Injectable business contributed 21.3% of total Group revenue in 2006, compared to 18.8% in 2005.**

Revenue in our Injectable business increased by 37.1% to \$67.6 million, compared to \$49.3 million in 2005. The increase was due primarily to strong performances in Europe and the MENA region, where sales grew as a result of our continued focus on sales and marketing.

During the year, the Injectable business received 63 regulatory approvals, including 28 in Europe, 32 in the MENA region and three in the United States. 12 of these approvals were for new products, the rest were for new dosage strengths or forms.

Revenues were strong in Europe, particularly in Germany, where sales were driven by an increasingly strong product portfolio and our enlarged sales and marketing presence. Demand for our lyophilised injectable products and a strong performance in Portugal also boosted European Injectables sales, as did the sales and distribution agreements signed with Hospira in the beginning of 2006. At the end of December we had 14 sales and marketing representatives in Europe.

The Injectable business also performed well in the MENA region, especially in Saudi Arabia and Sudan. This strong performance was driven by more focused sales efforts, the continuous introduction of new products and formulations and the development of newer markets including Lebanon and Libya. Strong demand for tender business also boosted sales, especially in the second half of the year. At the end of December we had a total of 58 sales and marketing representatives in the MENA region.

In the United States, at the beginning of the year we established a specialised injectable distribution company Hikma Pharmaceuticals (USA), Inc. Sales in this part of the business grew modestly due to a lower than expected contribution from new product sales as a result of delays in new product approvals.

Across the Injectable business, 14 new products were launched during the year, including six in Jordan, three in the United States and five in Europe.

Revenue from the Injectable business's top-ten sellers represented 68.7% of Injectables revenue in 2006. Cephalosporins continue to be the segment's top sellers.

Gross profit of the Injectable business increased by 53.9% to \$28.3 million, compared to \$18.4 million in 2005. The Injectable business's gross margin increased to 41.9%, compared to 37.4% in 2005. Injectables operating profit increased by 57.4% to \$13.4 million, compared to \$8.5 million in 2005, despite an increase in spending on sales and marketing in anticipation of a number of new product launches. Injectables operating margins improved to 19.8% in 2006, up from 17.2% in 2005. The increase in both gross and operating profit margin reflects the increased scalability of the business as we achieved higher utilisation rates.

Also in 2006, we completed the construction of our new cephalosporin plant in Portugal, which is on track to begin production in the first half of 2007.

In January 2007, we acquired Ribosepharm GmbH, an oncology company specialising in the marketing and distribution of injectable oncology products both to private practices and hospitals in Germany, for a cash consideration of \$45.0 million. This acquisition provides us with an excellent platform from which to enter the large and fast-growing oncology market. Ribosepharm currently has 11 sales representatives in the German market.



**Building customer relationships**  
Our developing sales force is building new relationships with hospitals and hospital buying groups, our key customers in the injectable market.



# Focus

on high margin, niche product opportunities to generate profitable growth in the United States



## Lowering our costs

The price erosion we have seen in the US market in recent years forces us to be vigilant about reducing our cost base. We are continuously looking to secure cheaper sources of the active pharmaceutical ingredient or API, our most significant cost.



## Generics

**With higher growth rates in Branded and Injectables, the Generic business contributed 35.9% of total Group revenue in 2006, compared to 43.9% in 2005. Consistent with 2005, all Generic revenues were generated in the United States.**

As anticipated, 2006 was a challenging year for our Generic business. Revenue decreased by 1.3% to \$113.7 million, compared to \$115.2 million in 2005. The change was primarily due to continued price erosion, which was only partially offset by volume increases, and a limited contribution from new product launches. During the year, three new products were launched.

Revenue from the Generic business's top-ten sellers represented 70.8% of Generic revenue in 2006. Leading products included lisinopril, doxycycline and methocarbamol.

In December 2006 we successfully renewed our sales contract with the Department of Veterans Affairs, an agency of the government of the United States, for the supply of lisinopril. This renewal represented the exercise of the 4th Option Year for the contract with a contract period between 21 December 2006 and 20 December 2007. The contract was renewed at a slight discount to last year's renewal price. All other terms and conditions of the contract remain unchanged. Lisinopril accounted for 34.6% of Generic revenue and 12.4% of Group revenue in 2006.

Gross profit of the Generic business decreased by 4.1% to \$59.8 million, compared to \$62.3 million in 2005. Gross margin in the Generic business was 52.6%, compared to 54.1% in 2005. This reflects the price erosion experienced in this market, as well as an increase in overheads as new facilities and machinery came on line during the year. These factors were only partially offset by an improvement in raw material costs.

Generic operating profit decreased by 7.1% to \$36.0 million. Operating profit margins in the Generic business decreased to 31.7% of revenue, compared to 33.6% in 2005. The decrease in operating margin is attributed to price erosion and the increase in overheads mentioned above, as operating expenses remained largely unchanged.

## Other businesses

Other businesses, which include primarily Arab Medical Containers, a manufacturer of specialised plastic packaging, and International Pharmaceuticals Research Centre ("IPRC"), which conducts bio-equivalency studies, had aggregate revenue in 2006 of \$5.7 million, or 1.8% of total Group revenue. Other businesses delivered an operating loss of \$1.2 million in 2006, compared to \$0.03 million in 2005, as a result of an increase in investment in research and development.



### Strengthening our product portfolio

We submitted 20 ANDA filings in our Generic business in 2006, including 17 for new products. This brings the total number of products pending approval to 31, or 23 new products.



### Positive market outlook

We expect the pricing environment in the United States to remain competitive, but also see evidence of positive market trends. IMS Health is currently forecasting global generic market growth of 13% to 14% in 2007.

## Financial performance

### Finance income

The Group's financing income includes interest income and net foreign exchange gains from non trading activities. Financing income increased by \$3.7 million to \$5.3 million in 2006, compared to \$1.6 million in 2005. The increase was due primarily to interest earned on proceeds generated from the Group's IPO and interest generated from cash deposits in the United States.

### Finance costs

Financing costs decreased by \$0.2 million to \$5.0 million, compared to \$5.2 million in 2005. While overall debt levels increased during the year, this is due to the consolidation of JPI. On an underlying basis, excluding JPI, total debt decreased by 14.2% to \$46.5 million as of 31 December 2006.

### Profit before tax

Profit before taxes and minority interest for the Group increased by \$11.2 million, or 17.4%, to \$75.6 million, compared to \$64.4 million in 2005.

### Tax

The Group had a tax expense of \$19.6 million in 2006. The effective tax rate was 26.0%, a year on year decrease of 4.2 percentage points. The tax rate decrease was due to a shift in the geographic mix of sales towards lower tax countries, particularly in the MENA region, as well as to a change in the geographic mix of the origin of production towards subsidiaries in lower tax countries.

### Minority interest

Hikma's minority interest increased to \$1.4 million in 2006, compared to \$1.1 million in 2005.

### Profit for the year

The Group's profit for the year attributable to equity holders of the parent grew by 24.3% to \$54.5 million for the year ended 31 December 2006, compared to \$43.9 million in 2005.

### Earnings per share

Diluted earnings per share for the year to 31 December 2006 were 31.0 cents, up 9.5% from 28.3 cents in 2005.

### Dividend

The Board has recommended a final dividend of 4.0 cents per share (approximately 2.1 pence). The proposed final dividend will be paid on 18 June 2007 to shareholders on the register on 18 May 2007, subject to approval at the Annual General Meeting.

### Cash flow and capital expenditure

\$35.1 million of generated cash flows were invested in working capital to support sales growth, resulting in a net cash inflow from operating activities of \$35.2 million as of 31 December 2006, compared to \$32.7 million in 2005.

Debtor days increased from 101 days in 2005 to 126 days in 2006, due to the consolidation of JPI. Excluding JPI, debtor days increased slightly to 107 days. This increase was mainly as a result of a temporary increase in receivables during the fourth quarter of the year. Using the count back method to calculate debtor days (i.e. counting back the year end receivable balance by respective monthly sales), debtor days were stable at 102 days and 103 days as at 31 December 2005 and 31 December 2006, respectively.

Inventory days increased from 168 days to 194 days primarily due to a strategic decision in the United States to enhance service levels by increasing inventories and due to the consolidation of JPI. Without JPI, inventory days increased to 183 days.

Net cash used for investing activities was \$72.7 million in the year to 31 December 2006 compared to \$16.4 million in the same period in 2006. The most significant investing activity in 2006 was purchases of property, plant and equipment amounting to \$49.7 million, which relates primarily to the construction of the new cephalosporin plant in Portugal, expansions in production capacity in Jordan and the US, in addition to the completion of the manufacturing facility in Algeria. During the year the Group also made regular investments in upgrading and maintaining existing facilities in all other areas, as well as setting up a new quality control laboratory and research and development facility in Jordan.

The second significant component of investing activities during 2006 was the \$21.0 million paid for the acquisition of the 52.5% of JPI that we did not already own.

Net cash used in financing activities in the 12 months to 31 December 2006 was \$13.6 million, primarily representing a long term debt (including capital leases) decrease of \$8.9 million and dividends paid of \$7.0 million.



### Cash balance and net cash position

The Group's cash and cash equivalents decreased by \$49.7 million in 2006 to \$86.2 million, primarily as a result of capital expenditures, the acquisition of JPI, debt repayments and dividends, partially offset by normal operating activities, which generated \$35.2 million.

The Group's net cash position at 31 December 2006 was \$25.0 million, compared to a net cash position of \$86.9 million at 31 December 2005. Net cash is calculated as the total of investments in cash deposits, collateralised cash and cash and cash equivalents less bank overdrafts and the current and long-term portion of loans and obligations under finance leases.

### Share price

The Group's share price closed at 365.25 pence on 29 December 2006, a decrease of 9.76% since 30 December 2005. The Group's total shareholder return for this period was -9.3%, compared to 32.7% for the FTSE 250 and -2.2% for the FTSE 350 pharmaceuticals sector, with the stock underperforming both indices over the period. During this period the share's closing price ranged from a low of 329.5 pence on 29 June 2006 to a high of 458 pence on 25 April 2006.

### Future outlook

Group performance in 2007 is on track and we are pleased to be able to reiterate the guidance we gave in January of this year and are updating this guidance to reflect the acquisition of Ribosepharm.

Incorporating Ribosepharm, which will be consolidated from 1 January 2007, we now expect to deliver Group sales growth in excess of 30%. Ribosepharm will also impact positively on gross margin, which we now expect to be in line with 2006. We expect Ribosepharm's sales and marketing expenses as a percentage of sales, however, to be approximately 35% to 40% in 2007.

We will continue to invest in R&D at a rate of 5% to 6% of sales and we now expect that our effective tax rate will improve slightly from the 26% we have achieved in 2006.

We expect our results in 2007 will continue to reflect the seasonality of our business, which will be further emphasised by the consolidation of JPI. In addition, we continue to expect that JPI will have a slightly dilutive effect on Branded operating margins in 2007.

Consolidation of our position in the MENA region and expansion of our Injectable business remain key strategic objectives and we will continue to look for opportunities to expand our operations both organically and through acquisitions.

In 2007, the intangible assets (excluding goodwill) acquired in the JPI and Ribosepharm transactions will be amortised, in accordance with the accounting standard IFRS 3 "Business combinations". As a result, we expect to incur an annual amortisation charge of approximately \$0.3 million for JPI, based on associated intangible assets that we have valued at \$4.9 million. We will undergo a similar valuation exercise with respect to Ribosepharm's intangible assets over the course of the year and expect to incur an associated annual amortisation charge. Generally, we expect future amortisation charges will increase consistent with the acquisitive nature of the Group.

### Basis of preparation and forward-looking statements

This Business and financial review has been prepared solely to provide additional information to shareholders as a body to assess the Company's strategies and the potential for those strategies to succeed, and should not be relied on by any other party or for any other purpose. Certain statements in the above review are forward-looking statements which have been made by the Directors in good faith based on the information available to them up to the time of their approval of this report. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements, and should be treated with caution. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described in this review. Forward-looking statements contained in this review regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak as only of the date of this the approval of this report.

Except as required by law, the Company is under no obligation to update or keep current the forward-looking statements contained in this review or to correct any inaccuracies which may become apparent in such forward-looking statements.



## Financial performance continued

### Risk Management

#### Operational risks

There are a number of factors that have or could in the future affect the Group's results of operations, including the following:

#### Regulatory

In common with other companies operating in the pharmaceutical industry, Hikma is subject to extensive regulation in all its markets. There is no single worldwide harmonised set of regulations relating to the development, manufacture and sale of pharmaceutical products and we are, therefore subject to different laws, regulations and codes depending on the regions or countries in which our businesses operate.

In 2007 it is possible that regulatory changes could impact our businesses. In the United States, the Medicare Act 2003 was fully implemented in 2006. As a result, we expect an increase in the overall volume of drugs sold, as well as the government-funded share of existing volumes. Given the government's emphasis on containing costs, the generic share of the overall market should increase by volume albeit at lower prices. It is very difficult to predict what impact, if any, implementation of the Medicare Act will have on Hikma's profitability.

In early 2006, the Algerian Ministry of Labour and Social Security Affairs announced changes to its reimbursement system, including the introduction of reference pricing for a number of reimbursable products. This new legislation impacted the pricing of some of our products sold in Algeria. We expect this reference pricing system will continue to impact prices in the Algerian market, but believe that the strength of our current market position and our developing product portfolio will enable us to mitigate further price reductions in the Algerian market.

#### Industry, economic and political dynamics

The Group operates in diverse markets and geographic regions and is therefore subject to diverse industry, economic and political dynamics. However, we believe the geographic spread of our operations gives the Group unique strength and flexibility, and also lessens the impact on the Group's results and financial conditions of any disruption in, or any other extraordinary events at, any one of our three businesses or a change in the economic conditions or political environment or sustained civil unrest in any particular market or country.

#### Pricing dynamics

Pricing for the Group's products reflects a variety of factors, including changes in API and other raw material costs, intensity of competition, industry practice, governmental regulation and general market conditions. Generic pharmaceutical markets in the United States and Europe are extremely competitive and/or regulated by governments, both of which result in downward pressure on prices. We aim to maximise the margins we achieve on our products through competitive pricing strategies, together with initiatives to minimise raw materials and other manufacturing and operating costs.

#### Government tender bids

Whilst the majority of Group sales have been to the private sector, each of our three businesses participates in government tenders. The timing and outcome of these tenders are unpredictable, and the Group's results could be affected by the gain or loss of a significant government contract.

#### Research and development and commercialisation of new products

The Group's results of operations may be impacted significantly by the timeliness of its research and development and product commercialisation activities. In order to bring a drug to market successfully, the Group must identify products for which it can generate attractive margins and growth, undertake the required research and development and obtain regulatory approvals. Additional costs may be incurred, and sales opportunities lost, if there is any significant delay in any of these steps. Given the importance of research and development, Hikma has expanded its investment in research and development, particularly in Jordan where it can benefit from lower labour and bio-equivalency costs.





**API and other raw material costs**

Raw materials accounted for approximately 31.7% of the Group's net sales in the year ended 31 December 2006, with the most significant portion of these costs relating to APIs. Whilst the prices of the APIs that the Group uses have in general fallen in recent years, these prices are volatile and can vary significantly from supplier to supplier. In some cases, increase in API and other raw material costs may not be able to be passed on to customers and can therefore have a significant impact on the Group's results of operations. Hikma has a dedicated API sourcing function that has been successful in sourcing lower cost APIs through more competitive suppliers in Asia.

**Seasonality**

The Group's business, in particular the Branded Pharmaceuticals business, is seasonal, and it generally experiences higher net sales and net profit in the first half of each financial year, as compared to the second half of its financial year. Accordingly, the Group's outstanding borrowings historically have been higher during the first half of the financial year in order to finance the working capital requirements of the Group.

**Financial risks**

The Group Treasury Manager is responsible for Financial Risk Management and setting the appropriate controls and risk policies. He is supported by treasury and budgeting managers at the operating company and segmental levels, and reports to the Chief Financial Officer.

**Foreign exchange risk**

The Group uses the USD as its reporting currency and is therefore exposed to foreign exchange movements primarily in European, Algerian and Sudanese currencies. Consequently, it enters into various contracts, that change in value as foreign exchange rates change, to preserve the value of assets and profitability. Using these derivative financial instruments has not had a material impact on the Group's financial position at 31 December 2006. See Note 27 to the Group's consolidated financial statements for a description of the Group's foreign exchange risks.

**Interest rate risk**

The Group manages its exposures to interest rate risks by changing the proportion of fixed rate debt and variable rate debt in its total debt portfolio. To manage this mix the Group may enter into interest rate swap agreements, in which it exchanges the periodic payments based on notional amounts and agreed upon fixed and variable interest rate. Using these swap agreements has not had a material impact on the Group's financial position at 31 December 2006. See Note 27 to the Group's consolidated financial statements for a description of the Group's interest rate risks.

**Credit risk**

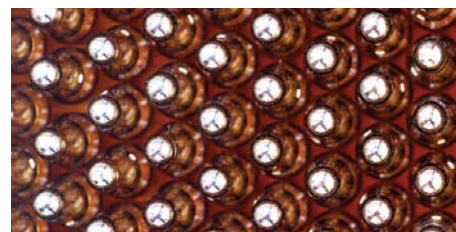
In most cases, the Group grants its buyers credit terms for settlement of sales invoices. Credit risk is managed through the Group Credit policy and the Group may also make use of factoring and/or credit insurance arrangements to mitigate this risk. Further details are set out in Note 27 of the Group's consolidated financial statements.

**Liquidity risk**

The Group has constant financing requirements, both for short-term working capital needs and for long-term strategic plans. Group Treasury ensures the Group debt/capital structure and banking arrangements can accommodate these financing needs.

**Inflation risk**

Hikma believes it is not subject to material risk due to inflation in any of its core markets at present.



## Financial performance continued

### Critical accounting policies and estimates

The Group's accounting policies are more fully described in Note 1 of the Group's consolidated financial statements. However, certain of the Group's accounting policies are particularly important to the presentation of the Group's results and require the application of significant judgement by the Group's management.

In applying these policies, the Group's management uses its judgement to determine the appropriate assumption to be used in the determination of certain estimates used in the preparation of the Group's results. These estimates are based on the Group's previous experience, the terms of existing contracts, information available from other outside sources and other factors, as appropriate.

The Group's management believes that, among others, the following accounting policies that involve management judgements and estimates are the most critical to understanding and evaluating the Group's financial results.

### Revenue recognition

Revenue represents sales of products to external third parties and excludes inter-company income and value added taxes. Sales of goods are recognised when the risk of loss and title are transferred to customers and reliable estimates can be made of relevant deductions. The Group's revenue recognition policies require management to make a number of estimates, with the most significant relating to charge backs, product returns and rebates and price adjustments which vary by product arrangements and buying groups.

### Charge backs

The provision for charge backs is the most significant and complex estimate used in the recognition of revenue. In the United States, the Group sells its products directly to wholesalers, 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 charge back. The provision for charge backs 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 the large wholesalers, the Group continually monitors the reserve for charge backs and makes adjustments when it believes that actual charge backs may differ from estimated reserves.





**Accounts receivable and bad debts**

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 Group's management has significant investments in goodwill and intangible assets as a result of acquisitions of businesses and purchases of such assets as product development and marketing rights.

Under IFRS, goodwill is held at cost and tested annually for impairment, whilst intangibles are amortised over their estimated useful lives. Estimated useful lives are reviewed annually and impairment reviews are undertaken if events occur which indicate an impairment to the carrying values of the assets.

Purchases of intellectual property and product rights to supplement our R&D portfolio are capitalised as intangible assets. Such intangible assets are amortised from the launch of the underlying products and are tested for impairment. This policy is in line with practice adopted by other major pharmaceutical companies. The critical area of judgement is in relation to the useful economic life of these product related intangibles and the impairment tests for that are performed at least annually.

**Contingent liabilities**

In the normal course of business, contingent liabilities may arise from product-specific and general legal proceedings, from guarantees or from environmental liabilities connected with our current or former sites. The Group's management believes that potential liabilities have a remote probability of crystallising. These are treated as contingent liabilities in the Group financial statements, and accordingly disclosed in Note 36. Although there can be no assurance regarding the outcome of legal proceedings, we do not expect them to have a materially adverse effect on our financial position or profitability.

**Tax**

The Group provides for income tax according to the laws and regulations prevailing in the countries where it operates and the likelihood of settlement. The tax expense represents the sum of the current and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.



## Corporate social responsibility

### Our commitment

#### Letter from the Chairman and Chief Executive, Hikma Pharmaceuticals PLC

One of the great lessons of my life is that it is vitally important for a successful person or business to commit to giving back. Over 25 years we have built a strong and successful global company based upon a set of core values which are underpinned by the principle of giving back to our communities, environment, families, friends and colleagues and – most importantly – those less fortunate than ourselves.

Everyone at Hikma rightly believes that the work we do is vitally important: our medicines save lives and make life more comfortable for millions of patients in many countries throughout the world. However, from day one, I recognised that the way we do business is just as important as the quality of the products we produce.

I have always insisted upon the highest ethics and in not just meeting, but striving to surpass the regulations and “best practice” that govern what we do. This ethos encompasses our core business of producing medicines of the highest quality as well as doing our best to care for the communities and environment in which we live and work.

I am delighted to be writing this commitment to Hikma's corporate and social responsibility from a position of great strength: our commitment is not new or recently embarked upon. It is, rather, a fundamental pillar upon which our business is based.

However, as with all good work, the job is never complete and I assure our employees, shareholders, customers, patients, communities and the governments who have given us permission to sell our products in their countries that we will continue to target the highest levels of corporate and social responsibility in everything that we do.

**Samih T Darwazah**

March 2007

### Summary and highlights

Every year, Hikma's products save lives and improve the health of millions of people around the globe. With our overriding commitment to quality, in each of our chosen markets we aim to meet and exceed every regulation and quality test applicable to our industry.

We hire and retain the best employees in the business and we train them well. We look after our employees and their families because we are all part of the same Hikma family.

Hikma cares about the communities in which it works. We are committed to making life in those communities better for everyone who lives there, whether that is through education, healthcare initiatives, charitable aid, sponsorships or work on community improvement projects. We also care about protecting our environment and ensuring that the business of making lifesaving products doesn't negatively impact upon it.

### Our core values

- Honesty, integrity and the highest ethical standards
- Striving towards the highest levels of quality across our business
- Respect for all people, regardless of race, religion, gender or background
- Dedication to the welfare, education and quality of life of our employees
- Care and preservation of our environment and investment in the communities in which we work.

### Hikma's vision for Corporate Social Responsibility

Our aim is to bring the strong principles of our founder to life through a Corporate Social Responsibility (“CSR”) policy that builds upon those principles and further aligns them with a corporate strategy where ethical practices are integrated in all aspects of Hikma's business practice.

We aim to be recognised as a company that strives to focus on respecting the environment and investing in the communities in which we work whilst producing world-class products for our global market.

We want to be acknowledged as a company that aligns economic success with corporate and social responsibility, through a commitment to our people and by encouraging education and instilling positive values across our working practices. In turn, this will bring value to our shareholders and to the communities where we work.

Our vision is to be a leader, both in the Middle East and globally, demonstrating that the strategic objectives of a business can be achieved alongside a sustainable interaction with the economic and social environment.



### Managing CSR

Hikma has taken several important steps in ensuring that CSR remains a focus for the Group and its employees.

During 2006, we appointed an internationally recognised consulting firm to help us understand how CSR sits within Hikma's strategy and to work with us to define our vision. They have collected data across our operations in order to identify areas where we are already achieving best practice and areas that are in need of development. Our aim for this coming year is to implement a structured CSR programme, through which we can improve areas of weakness and develop our strengths. By the end of 2007, we will be able to measure our progress against the data collected in 2006. We will also be able to set out formal targets against which we can report results and thus be in a position to analyse our CSR efforts in an effective and measurable way.

Another recent development in managing Hikma's ongoing CSR is the creation of a new post of CSR Manager, reporting directly to the Executive Vice Chairman, Mazen Darwazah.

The CSR Manager heads up Hikma's CSR Core Committee which is made up of a cross-section of Directors and managers. The Committee meets regularly to discuss issues relating to CSR and to decide on the best ways to move forward with new policies, programmes and activities. The CSR Manager is also responsible for day-to-day management and oversight of the Company's progress in measuring and delivering our CSR objectives.

In addition, Hikma has officially implemented a Corporate Code of Conduct which applies to all employees, including members of the Board of Directors. The Code sets the highest international level of ethical, moral, legal and business standards and covers the spectrum of employee and corporate conduct. Within this context, the Code encompasses respect for the individual and human rights, health and safety in the workplace, human development, protection of the environment, sustainability or enhancement of natural resources, civic contribution, and public involvement.

### Helping to raise international standards

Hikma has signed up to a number of international charters and compacts which work to raise standards of corporate and social responsibility around the globe. In October 2006, Hikma signed up to the Partnering Against Corruption Initiative ("PACI") charter, which aims to develop multi-industry principles and practices that result in a competitive level playing field based on integrity, fairness and ethical conduct.

Hikma is also in the process of assessing participation in the United Nations Global Compact ("UNGC") and the Global Reporting Initiative ("GRI"). Adoption of the principles of these corporate citizenship initiatives would provide Hikma with a relevant, transparent and globally recognised reporting standard.

### Our work with NGOs and charities

Hikma has recently adopted a formalised process for the way that we work with and support NGOs at both global and local levels. Over the years, we have supported a host of local charities and invested money and time into many much needed projects. These have helped fulfil one of the Company's main philosophies of giving something back to the communities in which we work.

Our strategy for working with and supporting NGOs and charities will focus from now on fulfilling three key objectives: encouraging Company-wide employee engagement in our work with NGOs and charities, building mutually beneficial relationships with selected organisations, and raising awareness of Hikma's impact on the environment via our work with NGOs in specific areas such as water conservation or education. This strategy should enable us to raise our profile as a responsible world-leading pharmaceutical company as well as engage our employees to see beyond our specifically corporate aims.

Although we have adopted this Company-wide strategy, we believe that it is important and beneficial for each of our individual businesses and operating companies to choose NGOs or charitable causes they might wish to support for local or even personal reasons. Hikma is keen to utilise our employees' knowledge of their local communities and to address their concerns for issues affecting it. To ensure that our CSR strategy grows from the grassroots level up we are currently engaging with individual employees as part of the process by which we will select and develop a global theme and cause.

### CSR activity – 2006

#### Our environment

Hikma believes strongly in sustainable development. In every country in which we operate, we are dedicated to protecting the environment.

Hikma has an ongoing programme of installing energy saving systems and energy efficient machinery in our plants and offices worldwide. During 2006, we invested in energy efficient machinery in 50% of our operations. New building projects in Jordan and Portugal were designed to make best use of natural light with skylights the administration buildings and laboratories.



## Corporate social responsibility continued

We manage our waste responsibly and continually look for further opportunities to recycle and reduce emissions. Steel, aluminium, cardboard, plastic, paper and glass are recycled in a multi-site drive to recycle our waste products. Water is cleaned by us, wherever appropriate, before being returned to treatment plants. Air filters are used at our penicillin production plants and all output is routinely tested and checked to ensure that only clean air is emitted.

Hikma regards environmental protection as a vital concern of the Group and strongly encourages all employees to promote energy savings and make the best possible efforts to conserve and improve the environment. During 2007, we will be drafting and implementing a Group-wide Environmental Policy and will be setting targets for ourselves in environmental measurements such as emissions, energy use, water use and levels of waste. This is being made possible as a result of the data gathering work we have commissioned and it will help us to both start a measurement process and create defined areas where we set our own standards.

### Our society

Education is at the heart of Hikma's commitment to society. We are passionate about providing opportunities for further education to our employees. In addition, we co-operate with local universities and professional colleges in on-site student training, site visits and assistance with research projects. Hikma also builds schools in remote areas, sponsors educational conferences and provides ongoing support such as teacher housing and scholarships for promising students.

Charitable donations form another important part of Hikma's role within our local communities. During 2006, Hikma donated \$1.0 million in cash and medicines to charitable causes both in Jordan and abroad. Employee donations to disaster relief funds have been matched or exceeded by the Group and the Group provides regular donations to countries in crisis. In addition, Hikma operates a wide range of sponsorships and supports an array of local charities in each of our communities around the world.

2007 will see more of the same, with increased assistance for charitable causes identified by our employees and stronger links with NGO's in our home countries. As ever, education will continue to be a priority in terms of assistance for those who need it most and we will do our utmost to give both employees and those in our communities the very best in educational opportunities.

### Our employees

Our employees are the lifeblood of Hikma and the pride of our Company, both contributing to and benefiting from our corporate social responsibility ethos.

In addition to the usual range of employee benefits, Hikma also supports employees in fully funded further education such as MBA and BA programmes and the Group provides bespoke support for employees in need. We believe in hiring the best employees we can find and then looking after them.

During 2007 Hikma will be introducing world-wide job grading to allow us to compare positions across the Company and to ensure internal and external equity with regards to compensation and benefits. We will also be developing our performance management process through which employees are given quantifiable targets to personal and professional development.

We will also be developing a global Health and Safety policy which will be based on country specific policies currently in place.

### Our ethics

Pharmaceutical companies owe an extraordinary duty of care to their customers and end consumers in terms of product quality, safety and integrity. Lives depend on us getting quality and efficacy absolutely right every time.

Hikma demands high standards of its suppliers above and beyond the technical aspects and regulatory compliance of what they provide to us. In 2007, we intend to develop this further, by formalising a process of examination of environmental and ethical practices and ensuring compliance with laws and regulations in their respective countries.

## Case study

### Investment in the environment

Hikma's production facilities in Portugal provide an excellent example of the ways in which the Company is working towards a cleaner, healthier environment. The two plants – one of which is under a year old – are state-of-the-art facilities that employ 270 people and produce many of Hikma's injectable products.

The plants have been built to provide energy efficient offices and production areas and Hikma has made a substantial investment in ensuring that the Company and its employees are committed to efficient manufacturing practices and to minimising their impact on the environment.

"Our main environmental aim in the building of these plants has been to maximise the efficient utilisation of energy and resources," explains Amjad Wahbeh, New Projects Director in Portugal. "The reduction of energy use, responsible solutions for waste disposal and recycling are all important factors in ensuring these facilities are as environmentally-friendly as possible."

In the new plant, we have thought strategically about the utilisation of natural light to minimise our energy requirements. In addition, the implementation of motion detectors and a central light control system ensures that the Company uses as little electric energy as possible.

The new plant has also been built with double wall insulation, a heat recovery system for the main air handling units, and a water recycling system which ensures that cleaned process water is re-used for sanitary, irrigation and floor cleaning purposes.

Hikma is committed to the protection and improvement of the environment and to a greener and cleaner planet. We are proud to be investing in energy efficient machinery that makes good environmental – and good business – sense.

### Letter from the Executive Vice-Chairman, Board member responsible for CSR

Whilst delivering value to our shareholders, our primary aim as a pharmaceutical company is that we produce consistently high quality products, that the communities we work in benefit from a clean environment, and that the pharmaceutical industry benefits from our drive to raise standards and share our expertise internationally.

Our CSR policy is designed to articulate the strong ethical principles upon which the company was founded by ensuring that our employees understand the ways in which they can make a difference to the environment around them. Firstly, that they are aware of how they can minimise their impact on the environment – both as individuals and in playing a valuable role to help Hikma reduce its impact. Second, that our employees enhance their contribution to society with the full cooperation and support of our organisation. Finally, that we all ensure that we feel comfortable with the environmental and social behaviours of our suppliers.

Changing global conditions in terms of the environment, best practice, social awareness and political climates mean that we must continually endeavour to meet the increasing demands of corporate and social responsibilities. This report sets out how we aim to formalise our ongoing commitment to Hikma's set of long-held business ethics and to ensure that all stakeholders are aware of our intentions to drive forward our CSR principles.

**Mazen Darwazah**  
March 2007





## Board of Directors



### 1 Samih Darwazah

CEO and Chairman, 76

Samih Darwazah, a qualified pharmacist, worked for Eli Lilly from 1964 to 1976, before establishing Hikma Pharmaceuticals Ltd. in 1978. Between 1995 and 1996 he served as Minister of Energy and Mineral Resources in Jordan. He also founded the Jordan Trade Association and was a member of the Advisory Economic Council to His Majesty the King of Jordan. Samih holds a masters degree from the St. Louis College of Pharmacy, Missouri.

### 2 Mazen Darwazah

Executive Vice-Chairman, CEO of MENA, 48

Mazen Darwazah joined Hikma in 1985 as a medical representative and has held several positions, including Chairman and CEO of Hikma Pharmaceuticals Limited (Jordan), Chairman of Trust Pharma Limited and Pharma Ixir Co. Ltd. He is a member of the Nomination Committee. He is a director of Jordan International Insurance Company, Capital Bank of Jordan and of several other organisations. From 2001 to 2003 he was the president of the Jordanian Association of Manufacturers of Pharmaceuticals and Medical Appliances, and has served as a member of the Jordanian Higher Education Council since 2003. Mazen holds a degree from Beirut University, Lebanon.

### 3 Ali Al-Husry

Non-Executive Director, 49

Ali Al-Husry has been a director of Hikma Pharma Limited and other companies within the Hikma group since 1991. He is also serving as Chairman and Chief Executive Officer of Capital Bank of Jordan. He is also a director of The Association of Banks in Jordan, the Jordanian Insurance Commission and several other organisations. He brings great financial experience to the Board as well as an in-depth knowledge of the MENA region. Ali has a degree in mechanical engineering from the University of Southern California and an M.B.A. from INSEAD, France.

### 4 Michael Ashton

Independent Non-Executive Director, 61

Michael Ashton was appointed to the Board in October 2005 and holds the position of Chairman of the Remuneration Committee. He is also a member of the Audit Committee and the Nomination Committee. Michael is the Group President and Chief Executive Officer of LMA International and also serves on the Boards of Transition Therapeutics and Proximagen.

### 5 Breffni Byrne

Independent Non-Executive Director, 61

Breffni Byrne was appointed to the Board in October 2005 and holds the position of Chairman of the Audit Committee. He is also a member of the Remuneration Committee. As a chartered accountant with over 30 years of experience in public practice, including significant international responsibilities, he has extensive experience in financial reporting, corporate governance and general financial and commercial matters. Breffni is Chairman of NCB Stockbrokers and a director of Irish Life and Permanent plc, Coillte Teoranta (the Irish state forestry company), Adsteam Europe Limited and other companies.

### 6 Sir David Rowe-Ham

Senior independent Non-Executive Director, 71

Sir David Rowe-Ham was appointed to the Board in October 2005 and holds the position of Chairman of the Nomination Committee. He is also a member of the Audit Committee and the Remuneration Committee. Sir David brings to Hikma a wide experience in financial matters, corporate governance, public affairs and the development of listed companies. He is also Chairman of Arden Partners plc, Olayan Europe Ltd. and Peninsular South Asia Investment Co. Ltd.

### 7 Ronald Goode

Independent Non-Executive Director, 63

Ronald Goode was appointed to the Board on 12 December 2006. He is a member of the Audit Committee and the Remuneration Committee. Ron has spent over 30 years in the international pharmaceutical industry, including having held senior positions with Pfizer and Searle. He is the chairman of The Goode Group, advisers to the pharmaceutical industry, and is a director of Mercy Ships International and a trustee of Thunderbird. He is also a director of Genitope Corporation, a NASDAQ-listed company. He was formerly President and Chief Executive Officer of Unimed Pharmaceuticals, Inc. and eXogenics Inc., and a director of several other companies, including Hokuriku Seiyaku and Vitro Diagnostics.



## Senior management



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### 1 Bassam Kanaan

#### Chief Financial Officer

Bassam joined Hikma in 2001 and played a leading role in preparing the company for its IPO in 2005. Prior to joining Hikma, Bassam was the CFO of PADICO from 1994 to 2001. He currently serves on the board of Zara Holding and has previously served as a board member of several large corporations including Palestine Telecommunication Co. and Central Electricity Generation Company in Jordan. He qualified as a CPA with Deloitte & Touche in Los Angeles where he worked as audit manager. Bassam holds an Executive M.B.A. from Northwestern University and a B.A. from Claremont McKenna College in the United States.

### 2 Nabil Rizk

#### CEO of Generic Pharmaceuticals and Senior Corporate Vice-President of R&D and API sourcing

Nabil joined the Company in 1991 from Pioneer Pharmaceuticals, Inc., a division of Dow Chemical, where he worked as Vice-President of Operations. From 1976 to 1983 he served in various capacities with Hudson Pharmaceuticals, a division of Cadence Corporation including as Manager of Quality Control and Quality Assurance and Laboratory Supervisor (Research & Development). Nabil holds a masters degree in chemistry from the New Jersey Institute of Technology and a B.Sc. in applied chemistry from Cairo University.

### 3 Taghreed Al-Shunna

#### Corporate Vice-President Branded Pharmaceuticals, MENA

Taghreed joined the Company in 1988 after graduating from the University in Jordan with a degree in pharmacy. In 1995, she was appointed as Marketing Planning Director of Hikma Pharmaceuticals Limited and in 2002, promoted to General Manager of Hikma Pharmaceuticals Limited. In 2005, Taghreed became Corporate Vice-President of Branded Pharmaceuticals MENA. Taghreed is expected to complete her Executive MBA from INSEAD in December 2007.

### 4 Majda Labadi

#### Vice-President of Injectables and General Manager, Hikma Pharmaceuticals

Majda joined the Company in 1985 as a purchasing manager at Hikma Pharmaceuticals Limited and held several positions there culminating in her current appointment in March 2001. Majda holds a master degree in health economics and a B.A. from the American University of Beirut.

### 5 Gabriel Kalisse

#### General Manager, West-ward Corporation

Gabriel took up the position of General Manager of the Generic business in 2006. Prior to this, he held the position of Chief Information Officer for the Group. Gabriel joined the Company in 1989 and during 1996–2001 served as the Group Chief Financial Officer and from 2001 to 2003 as the General Manager of Hikma Pharmaceuticals Limited – Jordan. Gabriel holds an M.B.A. from INSEAD.

### 6 Henry Knowles

#### General Counsel and Company Secretary

Henry joined the Company in September 2005. Prior to joining Hikma, he worked for the international law firm, Ashurst, where he specialised in corporate law, gaining a wide knowledge of corporate and commercial issues in both domestic and international fields. Henry is admitted as a solicitor in England and Wales and holds an M.A. in Social and Political Science from Cambridge University.

### 7 Susan Ringdal

#### Investor Relations Director

Susan joined the Company in November 2005, 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. Susan holds a B.A. in History from Cornell University and an M.B.A. from London Business School.

## Corporate Governance Principles

### Combined code

The Board is responsible for and committed to meeting the standards of good corporate governance set out in the Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003 (as revised) (the "Combined Code") as well as the corporate governance principles set out in the Markets Law of the Dubai Financial Services Authority (the "Markets Law") (together the "Corporate Governance Principles"). This report, the Audit Committee report set out on pages 29 and 30 and the Remuneration Committee report set out on pages 33 to 42 describe how the Board applied the Corporate Governance Principles during the year under review.

The Listing Rules of the Financial Services Authority and the Markets Law require the Group to report on its application of the principles of good governance and the extent of its compliance with the provisions of the Corporate Governance Principles. This statement provides details on how the Group has applied these principles.

### The Board

The Group is led and controlled by the Board of Directors. The Board's role is to determine long-term strategy; to monitor the achievement of business objectives; to ensure the Group has adequate available resources; to promote good corporate governance; and to ensure that the Group meets its responsibilities to shareholders, employees, customers and other stakeholders. There is a formal schedule of matters reserved for the Board's consideration and decision. This includes approval of strategic plans, approval of financial statements, the annual budget, material investment decisions, acquisitions and divestments, and review of the effectiveness of the Group's system of internal control.

Except for the matters formally reserved for the Board, and in accordance with the Company's Articles of Association, the Board has delegated responsibility for the management of the Group, through the Chief Executive, to executive management.

### Composition of the Board

A majority of the Board comprises Non-Executive Directors. The Board currently comprises of the Chairman, who is also the Chief Executive, the Executive Vice-Chairman and five Non-Executive Directors. The names of the Directors and their biographical details are set out on pages 24 to 25. The Chief Executive and the Executive Vice-Chairman were appointed to the Board on the incorporation of the Company on 8 September 2005. Save for Ronald Goode, who joined the Board on 12 December 2006, each of the Non-Executive Directors joined the Board prior to the Company's listing on the London Stock Exchange, on 14 October 2005.

The Company combines the roles of Chairman and Chief Executive, both these roles being held by Samih Darwazah, the founder of the Group.

The Board believes that notwithstanding the Combined Code's guidance that the roles of Chairman and Chief Executive should not be combined, at this important time in the Group's development, and following its transition from private to public company in late 2005, the knowledge of the Group's business and the experience in guiding it to its current position brought to the Board by Mr Darwazah justifies his holding both positions.

Each of Michael Ashton, Breffni Byrne, Ronald Goode and Sir David Rowe-Ham are independent Non-Executive Directors. The fifth Non-Executive Director, Ali Al-Husry, who brings financial experience to the Board as well as an in-depth knowledge of the MENA region which is significant to the Group's business, is not treated as being independent as a result of his close links to the Darwazah family through Darhold, the Company's largest shareholder.

The Non-Executive Directors who have diverse business backgrounds, skills and experience bring independent judgement to bear on issues of strategy, performance, resources, key appointments, standards of conduct and other matters presented to the Board. During the year under review, the Company has complied with the Combined Code requirement that at least half of the Board, excluding the Chairman, should comprise independent Non-Executive Directors.

The senior independent Director is Sir David Rowe-Ham.

### Board procedures and support

Board procedures afford the provision of timely, regular and necessary management information to Directors to enable them to fulfil their duties, with full board papers circulated in advance of Board and Committee meetings. The Company Secretary is charged with ensuring good information flow within the Board and its Committees, so that adequate information is provided to the Board before making decisions.

The Directors are able to obtain independent professional advice at the Company's expense in the performance of their duties as Directors. In addition, all Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that good board procedures are followed and for advising the Board through its Chairman on all good corporate governance matters to maintain compliance throughout the Group. The appointment and removal of the Company Secretary is a matter reserved for the Board.

### Board meetings

During the year under review, the Board met on nine occasions. The Company Secretary attended all Board Meetings and Committee Meetings. A table showing attendance at these meetings is set out below.

Meeting record	Board	Audit	Remuneration	Nomination
<b>Number of meetings</b>	<b>9</b>	<b>8</b>	<b>8</b>	<b>5</b>
Samih Darwazah	9	–	–	–
Mazen Darwazah	9	–	–	5
Ali Al-Husry	8	–	–	–
Michael Ashton	8	8	8	5
Breffni Byrne	9	8	8	–
David Rowe-Ham	9	8	8	5
Ronald Goode	1*	–	–	–

\*Ronald Goode was appointed at the final meeting of the year.

The Directors maintain a close dialogue between board meetings, ensuring that, amongst other things, the Non-Executive Directors are kept up to date with major developments in the Group's business. Visits by each of the Non-Executives to the Group's main facilities in the MENA region, the United States and Europe help to reinforce the Board's understanding of key business issues.

### Board performance evaluation

All Directors other than Ronald Goode were elected by shareholders at the first Annual General Meeting, held on 25 May 2006. Ronald Goode will be subject to election by shareholders at the Annual General Meeting to be held on 6 June 2007. All Directors are subject to re-election thereafter at intervals of no more than three years. Non-Executive Directors are appointed for an initial term of three years, which can be renewed and extended for not more than two further three-year terms.

The Chairman believes that the Non-Executive Directors continue to bring a balance of skill and experience to the Board, and have shown themselves to discharge their roles effectively and with commitment to the strategic aims of the Group. Biographies of the Non-Executive Directors are set out on page 24.

As required by the Combined Code, an evaluation of the performance of the Board, the Chairman, the Committee Chairmen and the individual Non-Executive Directors was undertaken during the period under review.

The Non-Executive Directors, led by the senior independent Director, met to undertake a formal appraisal of the performance of the Chairman. In addition to the matters set out overleaf in respect of all Directors, the review addressed effectiveness of leadership, setting the Board agenda, communication with shareholders and internal communication and Board efficiency.

Discussions on the performance of the Board, each of its Committees and each Non-Executive Director were also undertaken by the Chairman with each Committee Chairman and each Non-Executive Director. These discussions focused on Board and Committee performance and membership, timetabling, internal and external support, the quality and timely availability of relevant Board information and the contribution of, preparation for and performance by individual Directors at Board and Committee meetings.

### Directors' service arrangements and terms of appointment

Details of the Executive Directors' service arrangements and Non-Executive Directors' letters of appointment are contained in the Remuneration Committee report on pages 33 to 42.

### Directors' remuneration

Details of the remuneration of the Executive and Non-Executive Directors are contained in the Remuneration Committee report set out on pages 33 to 42.

### Dialogue with shareholders

Communication with shareholders is a high priority and in addition to presentations at the time of the release of the annual and interim results, the Company has undertaken a programme of meeting with institutional shareholders in the UK, Europe, the United States and the MENA region. This programme includes but is not limited to one-on-one meetings, conference calls and

presentations at investor conferences. In 2006 the Company also held a site visit for investors and analysts at its manufacturing facility in Portugal.

The Chairman, Executive Vice-Chairman, Chief Financial Officer and other senior corporate executives have all participated in this investor programme during the period under review.

The principal ongoing communication with shareholders is through the publication of the Company's Annual Report and Accounts and Interim Results, together with the opportunity to question the Board and Committees at the Annual General Meeting. The Company maintains a website ([www.hikma.com](http://www.hikma.com)) containing financial and other information which is updated regularly. Additionally the Company presents a balanced view of the Group's performance and prospects through the release of appropriate press announcements and other updates.

The Board is kept updated on the views of shareholders and the market in general through the feedback from the investor meeting programme and results presentations. Analysts' reports are circulated to the Board members together with monthly Investor Relations reports. The senior independent Director has undertaken to be available to shareholders if they have a concern that cannot be appropriately addressed through the Chairman/Chief Executive.

### Board Committees

In accordance with the principles of good corporate governance and in compliance with the Combined Code and the Markets Law, the Board maintains three Committees – the Audit Committee, Nomination Committee and Remuneration Committee. The Group also has an Executive Committee comprising the Executive Directors and senior management of the Group, and an Ethics Committee, which draws its members from the Board and the senior management of the Group.

Each of the three Combined Code Committees has terms of reference, which were reviewed during the year. Copies are published on the corporate website at [www.hikma.com](http://www.hikma.com). Their Chairmen give reports of the Committees' business to the Board.

### Nomination Committee

The Nomination Committee consists of two independent Non-Executive Directors – Sir David Rowe-Ham (Committee Chairman) and Michael Ashton – and the Executive Vice-Chairman, Mazen Darwazah. The majority of the members of the Committee are independent Non-Executive Directors and an independent Non-Executive Director holds the Chairmanship of the Committee, and the Company has therefore complied with the requirements of the Corporate Governance Principles.

The Nomination Committee is responsible for succession planning and for ensuring that all appointments to the Board are made on objective criteria. In accordance with its terms of reference, the Committee is required to take into account the skills, knowledge and experience of the Board in making its decisions and is able to use external search firms or open advertising to compile shortlists of candidates for the Board. It is also charged with reviewing the appropriateness of the size, structure and composition of the Board.

The Nomination Committee met five times during the year, culminating in the recommendation of the appointment of a new Non-Executive Director. In discharging their responsibilities,

## Corporate Governance Principles **continued**

the Committee appointed an independent search firm and used other sources to identify relevant candidates, compiled a shortlist, and following a process of interviews conducted by members of the Committee, made a recommendation to the Board in respect of the appointment.

### Remuneration Committee

The Remuneration Committee consists of the Company's four independent Non-Executive Directors – Michael Ashton (Committee Chairman), Breffni Byrne, Sir David Rowe-Ham and Ronald Goode, who joined the Committee following his appointment to the Board on 12 December 2006. The Remuneration Committee therefore consequently complies with the Corporate Governance Principles membership requirements.

The Committee met eight times during the year with full attendance. The Committee is responsible for setting and reviewing executive remuneration and that of the Company Secretary and is able to take external advice from consultants when required. A full report on the role of the Remuneration Committee is set out in the Remuneration Committee Report on pages 33 to 42.

### Audit Committee

The Audit Committee consists of four independent Non-Executive Directors – Breffni Byrne (Committee Chairman), Michael Ashton, Sir David Rowe-Ham and Ronald Goode, who joined the Committee following his appointment as a Director on 12 December 2006. The Audit Committee consequently complies with the Corporate Governance Principles membership requirements.

The Committee met eight times during the year with full attendance. A full report of the role of the Audit Committee and the details of how it carried out its duties is set out in the Audit Committee report on pages 29 and 30.

### Executive Committee

The Group also has an Executive Committee, made up of the Executive Directors and other senior management of the Group, which oversees the day-to-day operation of the Group's major operating subsidiaries, implements the decisions of the Board, and makes recommendations for the Board's approval.

### Ethics Committee

The Ethics Committee is chaired by Michael Ashton and draws its members from the Board (Michael Ashton, Ronald Goode and Mazen Darwazah) and senior management across the Group. The Ethics Committee aims to monitor ethical behaviour and integrity across all areas of the Group's business. Thus, the Committee is responsible for the review and approval of statements and policies on ethics, conduct, values and principles within the Group.

### Internal control

The Board of Directors has overall responsibility for the Group's systems of internal control and risk management and has applied the relevant principles of the Combined Code in establishing a continuous process of identifying, evaluating and managing the risks the Group faces. The Board is responsible for monitoring the effectiveness of these systems on an ongoing basis. The system of internal control provides reasonable but not absolute assurance against material misstatement or loss.

The key elements are as follows:

- An organisation structure with clear operating and reporting procedures, authorisation limits, segregation of duties and delegated authority;
- Annual budgets and long-term business plans for the Group that identify risks and opportunities which are reviewed and approved by the Board;
- A comprehensive system of internal financial reporting which includes regular comparison of financial results and key performance indicators against budget, along with management comments;
- A clearly defined process for controlling capital expenditure including appropriate authorisation levels, which is approved by the Board on an ongoing basis;
- Written policies on procedures for all material functional areas with specific responsibility allocated to individual managers.

During the year under review, Ernst & Young continued its management and execution of the Group's internal audit function on a global basis under a three year contract entered into in 2005. This involves a risk-driven approach to internal audit which was overseen by the Audit Committee. The internal audit process focuses on reviewing areas of business risk, internal controls and systems in the Company's main subsidiaries and at the corporate level, with regular reports of its findings to the Audit Committee. Ernst & Young have direct access to the Audit Committee and the Board Chairman.

The Board confirms that, in accordance with the requirements of the Combined Code and the Markets Law, a review of the effectiveness of the Group's systems of internal controls was conducted during the year.

### Insurance

The Company maintains an appropriate level of Directors' and Officers' insurance in respect of action taken against Directors. Additionally, in accordance with the Company's Articles of Association, to the extent permitted by law, directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their office.

### Compliance with the Corporate Governance Principles

During the year under review, the Company applied the principles set out in section 1 of the Combined Code, including both the main principles and the supporting principles, save in respect of Code provisions A2.1, A2.2 pursuant to which the Code requires that the positions of Chairman and Chief Executive are separate, with an independent Chairman leading the Board. For the reasons outlined above, the founder of the Group, Mr Samih Darwazah, currently occupies both roles.

The Company also applied the Corporate Governance Principles required by the Markets Law. The above disclosure is also made in respect of the Company's obligations under Article 20 of the Markets Law.

### Going concern

The Board believes that the Group has adequate resources to continue operating for the foreseeable future. For this reason, it will adopt the going concern basis in preparing the accounts.



## Audit Committee report

The Corporate Governance Principles require that this Annual Report separately describes the work of the Audit Committee and how it discharges its responsibilities.

### Terms of reference

The Audit Committee terms of reference include all matters indicated by the Combined Code and clearly set out its authority and duties. These can be found on the Company's website at [www.hikma.com](http://www.hikma.com) and are summarised as follows:

- monitor the integrity of the financial statements and any other formal announcement relating to the Group's financial performance and review summary financial statements and significant financial returns to regulators;
- review and challenge accounting policies and accounting for significant or unusual transactions;
- review and challenge the adoption of accounting standards, estimates and judgements and the clarity of disclosure in financial reports;
- review and challenge compliance with stock exchange, UK Listing Authority and legal requirements including the requirements of the Combined Code;
- review arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- monitor and review the internal financial controls and the Group's overall risk identification and management systems;
- consider and approve the remit and effectiveness of the internal audit function, its annual plan, its resources and access to information and its freedom from management or other restrictions;
- review and monitor management's responsiveness to the findings and recommendations of the internal auditors;
- consider and make recommendations for appointment, re-appointment and removal of the Company's external auditor, and oversee the relationship with the external auditor;
- review and monitor the quality, independence and objectivity of the external auditor (accounting for relevant UK and professional regulatory requirements) and approve their remuneration and terms of engagement;
- develop and implement a policy on the supply by the external auditor of non-audit services, taking into account relevant ethical guidance and potential conflicts of interest.

The Audit Committee's terms of reference were reviewed by the Audit Committee during the period under review and referred to the Board for approval.

### Composition

Hikma's Audit Committee comprises four members – Breffni Byrne, Michael Ashton, Sir David Rowe-Ham, and Ronald Goode, who joined the Committee following his appointment to the Board on 12 December 2006 – all of whom are independent Non-Executive Directors, and whose qualifications are set out on page 24. The Committee is chaired by Breffni Byrne, who is a chartered accountant and who is considered by the Board to have recent and relevant financial experience. No members of the Committee have links with the Company's external auditors. The Company therefore considers that it complies with the recommendations of the Corporate Governance Principles regarding the composition of the Audit Committee. The Committee Chairman receives additional remuneration to compensate him for his additional responsibilities.

### Responsibilities

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audit and internal control, including reviewing the Company's annual financial statements, interim report and trading updates, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. The Audit Committee is also responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, as well as the effectiveness of the audit process. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

### Meetings

The Audit Committee met eight times during the year under review, with the Chief Financial Officer and the Company Secretary in attendance. The Audit Committee reviewed the 2005 annual report and accounts, the 2006 interim report and the trading statements issued during the year. The Committee also reviewed and approved the audit plans for 2006 for both internal and external auditors and the related scope of internal audit work to be undertaken. The Committee reviewed the effectiveness of the Group's internal controls and risk management processes and the disclosures made in the annual report and accounts on these matters. The Committee also reviewed its own term of reference and general effectiveness.

## Audit Committee report continued

The Group's external auditors, Deloitte and Touche LLP, attended four Audit Committee meetings for the purposes of presenting their 2005 audit results and findings, the results of the 2006 interim review and their audit plan for 2006. The internal auditors, Ernst & Young presented their 2006 audit plan and summary findings of their work to the Audit Committee, who also reviewed the response by management, proposed action plans and the overall effectiveness of the internal audit function. In accordance with the Combined Code, the Audit Committee also met with the Group's external auditor and internal auditor without executive management present.

In addition, the Audit Committee Chairman met with the external auditor at the principal subsidiaries in the United States, Jordan, Portugal and with the auditors of JPI in Saudi Arabia following the acquisition of its outstanding shareholding during the year. The Audit Committee Chairman also met with Ernst & Young in late 2006 to discuss the scope of the 2007 internal audit programme.

Attendance of members at Committee meetings is shown on page 26 of the Directors' Report on Corporate Governance.

### External auditors

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit, and has adopted a policy in relation to the provision of non-audit services by the external auditors.

Fees paid in respect of audit, audit-related and non-audit services are outlined in Note 3 to the Group financial statements.

Audit-related services are services carried out by the external auditor by virtue of its role as auditor and principally include assurance-related work and accounting advice.

In line with best practice the external auditor does not provide services such as information system design and valuation or advocacy work which could be considered to be inconsistent with the audit role. In addition audit related and non-related services provided by the external auditor in excess of certain monetary limits require prior approval by the Audit Committee. The Committee has reviewed the non-audit services provided by the external auditor and is satisfied that the nature of these services has not compromised the auditors' independence.

A policy has also been adopted whereby prior approval by the Audit Committee is required before the recruitment of a senior member of the audit team or the recruitment of an employee of the external auditors to a senior finance position within the Group.

The Group Whistleblowing policy contains arrangements for the Chairman of the Audit Committee and the Senior Independent Director to receive, in confidence, complaints on accounting, risk issues, internal control and other instances of allegedly improper behaviour by Group employees.

### Overview

The Audit Committee concludes that it has acted in accordance with its terms of reference and ensured the independence of external audits. The Audit Committee also reviewed the effectiveness of the external auditors and recommends to the Board that they be reappointed. The Chairman of the Audit Committee will be available at the Annual General Meeting to answer questions on the work of the Committee.



## Other matters

### Principal activity

The principal activities of the Group are the development, manufacture and marketing of a broad range of generic and licensed pharmaceutical products in solid, semi-solid, liquid and injectable final dosage forms. Hikma's operations are conducted through three business segments: Generic Pharmaceuticals, Branded Pharmaceuticals and Injectable Pharmaceuticals. The majority of Hikma's operations are in the MENA region, the United States and Europe.

The Group's net sales, gross profit, operating profit and are shown by business segment in Note 2 to the consolidated financial statements.

### Results and dividends

The Group's profit for the year attributable to shareholders in 2006 was \$54.5 million. The Board is recommending a final dividend of 4.0 cents per share (approximately 2.1 pence). The proposed final dividend will be paid on 18 June 2007 to shareholders on the register on 18 May 2007, subject to approval at the Annual General Meeting.

### Directors and their interests

The names of the Directors as at the date of this report, together with details of their roles, backgrounds and abilities, are set out in the Directors' biographies on pages 24 and 25. Details of the independence of Non-Executive Directors are set out in the report on Corporate Governance Principles on pages 26 to 28.

The executive and Non-Executive Directors served the Company throughout the year, save for Ronald Goode, who was appointed as a Non-Executive Director on 12 December 2006. Having been appointed by the Directors, Dr Goode will retire immediately prior to the next Annual General Meeting and offer himself for re-election.

Details of Directors' share options are provided in the Remuneration Committee report on pages 33 to 42.

The Directors who held office on 31 December 2006 had the following interests in the shares and debentures of the Company.

Director	Preference shares of £1 <sup>1</sup>		Ordinary shares of 10 pence	
	1 January 2006	31 December 2006	1 January 2006	31 December 2006
Samih Darwazah	24,999	–	1,074,506	<b>1,394,506</b>
Mazen Darwazah	24,999	–	561,958	<b>561,958</b>
Michael Ashton	–	–	–	<b>4,566</b>
Ali Al-Husry	–	–	1,109,748	<b>1,145,124</b>
Breffni Byrne	–	–	10,000	<b>10,000</b>
Ronald Goode	–	–	–	–
Sir David Rowe-Ham	–	–	10,000	<b>10,000</b>
Total shares:	49,998	–	2,766,212	<b>3,126,154</b>

<sup>1</sup> The Preference Shares held by the Executive Directors as at 1 January 2006 were redeemed by the Company on 9 February 2006.

No changes in the Directors' interests in share capital took place between 31 December 2006 and the date of this document.

### Creditor payment policy

The company's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Company at 31 December 2006 were equivalent to 74 days' purchases, as compared to 77 days at 31 December 2005, based on the average daily amount invoiced by suppliers during the year.

### Charitable and political contributions

During the year the Group made charitable donations of \$1.0 million, principally to local charities serving the communities in which the Group operates. Donations of medicines accounted for \$0.6 million of total donations made.

The Group does not make political donations.

### Share capital

As at 31 December 2006, the Company had 915 ordinary shareholders and 168,164,207 ordinary shares in issue. During 2006 the Company issued 1,365,800 ordinary shares pursuant to the exercise of options under the Hikma Pharmaceuticals PLC 2004 Stock Option Plan.

## Other matters continued

### Substantial shareholdings

As at 31 December 2006, the Company had been notified pursuant to sections 198 to 208 of the Companies Act 1985 (Disclosure of interest in shares) of the following interests in the ordinary share capital of the Company:

Name of Shareholder	Number	Percentage held
Darhold Limited	52,649,972	31.3%
Capital Research and Management Company	10,223,003	6.1%

No further notifications were received between 31 December 2006 and the date of this document.

### The Takeover Code – Rule 9

At the Annual General Meeting held on 25 May 2006, a vote of the independent shareholders of the Company approved the previous award of 2,520,000 options over ordinary shares to Samih Darwazah, Mazen Darwazah, Mohammed Saffouri, May Darwazah and Hana Darwazah (the "Options Holders") (the "Whitewash"). Because of the relationship of the Option Holders with Darhold Limited, who at the time of the Annual General Meeting held 52,649,972 Ordinary Shares (representing 31.565% of the issued share capital of the Company at 21 April 2006, being the latest practicable date prior to the publication of the Notice of Annual General Meeting), each of the Option Holders (together with certain other identified individuals at that date) was treated as acting in concert with Darhold Limited for the purposes of the Takeover Code (the "Concert Party"). As at 21 April 2006, the Concert Party held, in aggregate, interests in 60,446,652 Ordinary Shares in the capital of Hikma (representing 36.239% of the then issued share capital of the Company). On full exercise of the options the Concert Party would potentially have, in aggregate, interests in 62,966,652 shares in the capital of the Company (representing 37.188% of the enlarged issued share capital of the Company, on the basis that no Ordinary Shares were issued other than pursuant to the exercise of such options).

During the period from the Annual General Meeting in 2006 to 21 March 2007, the Option Holders have exercised, in aggregate, options over 364,000 Ordinary Shares in the capital of the Company, of which 44,000 Ordinary Shares were sold immediately upon exercise and 320,000 Ordinary Shares were retained by Options Holders. Thus, at the date of this document, the Concert Party holds interests in 60,766,652 Ordinary Shares (representing 36.135% of the issued share capital of the Company at the date of this document).

### Auditors

Each of the persons who is a Director of the Company at the date when this report was approved confirms that:

- so far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- 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 (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 243ZA of the Companies Act 1985.

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

### Annual General Meeting

The Annual General Meeting of the Company will be held at London Underwriting Centre on Wednesday, 6 June 2007, starting at 11.00 a.m. The Notice convening the meeting is given in a separate document accompanying this document, and includes a commentary on the business of the AGM, and notes to help shareholders exercise their rights at the meeting.

Approved by the Board of Directors on 21 March 2007 and signed on its behalf

### Henry Knowles

Company Secretary

## Remuneration Committee report

### Introduction

This report has been prepared in accordance with The Directors' Remuneration Report Regulations 2002, (the "Regulations"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles and complied with the provisions of the Combined Code and the Markets Law relating to Directors' remuneration. As required by the Regulations, an advisory resolution to approve this report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The auditors are required to report on the "auditable" part of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report is therefore divided into separate sections for unaudited and audited information.

### Unaudited Information

#### Remuneration Committee

The Directors who were members of the Committee during the year under review are set out on page 26 of the Directors' Report on Corporate Governance.

The responsibility for the establishment of a remuneration policy and its cost is a matter for the full Board, on the advice of the Remuneration Committee. The recommendations of the Remuneration Committee have been approved without amendment by the Board for submission to shareholders.

The Remuneration Committee is responsible for developing policy on remuneration for Executive Directors and senior management and for determining specific remuneration packages for each of the Executive Directors. The Remuneration Committee members have no personal financial interest other than as shareholders in matters to be decided, no potential conflicts of interests arising from cross-directorships and no day-to-day involvement in running the business.

During the period under review, the Remuneration Committee sought the assistance of the Chairman and Vice Chairman on matters relating to Directors' performance and remuneration. The Chairman, Vice Chairman and Henry Knowles, General Counsel, attend meetings by invitation except when their individual remuneration arrangements are discussed. No Director takes part in discussions relating to his own remuneration and benefits. The Remuneration Committee appointed and received wholly independent advice on executive compensation from Halliwell Consulting. No services other than those detailed in this report were provided to the Company by Halliwell Consulting during the year.

The Remuneration Committee is formally constituted with written terms of reference with the full remit of the committee role described. The terms of reference are available on the Company's website or on request by shareholders in writing from the Company Secretary whose contact details are set out on page 84 of the Annual Report.

#### Philosophy behind Remuneration Committee's approach

The remuneration policy is designed to encourage, reward and retain the executives and the Remuneration Committee believes that shareholders' interests are best served by remuneration packages which have a large emphasis on performance-related pay. Emphasis on performance should encourage executives to focus on delivering the business strategy and by providing meaningful incentives to executives to ensure that the appropriate balance between fixed and performance-related pay is maintained.

#### Remuneration policy 2006 and 2007

The Remuneration Committee applied a new policy during the year under review. The Committee decided, despite no formal requirement to do so, to follow best practice and carried out an extensive shareholder consultation exercise on the proposed new policy. A substantial majority of those shareholders consulted supported the proposed policy.

## Remuneration Committee report continued

### Overall policy

The Remuneration Committee's policy during the year was to set the main elements of the remuneration package at the following quartiles in comparison to the Company's Comparator Group:

Base salary	Annual bonus potential	Pension	Benefits in kind	Potential total short-term remuneration available	Potential annual share awards	Potential total compensation value
Lower quartile to median	Upper quartile	Lower quartile to median		Median to upper quartile	Upper quartile	Median to upper quartile
This supports the performance-based culture of the Company. Fixed costs are minimised and total short-term remuneration will only reach and exceed the median if the performance-based bonus is earned for the relevant financial year.					The policy in respect of long-term incentives and potential compensation value is an extension of the policy on total short-term remuneration. Executives will only receive a market competitive package if the annual bonus and long-term incentives are earned.	

### Hikma Pharmaceuticals PLC 2005 Long-Term Incentive Plan ("LTIP")

As part of the 2006 remuneration review, the Committee specifically considered how the Company's LTIP would be operated during 2006. The Committee decided to reduce the maximum permissible grant under the Plan from 400% of salary to 300% of salary and to introduce an effective operational cap at 200% of salary; in addition, after reviewing possible performance criteria for the release of awards (and taking into account the views of shareholders during the consultation) the Committee determined that a comparative total shareholder return measure would be the most appropriate performance condition. It is the view of the Committee that this performance condition remains appropriate to the Company's current circumstances and prospects and therefore will apply to any grants made to executives in 2007 (see later for further details on the LTIP). The policy applied during 2006 will continue to apply for 2007.

### 2006 and 2007 Comparator Group

The constituents of the Company's Comparator Group ("CG") for benchmarking remuneration during 2006 and which (to the extent not taken over) will continue to apply for 2007 are as follows:

Name	Name	Name
Acambis Plc	Barr Pharmaceuticals Inc	Oxford Biomedica Plc
Alizyme Plc	CAT Group Plc	Protherics Plc
Allergan Inc	Forest Laboratories Inc	Shire Pharmaceuticals PLC
Alpharma Inc	King Pharmaceuticals Inc	SkyePharma Plc
AstraZeneca PLC	Mylan Laboratories Inc	Vernalis PLC
Axis-Shield Plc	Neutec Pharma Plc	Watson Pharmaceuticals Inc

Factors the Remuneration Committee took into account when selecting the Comparator Group included:

- the industry within which the Company operates, specifically taking into account both the international nature of the Company's business and its competitors, and the international nature of the Company's current executive team and potential recruits to that team;
- the market capitalisation, turnover and number of employees of the Company; and
- the UK listing environment of the Company.

Throughout this report, references to quartiles are to quartiles in the Comparator Group.

### Ongoing review

The Remuneration Committee will continue to review the remuneration policy on an annual basis to ensure it remains appropriate for the relevant financial year. Factors taken into account by the Remuneration Committee include:

- market conditions affecting the Company;
- the recruitment market in the Company's sector;
- changing market practice;
- changing views of institutional shareholders and their representative bodies.

### Balance between fixed and variable performance-based compensation

The chart below demonstrates the balance between the potential fixed and variable performance-based compensation for each Executive Director for the year ended 31 December 2006.

Name	Fixed compensation is calculated as:	Variable performance compensation is calculated as:
	Salary benefits pension contribution	Maximum bonus available fair market value of maximum potential LTIP award
Samih Darwazah	28%	72%
Mazen Darwazah	33%	67%

### Elements of Executive Directors' remuneration

#### Basic salary

##### *Policy 2006 and 2007 – Lower quartile to median*

The Company's remuneration policy is to set the levels of base salary for the Executive Directors below the median to support a performance-based culture.

Name	2005 Salary	2006 Salary	2007 Salary	Rise	Median rise in Comparator Group
<b>Samih Darwazah</b>	\$375,818	<b>\$462,208</b>	\$462,208	0%	5.4%
Median			\$772,000		
Lower quartile			\$487,000		
<b>Mazen Darwazah</b>	\$280,128	<b>\$354,063</b>	\$371,766	5%	7.2%
Median			\$417,000		
Lower quartile			\$318,000		

The significant rises in the Executive Directors' salaries between 2005 and 2006 reflected:

- the increased responsibility and profile resulting from the Company's listing; and
- a desire by the Committee to move the salaries towards the lower quartile to median position in order to ensure both that the levels of compensation were competitive but also to ensure that no glass ceiling operated for the next level of management.

It should be noted that the change in the salaries of the Executive Directors between 2005 and 2006 was a one-off adjustment. The Committee's ongoing policy is more accurately demonstrated by their decision that only modest salary rises were required for 2007.

When determining the salary of the executives the Committee takes into consideration:

- the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity, in particular the lower quartile and median salary levels of those comparable companies within the pharmaceuticals industry and the Comparator Group;
- the performance of the individual Executive Director;
- the individual Executive Director's experience and responsibilities; and
- pay and conditions throughout the Company.



## Remuneration Committee report continued

### Annual performance-related bonus

#### *Policy 2006 and 2007 – Upper quartile bonus potential*

Bonus payments are not pensionable. The following tables summarise the main features of the Company's executive bonus plan.

Bonus	Samih Darwazah	Mazen Darwazah
<b>Company bonus potential</b>	100%	100%
Upper quartile	100%	68%
Median	68%	60%
<b>2006 bonus paid as percentage of salary</b>	95%	95%
Upper quartile bonus payments in the Comparator Group as a percentage of salary	81%	92%

The maximum target bonus potential is 100% of salary. It is possible for exceptional performance to earn up to a total maximum bonus of 200% of salary. The maximum bonus potentials for 2007 will remain the same as those that applied for 2006.

The bonuses for 2006 have been paid on the basis of the level of the satisfaction of the performance targets. The table below shows the principal performance targets used for 2006 and their percentage satisfaction.

	Percentage of maximum bonus potential subject to target	Percentage satisfaction of bonus target	Percentage of salary payable
<b>Samih Darwazah</b>			
Profit after tax	50%	90%	45%
Operational milestones	30%	100%	30%
Personal business targets	20%	100%	20%
<b>Total</b>			95%
<b>Mazen Darwazah</b>			
Profit after tax	50%	90%	45%
Operational milestones	30%	100%	30%
Personal business targets	20%	100%	20%
<b>Total</b>			95%

The targets for the annual bonus plan are reviewed and agreed by the Remuneration Committee each year to ensure that they are appropriate to the current market conditions and position of the Company in order to ensure that they continue to remain challenging. It is the opinion of the Committee that the nature of the performance conditions remains appropriate for 2007.

### Share incentives

#### *Policy 2006 and 2007 – Upper quartile*

The Remuneration Committee's policy is to provide annual share grants at the upper quartile level compared to the Comparator Group. Ongoing share incentives, excluding all employee plans, are provided to the Executive Directors solely through the LTIP. No further grants will be made to Executive Directors under any other discretionary share plan.

The Remuneration Committee did not grant any awards under the LTIP or any other discretionary share plan to the Executive Directors during 2006. It is intended to make grants to the Executive Directors under the LTIP in 2007 and on an ongoing basis. As there was no grant of awards in 2006 under the LTIP (or any other discretionary plan operated by the Company), the Remuneration Committee is proposing to increase the level of the 2007 grant to 300% of salary for both Executive Directors which is greater than the normal operating maximum grants (Samih Darwazah (200%) and Mazen Darwazah (175%)). The following points should be noted:

- the maximum annual grant limit under the LTIP approved by shareholders is 400% of salary, however, the Remuneration Committee did not feel that an appropriate balance between the interests of the Company, its shareholders and the Executive Directors would be met by doubling the 2007 grant in compensation for the lack of a 2006 grant; and
- this is a one-off situation and on an ongoing basis the Committee has no current intention to grant awards under the LTIP above 200% of salary (with a possible exception on the recruitment of new senior executives).

The Remuneration Committee believes that share awards under the LTIP enable the Company to provide a competitive incentive and retention tool which is also cost effective in respect of both shareholder dilution and income statement expense. Furthermore, the proposed grant of awards with the attached performance condition ensures that the Company's comparative Total Shareholder Return ("TSR"<sup>1</sup>) performance against the Comparator Group is at least at the upper quartile before Executives will receive the full benefit of their share incentives. This structure demonstrates the Remuneration Committee's desire to correlate incentive arrangements with the achievement of substantial performance. The following table summarises the main features of the LTIP and its proposed operation during 2007.

<sup>1</sup> Total Shareholder Return ("TSR") – is a measure showing the return on investing in one share of the Company over the performance period (the return is the value of the capital gain and reinvested dividends). It is normally used comparatively and the company which achieves the best return is ranked number one.

### Maximum annual grant face value<sup>2</sup> as percentage of salary and performance condition

#### *Maximum annual grant 300% (current normal operating maximum set by the Remuneration Committee 200%)*

The Awards will be subject to comparative TSR performance against the Comparator Group. 20% of Awards will be released for median performance with full release occurring for upper quartile comparative performance. The Remuneration Committee will also ensure that the underlying financial performance of the Company is consistent with its TSR performance. When considering this underlying financial performance the factors taken into account by the Remuneration Committee will include profit after tax, revenue growth and the achievement of operational milestones.

	Samih Darwazah	Mazen Darwazah
Proposed grants for 2007 Face Value as a percentage of salary	300%	300%

It should be noted that the real value received by the Executive Directors under the share incentive arrangements will be dependent upon the degree to which the performance conditions are satisfied at the end of the three year performance period and the share price of the Company at this time.

#### Basis of performance condition selection and measurement

Comparative TSR was selected as the performance condition for the proposed awards by the Remuneration Committee as it ensures that the Executives have outperformed their peers over the measurement period in delivering shareholder value before being entitled to receive any of their awards irrespective of general market conditions. The Remuneration Committee will provide a full explanation and justification at the time of the release of the award and why it believes that the underlying financial performance of the Company is consistent with this TSR performance.

The Remuneration Committee determines whether the performance conditions for share awards are satisfied, and where appropriate will consult with independent external advisors to calculate the TSR in accordance with the rules of the LTIP and sign-off these figures prior to the release of any award.

#### Dilution

In accordance with the guidelines set out by the Association of British Insurers ("ABI") the Company can issue a maximum of 10% of its issued share capital in a rolling ten year period to employees under all its share plans. Under the LTIP rules, grants of no more than 3% of the issued ordinary share capital of the Company may be awarded in the first three years following the Company's IPO. The Company has not made any grants of shares since the IPO.

#### Post-employment benefits

##### *Policy 2006 and 2007 – Lower quartile to median*

The Executive Directors participate in the Hikma Pharmaceuticals Defined Contribution Retirement Benefit Plan (the "Benefit Plan") in accordance with the Rules of the Benefit Plan relevant to employees of the Group based in Jordan. Under the Benefit Plan the Group matches employee contributions made to the Benefit Plan. These are fixed at 5% of applicable salary. Participants are entitled to 30% of the Group's contributions to the Benefit Plan after three years of employment with the Group, and an additional 10% in each subsequent year. The participant's interest in the Group's contribution fully vests after ten years of employment. It should be noted that the change in UK pension legislation on 6 April 2006 has had no effect on the Company's executive pension provision due to the location of the Company's executives.

The following table sets out the percentage post employment contributions compared to the Comparator Group.

	Samih Darwazah	Mazen Darwazah
<b>Company</b>	1.3%	2.1%
Upper quartile	17%	9%
Median	9%	2%
Lower quartile	0%	0%

In addition, pursuant to applicable law, each of the Executive Directors receives contributions as a percentage of salary which are paid by the Group into government social security systems.

<sup>2</sup> Face value for awards under the LTIP face value is the aggregate market value of the shares subject to the award at the date of grant.

## Remuneration Committee report continued

### Benefits in Kind

#### *Policy 2006 and 2007 – Market practice*

The Company provides the normal benefits in kind for executives of this level in a company of this size, such as company cars, healthcare and life insurance.

### Total compensation

#### *Policy 2006 and 2007 – Median to upper quartile depending on performance*

The following table shows the value of each of the main elements of the remuneration package provided to the Executive Directors during the year ended 31 December 2006.

Name	Salary \$000s	Bonus paid \$000s	Benefits \$000s	Total payments \$000s	FMV LTIP \$000s	Total Actual and FMV \$000s	Total in 2005 CG at median \$000s
<b>Samih Darwazah</b>	\$462	\$440	\$52	\$954	\$0	\$954	\$2,056
<b>Mazen Darwazah</b>	\$354	\$336	\$98	\$788	\$0	\$788	\$1,062

### Other remuneration matters

#### Directors' Shareholding Policy

The Remuneration Committee does not currently have a formal shareholding requirement due to the substantial shareholdings of the Executive Directors. The Committee, however, wholeheartedly supports the alignment of interests created by a minimum level of executive shareholding and should the make-up of the Board change would consider the introduction of a formal shareholding requirement.

#### All-employee share arrangements

Historically the Company has used options to provide share incentives to employees of the Company. While options may continue to be a part of the compensation package for those employees who do not participate in the LTIP, the Company is in the process of deciding whether to operate a Company-wide all-employee share purchase and matching plan. The preliminary view of the Board is that this type of arrangement has the same cost vs. benefit advantages behind the change from options to LTIP awards and is important in supporting the engagement of employees with the business as a whole. The main features of the Hikma Pharmaceuticals PLC 2006 Share Incentive Plan ("SIP") are set out below. Shares required to satisfy awards under the SIP will be purchased in the market.

Name	Status	Eligibility	Main features
SIP	Decision on implementation in 2007	All employees of the Company including the Executive Directors.	The Plan provides employees with the opportunity of purchasing £1,500 (or local currency equivalent) of shares a year out of salary and providing additional matching shares on a 1:1 ratio. These matching shares will be normally released three years after they have been awarded provided that the associated shares purchased by the employee have been retained and provided the employee is still employed by a Group Company at this time.

### Executive Directors' contracts

Details of the service contracts of the Executive Directors of the Company are as follows:

Name	Company notice period	Contract date	Unexpired term of contract	Potential termination payment
<b>Samih Darwazah</b>	12 months	25 May 2006	Rolling contract	12 months' salary and benefits
<b>Mazen Darwazah</b>	12 months	25 May 2006	Rolling contract	12 months' salary and benefits

The Executive Directors' contracts are on a rolling basis, unless terminated by at least 12 months' written notice. This arrangement is in line with best corporate practice for listed companies. In the event of the termination of an Executive's contract, salary and benefits will be payable during the notice period (there will, however, be no automatic entitlement to bonus payments or share incentive grants during the period of notice other than in accordance with the rules of the relevant incentive plan). The Remuneration Committee will ensure that there have been no unjustified payments for failure on an Executive Director's termination of employment. There are no special provisions in the contracts of employment extending notice periods on a change of control, liquidation of the Company or cessation of employment.

## External Appointments

The Committee recognises that Executive Directors may be invited to take up non-executive directorships or public sector appointments, and that these can broaden the experience and knowledge of the director, from which the Company can benefit. Executive Directors may therefore accept non-executive appointments as long as they do not lead to a conflict of interest, and are allowed to retain any fees paid under such appointments. During the year under review, Mazen Darwazah received fees of USD\$36,150 in respect of such appointments.

## Non-Executive Directors' fees

### *Policy 2006 and 2007 – Upper quartile*

The remuneration of the Non-Executive Directors is determined by the Board based upon recommendations from the Chairman/ Chief Executive Officer and Executive Vice Chairman and is within the limits set by the Articles of Association.

In light of the review of Executive Director remuneration in 2006, it was considered appropriate to appoint Halliwell Consulting to undertake a review of the levels of Non-Executive Directors' fees paid. The nature of the Company's business is international, requiring the Non-Executive Directors to travel to the USA, Middle East and Europe, and the Nomination Committee has therefore looked for Non-Executive Directors with a wide range of experience both in the UK and internationally. The use of options for Non-Executive Directors is very prevalent in the US and also to some extent internationally. However, as a UK listed company complying with UK best practice the Board do not feel it is appropriate to grant options to the Company's Non-Executive Directors. To ensure that the Company is able to attract the appropriate calibre of candidate and to take account of its inability to grant options, the Board has set its fee policy at the upper quartile.

The individual basic and committee fees, which are paid in Pound Sterling, are as follows:

Name	2006 Total fee £000s	2007 Basic fee £000s	Committee fee £000s	Total fee £000s	Upper quartile fees in CG £000s**
Michael Ashton	46	57	7	64	59
Ali Al-Husry	41	57	–	57	53
Breffni Byrne	53	57	14	71	70
Ronald Goode*	41	57	–	57	53
Sir David Rowe-Ham	46	57	7	64	59

\*The fees of Ronald Goode, who has only served part of the year, have been annualised on the same basis as the remuneration of his fellow Non-Executive Directors to allow the levels to be compared to other Non-Executive Directors of the Company and his peers within the Comparator Group.

\*\*In calculating the fees in the Comparator Group, the fees of the US companies were converted to £Sterling at a rate of USD\$1.75, being the rate at the date of review in 2006.

It should be noted that the Board determined to increase the fees of the Non-Executive Directors because of the following factors:

- in order to recruit an additional Non-Executive Director of the appropriate calibre the Board was required to increase the level of fees offered. This necessitated a change in the fees for all the Company's Non-Executive Directors;
- the Board was able to measure the actual time commitment required from Non-Executive Directors which was not reflected in the historic level of fees; and
- to take account of the inability to grant options.

Non-Executive Directors do not participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions or other benefits provided by the Company. The Non-Executive Directors do not have service contracts, but have letters of appointment with the Company. Each appointment is terminable on one month's notice from either the Company or the Director, but is envisaged to be for an initial period of up to 36 months, subject to the terms of the Company's Articles of Association, the Companies Act and shareholder approval.

Name	Effective date of appointment	Notice payment
Michael Ashton	14 October 2005	1 month
Ali Al-Husry	14 October 2005	1 month
Breffni Byrne	14 October 2005	1 month
Ronald Goode	12 December 2006	1 month
Sir David Rowe-Ham	14 October 2005	1 month

Ronald Goode, who as a Non-Executive Director does not have a service contract, will be proposed for re-election at the next Annual General Meeting of the Company.

## Remuneration Committee report **continued**

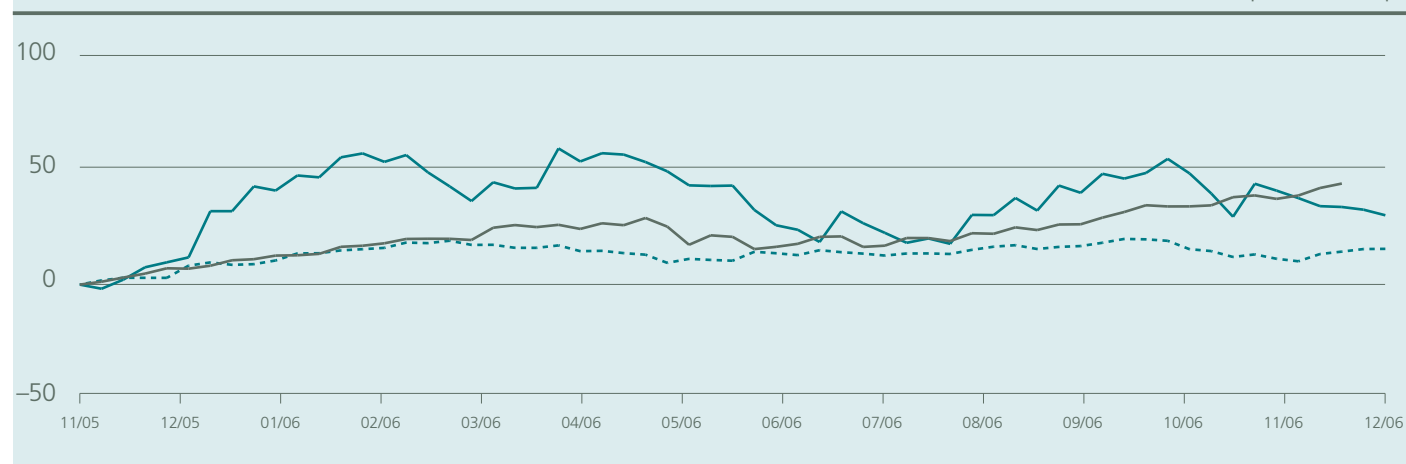
### Total Shareholder Return performance graph

The graph shows the Company's performance, measured by total shareholder return ("TSR"), compared to the constituents of the Comparator Group and FTSE 250 Index for the period 1 November 2005 to 31 December 2006. The Comparator Group has been selected as it is the group of companies whose performance the Company is compared to in determining the release of awards under the LTIP. The FTSE 250 Index has been selected to provide a broader comparator of the Company's performance and is the main Index in which the Company's shares are included.

### Total Shareholder Return from 1 November 2005

(percent)

— FTSE 250 Index — Hikma Pharmaceuticals PLC - - - Comparator Group



### Audited information

#### Aggregate Directors' remuneration for 2005 and 2006

The total amounts for Directors' remuneration were as follows:

	2006 US\$	2005 US\$
Emoluments	<b>2,094,372</b>	1,526,936
Compensation for loss of office	-	-
Gains on exercise of share options	<b>2,132,149</b>	-
Amounts receivable under long-term incentive schemes	-	-
Money purchase pension contributions	-	-
<b>Total</b>	<b>4,226,521</b>	1,526,936



## Directors' emoluments and compensation

Director	Fees/Basic salary US\$	Other benefits** US\$	Annual bonuses US\$	2006 Total US\$	2005 Total US\$
<b>Executives</b>					
Samih Darwazah	462,208	51,998	440,000	954,206	930,509
Mazen Darwazah	354,063	98,501	336,000	788,564	529,107
<b>Non-Executives</b>					
Ali Al-Husry	75,503	–	–	75,503	20,073
Michael Ashton	85,680	–	–	85,680	14,881
Breffni Byrne	98,709	–	–	98,709	17,485
Ronald Goode*	6,030	–	–	6,030	–
Sir David Rowe-Ham	85,680	–	–	85,680	14,881
Aggregate emoluments	1,167,873	150,499	776,000	2,094,372	1,526,936

\*The emoluments for 2006 of Ronald Goode reflect the fees paid to him from 12 December 2006, the date of his appointment until the year end.

\*\*Other Benefits include provision of health insurance, company car, medical expenses and statutory contributions to government social security funds.

## Directors' post-employment benefits

Each of the Executive Directors received contributions to the Hikma Pharmaceuticals Defined Contribution Retirement Benefit Plan (Jordan) during the year under review. The contributions paid by the Group were as follows:

Director	2006 US\$	2005 US\$
Samih Darwazah	6,265	5,042
Mazen Darwazah	7,441	4,192

## Directors' interests in shares

Director	Preference shares of £1		Ordinary shares of 10 pence	
	1 January 2006	31 December 2006	1 January 2006	31 December 2006
Samih Darwazah	24,999	–	1,074,506	1,394,506
Mazen Darwazah	24,999	–	561,958	561,958
Michael Ashton	–	–	–	4,566
Ali Al Husry	–	–	1,109,748	1,145,124
Breffni Byrne	–	–	10,000	10,000
Ronald Goode	–	–	–	–
Sir David Rowe-Ham	–	–	10,000	10,000
Total shares:	49,998	–	2,766,212	3,126,154

The preference shares held by the Executive Directors as at 1 January 2006 were redeemed by the Company on 9 February 2006. There have been no changes in the Directors' interests share capital between the 31 December 2006 and the date of this document.

## Remuneration Committee report continued

### Directors' share options

The aggregate emoluments disclosed above do not include any amounts or the value of options to acquire ordinary shares in the capital of the Company granted or held by the Executive Directors.

Options granted under the 2004 Plan are not subject to performance criteria, though vesting of options under the 2004 Plan was conditional on the successful listing of the Company's share on the London Stock Exchange. During the year under review, the CEO exercised options over 320,000 Ordinary Shares of the Company. No other options were exercised by Directors during the year and no options expired unexercised. Furthermore, there were no variations to the terms and conditions of share options during the year.

### Hikma Pharmaceuticals PLC 2004 Stock Option Plan

Director	Number of options			Exercise price (US\$)	Price paid for award	Initial date of vesting**	Date of expiry
	As at 31 December 2006	As at 1 January 2006	Exercised during year†				
Samih Darwazah	1,280,000	1,600,000	320,000	0.9075*	–	1 Nov 2005	11 Oct 2014
Mazen Darwazah	800,000	800,000	–	0.9075*	–	1 Nov 2005	11 Oct 2014

\*Representing the exercise price of options following the share re-organisation undertaken on 31 October 2005. Options were awarded on 12 October 2004 with an exercise price of US\$3.63.

\*\*Share options became exercisable following the successful listing of the Company's shares on the London Stock Exchange. Options under the 2004 Plan have phased vesting over five years, with 20% vesting each year on the anniversary of award, being 12 October in each subsequent year.

†The closing market price for an Ordinary Share on the date of exercise, being 3 October 2006, was 403.5 pence. Based on the US Dollar/Sterling exchange rate on that date of £1:US\$1.8762, this gave a notional gain on exercise of US\$2,132,149. All of the shares being the subject of the options exercise were retained by the option holder.

The closing market price for the Ordinary Shares on 29 December 2006 was 365.25 pence. During the period from 1 January 2006 to the year-end the share's closing price ranged from a low of 329.5 pence to a high of 458 pence.

### Long-term incentive schemes

No awards were made to Executive Directors under the Hikma Pharmaceuticals 2006 Long-Term Incentive Scheme during the period under review.

### Audit

The emoluments and Directors' interests' information disclosed in the Directors' report on remuneration, which is required by Part 3 of Schedule 7A of the Companies Act 1985 (as amended), has been audited.

Approved by the Board of Directors on 21 March 2007 and signed on its behalf

### Michael Ashton

Chairman of the Remuneration Committee

## Statement of Directors' responsibilities

Directors' statements of responsibility in relation to the consolidated financial statements:

The Directors are required by law to prepare consolidated financial statements of Hikma Pharmaceuticals PLC and its subsidiaries (together "the Group") in accordance with the Companies' Act 1985, International Financial Reporting Standards and Article 4 of the IAS regulation.

The Directors are responsible for preparing the Annual Report and the financial statements.

International Accounting Standard 1 requires that the financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance.

The Directors confirm that the financial statements comply with these requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and irregularities and the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies' Act 1985.

The Directors are responsible for the maintenance and integrity of the Company's website where the Group's Annual Report and accounts are available. Information published on the internet is accessible in many countries where legal requirements may differ from the United Kingdom's legislation relating to the preparation and dissemination of financial statements.

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

We have audited the Group financial statements of Hikma Pharmaceuticals PLC for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 39. The Group's financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the individual company financial statements of Hikma Pharmaceuticals PLC for the year ended 31 December 2006.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report, the Directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group financial statements and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group's financial statements give a true and fair view, whether the Group's financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether, in our opinion, the information given in the Directors' report is not consistent with the Group financial statements.

In addition, we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the annual report as described in the contents section and consider whether it is consistent with the Group's

financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group's financial statements. Our responsibilities do not extend to any further information outside the annual report.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group's financial statements and the part of the Directors' remuneration report to be audited.

## Opinion

In our opinion:

- the Group's financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Group's financial statements have been properly prepared in accordance with the Companies Act and Article 4 of the IAS Regulation;
- the Group's financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group's financial statements.

## Separate opinion in relation to IFRS

As explained in Note 1 of the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended.

## Deloitte & Touche LLP

Chartered Accountants  
and Registered Auditors  
London, United Kingdom

21 March 2007



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## Financial Statements

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## Consolidated income statement for the year ended 31 December 2006

	Notes	2006 \$000's	2005 \$000's
<b>Continuing operations</b>			
Revenue	2	<b>317,022</b>	262,215
Cost of sales	2	<b>(158,492)</b>	(126,424)
<b>Gross profit</b>	2	<b>158,530</b>	135,791
Sales and marketing costs		<b>(35,014)</b>	(27,367)
General and administrative expenses		<b>(30,328)</b>	(22,610)
Research and development costs		<b>(18,291)</b>	(16,507)
Other operating expenses (net)	5	<b>(588)</b>	(1,548)
<b>Total operating expenses</b>		<b>(84,221)</b>	(68,032)
Share of results of associates	14	<b>938</b>	1,449
<b>Operating profit</b>	2	<b>75,247</b>	69,208
Flotation costs	6	<b>–</b>	(1,426)
Finance income	7	<b>5,258</b>	1,562
Finance costs	8	<b>(4,958)</b>	(5,211)
Other income		<b>49</b>	276
<b>Profit before tax</b>		<b>75,596</b>	64,409
Tax	9	<b>(19,639)</b>	(19,452)
<b>Profit for the year</b>	3	<b>55,957</b>	44,957
Attributable to:			
Minority interest	30	<b>1,435</b>	1,090
<b>Equity holders of the parent</b>		<b>54,522</b>	43,867
		<b>55,957</b>	44,957
<b>Earnings per share (cents)</b>			
Basic	11	<b>32.6</b>	30.0
Diluted	11	<b>31.0</b>	28.3

## Consolidated balance sheet at 31 December 2006

	Notes	2006 \$000's	2005 \$000's
<b>Non-current assets</b>			
Intangible assets	12	23,940	7,735
Property, plant and equipment	13	156,845	91,209
Interest in associate	14	–	7,552
Due from associate		–	2,304
Deferred tax assets	15	5,719	1,506
Available for sale investments	16	776	1,439
Financial and other non-current assets	17	1,242	1,276
		<b>188,522</b>	113,021
<b>Current assets</b>			
Inventories	18	83,720	58,017
Income tax recoverable		500	1,320
Trade and other receivables	19	121,846	82,634
Collateralised cash	20	5,337	5,120
Cash and cash equivalents	21	86,227	135,959
Other current assets		2,204	1,891
		<b>299,834</b>	284,941
<b>Total assets</b>		<b>488,356</b>	397,962
<b>Current liabilities</b>			
Bank overdrafts and loans	22	35,614	21,146
Obligations under finance leases	26	1,216	797
Trade and other payables	23	53,916	44,017
Income tax provision		8,535	5,965
Other provisions	24	2,577	1,233
Other current liabilities		4,868	3,542
		<b>106,726</b>	76,700
<b>Net current assets</b>		<b>193,108</b>	208,241
<b>Non-current liabilities</b>			
Long-term financial debts	25	25,339	30,791
Deferred income		356	416
Obligations under finance leases	26	4,441	1,411
Deferred tax liabilities	15	1,695	1,162
		<b>31,831</b>	33,780
<b>Total liabilities</b>		<b>138,557</b>	110,480
<b>Net assets</b>		<b>349,799</b>	287,482
<b>Equity</b>			
Share capital	29	29,712	29,457
Share premium		111,431	110,074
Reserves		203,924	144,350
Equity attributable to equity holders of the parent		345,067	283,881
Minority interest	30	4,732	3,601
<b>Total equity</b>		<b>349,799</b>	287,482

The financial statements were approved by the Board of Directors and signed on its behalf by:

**Samih Darwazah** Director  
**Mazen Darwazah** Director

21 March 2007

## Consolidated statement of changes in equity for the year ended 31 December 2006

	Merger reserve \$000's	Retained earnings \$000's	Other reserves* \$000's	Total reserves \$000's	Share capital \$000's	Share premium \$000's	Total equity attributable to equity shareholders of the parent \$000's
Balance at 1 January 2005	33,920	82,140	1,348	117,408	25,269	(187)	142,490
Issue of equity shares	–	–	–	–	4,188	120,725	124,913
Cost of equity settled employee share scheme	–	712	–	712	–	–	712
Expenses of issue of equity shares	–	–	–	–	–	(10,810)	(10,810)
Sale of treasury shares	–	–	–	–	–	346	346
Deferred tax arising on share options	–	960	–	960	–	–	960
Dividends on ordinary shares	–	(17,800)	–	(17,800)	–	–	(17,800)
Profit for the year	–	43,867	–	43,867	–	–	43,867
Cumulative effect of change in fair value of available for sale investments	–	980	–	980	–	–	980
Cumulative effect of change in fair value of financial derivatives	–	164	–	164	–	–	164
Currency translation loss	–	–	(1,941)	(1,941)	–	–	(1,941)
<b>Balance at 31 December 2005 and 1 January 2006</b>	<b>33,920</b>	<b>111,023</b>	<b>(593)</b>	<b>144,350</b>	<b>29,457</b>	<b>110,074</b>	<b>283,881</b>
Issue of equity shares	–	–	–	–	255	1,357	1,612
Cost of equity settled employee share scheme	–	879	–	879	–	–	879
Deferred and current tax arising on share options	–	2,352	–	2,352	–	–	2,352
Dividends on ordinary shares	–	(6,509)	–	(6,509)	–	–	(6,509)
Profit for the year	–	54,522	–	54,522	–	–	54,522
Cumulative effect of change in fair value of available for sale investments	–	(663)	–	(663)	–	–	(663)
Cumulative effect of change in fair value of financial derivatives	–	27	–	27	–	–	27
Revaluation reserve	–	–	4,807	4,807	–	–	4,807
Currency translation gain	–	–	4,159	4,159	–	–	4,159
<b>Balance at 31 December 2006</b>	<b>33,920</b>	<b>161,631</b>	<b>8,373</b>	<b>203,924</b>	<b>29,712</b>	<b>111,431</b>	<b>345,067</b>

\*Other reserves comprise the revaluation reserve (see note 31) and the cumulative translation reserve.



## Consolidated cash flow statement for the year ended 31 December 2006

	Notes	2006 \$000's	2005 \$000's
<b>Net cash from operating activities</b>	32	<b>35,250</b>	32,713
<b>Investing activities</b>			
Purchases of property, plant and equipment		(49,725)	(23,423)
Proceeds from disposal of property, plant and equipment		453	873
Purchase of intangible assets		(2,715)	(562)
Investment in financial and other assets		34	(78)
Investment in available for sale securities		–	(35)
Reduction of cash deposits		–	7,692
Acquisition of subsidiary undertakings		(21,633)	(825)
Cash acquired on acquisition of subsidiary		860	4
<b>Net cash used in investing activities</b>		<b>(72,726)</b>	(16,354)
<b>Financing activities</b>			
Proceeds from the sale of treasury shares		–	346
Increase in collateralised cash		(217)	(5,120)
Increase in long-term financial debts		495	25,583
Repayment of long-term financial debts		(12,881)	(20,895)
Increase/(decrease) in short-term borrowings		1,244	(15,659)
Increase/(decrease) in obligations under finance leases		3,449	(3,109)
Dividends paid		(6,989)	(17,800)
Dividends paid to minority shareholders		(294)	(130)
Proceeds from issue of new shares		1,612	124,913
Costs of issue of new shares		–	(10,810)
<b>Net cash (used in)/from financing activities</b>		<b>(13,581)</b>	77,319
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(51,057)</b>	93,678
<b>Cash and cash equivalents at beginning of year</b>		<b>135,959</b>	41,415
Foreign exchange translation		1,325	866
<b>Cash and cash equivalents at end of year</b>		<b>86,227</b>	135,959

# Notes to the consolidated financial statements

## 1. Significant accounting policies

### Basis of accounting

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

The Group's previously published financial statements were also prepared in accordance with International Financial Reporting Standards. These International Financial Reporting Standards have been subject to amendment and interpretation by the International Accounting Standards Board and the financial statements presented for the years ended 31 December 2005 and 31 December 2006 have been prepared in accordance with those revised standards. Unless stated otherwise these policies are in accordance with the revised standards that have been applied throughout the year and prior years presented in these financial statements.

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 (\$).

The significant accounting policies are set out below.

### 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") and the Group's share of the results and net assets of its associates. Control is achieved where the Company has the power to govern the financial and operating policies either directly or indirectly of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition 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, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combination" 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 cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. 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 business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the balance sheet at cost as adjusted by 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 the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Groups' interest in the relevant associate.

## 1. Significant accounting policies (continued)

### Intangible assets

(a) Goodwill: arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

(c) Product related intangibles: include product files and under-licenced products are assigned indefinite useful lives which are reviewed for impairment at least annually; any impairment is recognised immediately in profit and loss and is not subsequently reversed.

(d) Purchased software: is amortised over three years.

(e) 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 of 15 years.

### Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars, the functional currency of Hikma Pharmaceuticals PLC and the presentation currency for the consolidated financial statements.

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

Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value and the related foreign exchange are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such cumulative translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### Revenue recognition

Revenue is recognised in the income statement when goods or services are supplied or made available to external customers against orders received and when title and risk of loss has passed.

Revenue represents the amounts receivable after the deduction of discounts, value added tax, other sales taxes, and allowances given 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 and past experience.

### Chargebacks

The provision for chargebacks is the most significant and complex estimate used in the recognition of revenue. In the USA 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 the 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.

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## 1. Significant accounting policies (continued)

### *Returns and rebates*

In certain countries and consistent with industry practice, the Group has a product return policy that allows selected customers to return the product within a specified period prior to and subsequent to the expiration date, in exchange for a credit to be applied to future purchases.

The Group estimates its provision for returns and rebates based on historical experience, changes to business practices and credit terms. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Group continually monitors the provisions for returns and rebates, and makes adjustments when it believes that actual product returns may differ from established reserves.

### *Price adjustments*

Price adjustments, also known as "shelf stock adjustments," are credits issued to reflect decreases in the selling prices of the Group's products that customers have remaining in their inventories at the time of the price reduction. Decreases in selling prices are discretionary decisions made by Group management to reflect competitive market conditions. Amounts recorded for estimated shelf stock adjustments are based upon specified terms with direct customers, estimated declines in market prices and estimates of inventory held by customers. The Group regularly monitors these and other factors and re-evaluates the reserve as additional information becomes available.

### *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. 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 profit or loss 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 capital 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.

Assets held under capital 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 income statement over the expected useful lives of the assets concerned.

### *Research and development*

Research and development expenses are fully charged to the income statement, as the Group considers that the regulatory and other uncertainties inherent in the development of its products generally mean that the recognition criteria in IAS 38 "Intangible assets" are not met. Where, however the recognition criteria are met, intangible assets will be recognised and amortised over their useful economic life.

### *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.

## 1. Significant accounting policies (continued)

### Tax

The Group provides for income tax according to the laws and regulations prevailing in the countries where the Group operates. Furthermore, the Group computes and records deferred tax assets and liabilities according to IAS 12 "Income Taxes".

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the 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.

### Share-based payment transactions

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

### Equity-settled transactions

IFRS 2 "Share-based Payment" requires an expense to be recognised when the Group buys goods or services in exchange for shares or rights over shares or in exchange for other equivalent assets.

The cost of equity-settled 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 is determined using a binomial model. The expected life used in the model 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 34). In valuing equity-settled transactions, 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 equity-settled transactions 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 shares that will eventually vest. No expense is recognised for awards that do not ultimately vest. Where the terms of an equity-settled 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 an equity-settled 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 in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

### Property, plant and equipment

Property, plant and equipment have been valued at cost on acquisition and are depreciated, except for land, on a straight-line basis at the following depreciation rates:

Buildings	2% to 4%
Vehicles	10% to 20%
Machinery and equipment	5% to 20%
Fixtures & equipment	8% to 33%



## 1. Significant accounting policies (continued)

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 leased property 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 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 income statement.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Purchased products are valued at acquisition cost and all other costs incurred in bringing each product to its present location and condition. Cost of own-manufactured products comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. In the balance sheets, 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 income statement. Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and all estimated costs necessary to make the sale. Provisions are made for inventories with net realisable value lower than cost or for slow moving inventory.

### Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

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 forward foreign exchange contracts. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are initially recognised in the balance sheet at cost and then remeasured at subsequent reporting dates to fair value. Hedging derivatives are classified on inception as fair value hedges, cash flow hedges or net investment hedges. Changes in the fair value of derivatives designed as fair value hedges are recorded in the income statement, with the changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivatives designed as cash flow hedges are recognised in equity. Amounts deferred in equity are transferred to the income statement in line with the hedged forecast transaction.

Hedges of net investments in foreign entities are accounted for in a similar way to cash flow hedges.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

### Investments

Available for sale investments with quoted market prices are initially recognised at cost on acquisition and remeasured to their fair values at year-end. Gains or losses on remeasurement to fair value are recognised in shareholders' equity until the investments are sold, disposed of, or determined to be impaired, at which time the cumulative gains or loss relating to these investments previously recognised in equity is included in the income statement. Available for sale financial assets without market prices 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 income statement.

The fair value of quoted financial assets represents the closing price in the financial markets at the date of the financial statements. However, the fair value of unquoted financial assets, or those with no declared price are estimated by comparing the fair value of a similar financial instrument or through a discounted cash flow method.

### Accounts receivable

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

## 1. Significant accounting policies (continued)

### *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.

### *Bank borrowings*

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### *Trade payables*

Trade payables are not interest bearing and are stated at fair value.

### *Equity instruments*

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

### *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

### *Impairment of tangible and intangible assets excluding goodwill*

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or income-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (income-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

### *New accounting policies and future requirements*

The following IFRS and IFRIC interpretation have been issued by the IASB and are likely to affect future annual reports.

**IFRS 7 "Financial instruments: disclosures"** was issued in August 2005 and is required to be implemented by the Group from 1 January 2007. This new standard incorporates the disclosure requirements of IAS 32, which it supersedes, and adds further quantitative and qualitative disclosures in relation to financial instruments.

**IFRS 8 "Operating Segments"** IFRS 8 replaces IAS 14 "Segment Reporting" and requires an entity to adopt a "management approach" whereby the segment information reported will be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Subject to its endorsement by the European Union, the Group must adopt IFRS 8 by 2009.

**IFRIC 8 "Scope of IFRS 2"** IFRIC 8 clarifies that IFRS 2 "Share-based Payment" applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. The Group will adopt IFRIC 8 in 2007.

**IFRIC 10 "Interim Financial Reporting and Impairment"** IFRIC 10 clarifies that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. Subject to its endorsement by the European Union, the Group will adopt IFRIC 10 in 2007.

**IFRIC 11 "Group and Treasury Share Transactions"** IFRIC 11 clarifies that share-based incentive involving an entity's own equity instruments in which the entity chooses or is required to buy its own instruments to settle the obligation should always be accounted for as an equity-settled award and also provides guidance on the accounting for share-based incentives provided to the employees of a subsidiary in the subsidiary's financial statements. Subject to its endorsement by the European Union, the Group will adopt IFRIC 11 in 2007.

Management does not expect that these pronouncements will have a material impact on the Group's results or financial position, but IFRS 7 and IFRS 8 will affect the disclosure of information in the Group's financial statements.

## 2. Business and geographical segments

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

Segment information about these businesses is presented below.

Year ended 31 December 2006	Generics \$000's	Branded \$000's	Injectables \$000's	Corporate and other \$000's	Group \$000's
Revenue	113,674	130,114	67,570	5,664	317,022
Cost of sales	(53,911)	(60,642)	(39,225)	(4,714)	(158,492)
Gross profit	59,763	69,472	28,345	950	158,530
<b>Result</b>					
Segment result	36,011	39,379	13,360	(1,200)	87,550
Unallocated corporate expenses	–	–	–	–	(13,241)
Share of results of associates	–	938	–	–	938
Operating profit					75,247
Finance income					5,258
Finance costs					(4,958)
Other income					49
Profit before tax					75,596
Tax					(19,639)
Profit for the year					55,957
Attributable to:					
Minority interest					1,435
Equity holders of the parent					54,522
					55,957
<b>Other information 2006</b>					
Additions to property, plant and equipment assets (cost)	7,569	21,953	21,184	2,465	53,171
Acquisition of subsidiary's property, plant and equipment (cost)	–	34,400	–	–	34,400
Additions to intangible assets	–	1,494	1,200	21	2,715
Intangible assets arising on acquisition	–	14,929	–	–	14,929
Total property, plant and equipment and intangible assets (net book value)	28,847	89,159	53,557	9,222	180,785
Depreciation and amortisation	4,321	5,376	2,730	1,370	13,797
<b>Balance sheet</b>					
<b>Total assets</b>					
Segment assets	95,510	233,323	72,750	86,773	488,356
<b>Total liabilities</b>					
Segment liabilities	8,054	85,212	31,157	14,134	138,557

**2. Business and geographical segments (continued)**

Year ended 31 December 2005	Generics \$000's	Branded \$000's	Injectables \$000's	Corporate and other \$000's	Group \$000's
Revenue	115,208	93,012	49,303	4,692	262,215
Cost of sales	(52,861)	(39,297)	(30,883)	(3,383)	(126,424)
Gross profit	62,347	53,715	18,420	1,309	135,791
<b>Result</b>					
Segment result	38,765	28,764	8,486	(27)	75,988
Unallocated corporate expenses	–	–	–	–	(8,229)
Share of results of associates	–	1,449	–	–	1,449
Operating profit					69,208
Flotation costs					(1,426)
Finance income					1,562
Finance costs					(5,211)
Other income					276
Profit before tax					64,409
Tax					(19,452)
Profit for the year					44,957
Attributable to:					
Minority interest					1,090
Equity holders of the parent					43,867
					44,957

Other information 2005	Generics \$000's	Branded \$000's	Injectables \$000's	Corporate and other \$000's	Group \$000's
Additions to property, plant and equipment assets (cost)	4,385	12,364	7,770	1,680	26,199
Acquisition of subsidiary's property, plant and equipment (cost)	–	–	9,857	–	9,857
Additions to intangible assets	–	282	3,939	–	4,221
Total property, plant and equipment and intangible assets (net book value)	25,600	33,844	30,408	9,092	98,944
Depreciation, amortisation and impairment charge	4,879	2,273	2,133	1,040	10,325
Total interest in associated companies	–	7,552	–	–	7,552

**Balance sheet****Total assets**

Segment assets	122,831	135,799	50,219	89,113	397,962
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**Total liabilities**

Segment liabilities	13,207	58,105	25,237	13,931	110,480
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## 2. Business and geographical segments (continued)

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

	Sales revenue by geographical market For the years ended 31 December	
	2006 \$000's	2005 \$000's
United States	<b>129,778</b>	130,454
Europe and Rest of the World	<b>29,543</b>	20,478
Middle East and North Africa	<b>157,701</b>	111,283
	<b>317,022</b>	262,215

The following is an analysis of the additions to property, plant and equipment and intangible assets, an analysis of total property, plant and equipment and intangible assets and an analysis of total assets by the geographical area in which the assets are located:

	Additions* to property, plant and equipment and intangibles		Total property, plant and equipment and intangibles		Total assets	
	2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
United States	<b>7,569</b>	4,385	<b>28,848</b>	25,600	<b>94,466</b>	122,832
Europe	<b>22,804</b>	21,573	<b>53,898</b>	31,431	<b>149,057</b>	115,587
Middle East and North Africa	<b>74,842</b>	14,319	<b>98,039</b>	41,913	<b>244,833</b>	159,543
	<b>105,215</b>	40,277	<b>180,785</b>	98,944	<b>488,356</b>	397,962

\*Additions include property, plant and equipment and intangibles acquired with and arising on the acquisition of subsidiary undertakings.

## 3. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	For the years ended 31 December	
	2006 \$000's	2005 \$000's
Net foreign exchange gains	<b>(793)</b>	(217)
Research and development costs	<b>18,291</b>	16,507
Loss on sale of property, plant and equipment	<b>59</b>	440
Depreciation of property, plant and equipment	<b>12,468</b>	8,909
Amortisation and impairment of intangible assets	<b>1,329</b>	1,416
Cost of inventories recognised as expense	<b>100,552</b>	83,648
Write-down of inventories	<b>1,273</b>	855
Staff costs (see Note 4)	<b>67,777</b>	51,889
Auditors' remuneration (see overleaf)	<b>1,447</b>	1,059



### 3. Profit for the year (continued)

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below.

	For the years ended 31 December	
	2006 \$000's	2005 \$000's
Audit of the Company's annual accounts	360	279
Audit of the Company's subsidiaries pursuant to legislation	476	365
Total audit fees	836	644
Taxation		
– Compliance services	94	50
– Advisory services	195	–
Corporate finance related services	132	–
Other services*	192	365
Total non-audit fees	612	415
Total fees	1,447	1,059

\*In 2005, \$212,000 relates to work performed on the IPO which was charged to the income statement. Additional fees of \$1,995,000 in relation to the IPO were set off against the share premium account in 2005.

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 29 and 30 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

### 4. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2006 Number	2005 Number
Production	1,420	1,052
Selling and marketing	538	363
Research and development	193	160
General and administrative	292	252
	2,443	1,827
	2006 \$000's	2005 \$000's
Their aggregate remuneration comprised:		
Wages and salaries	52,009	41,055
Social security costs	4,938	4,039
Post employment benefits	758	685
End of service indemnity	1,180	843
Other costs*	8,892	5,267
	67,777	51,889

\*Other costs mainly consist of health insurance, training, housing and living allowances.

## 5. Other operating expenses (net)

	For the years ended 31 December	
	2006 \$000's	2005 \$000's
Other operating expense	<b>(2,504)</b>	(3,556)
Other operating income	<b>1,916</b>	2,008
	<b>(588)</b>	(1,548)

Other operating expenses consist mainly of slow moving items, partially offset by foreign exchange gains and the management fees from an associate company.

## 6. Flotation costs

The total costs of flotation in 2005 were \$12,661,000, of which, costs incurred in issuing shares amounting to \$10,810,000 were charged against the share premium account. The remaining amount of \$1,851,000 incurred was not eligible to be set against the share premium. This has been charged through the income statement, \$1,426,000 of these costs were recognised in the year ended 31 December 2005 and the remainder in 2004.

## 7. Finance income

	For the years ended 31 December	
	2006 \$000's	2005 \$000's
Interest income	<b>4,874</b>	1,562
Net foreign exchange gain	<b>384</b>	–
	<b>5,258</b>	1,562

## 8. Finance costs

	For the years ended 31 December	
	2006 \$000's	2005 \$000's
Interest on bank overdrafts and loans	<b>2,931</b>	3,437
Interest on obligations under finance leases	<b>99</b>	227
Other bank charges	<b>1,928</b>	1,547
	<b>4,958</b>	5,211

## 9. Tax

	For the years ended 31 December	
	2006 \$000's	2005 \$000's
Current tax:		
UK current tax	<b>26,982</b>	110
Double tax relief	<b>(26,840)</b>	–
Foreign tax	<b>23,093</b>	19,596
Prior year adjustments	<b>(500)</b>	–
Deferred tax (Note 15)	<b>(3,096)</b>	(254)
	<b>19,639</b>	19,452

UK corporation tax is calculated at 30% of the estimated assessable profit made in the UK for the year.

**9. Tax (continued)**

The charge for the year can be reconciled to profit before tax per the income statement as follows:

	2006 \$000's	2005 \$000's
Profit before tax:	<b>75,596</b>	64,409
Tax at the UK corporation tax rate of 30%	<b>22,679</b>	19,323
Profits taxed at different rates	<b>(5,561)</b>	(596)
UK tax on dividend income	<b>26,800</b>	–
Double tax relief offset	<b>(26,800)</b>	–
Share of associate's profits not taxed	<b>(281)</b>	(435)
Permanent differences	<b>1,273</b>	7
Losses for which no benefit is recognised	<b>(838)</b>	1,520
Other tax adjustments	<b>429</b>	(367)
Prior year adjustments	<b>(500)</b>	–
Movement in tax provisions	<b>2,438</b>	–
Tax expense for the year	<b>19,639</b>	19,452

**10. Dividends**

	2006 \$000's	2005 \$000's
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2005 of 0.89 cents (2004: 5.0 cents) per share	<b>1,489</b>	7,120
Interim dividend for the year ended 31 December 2006 of 3.0 cents (2005: 7.5 cents)* per share	<b>5,020</b>	10,680
	<b>6,509</b>	17,800
Proposed final dividend for the year ended 31 December 2006 of 4.0 cents per share (2005: 0.89 cents) per share	<b>6,727</b>	1,500

\*The dividends declared in 2005 relate to dividends declared prior to the IPO.

**11. Earnings per share**

The calculation of the basic and diluted earnings per share is based on the following data:

	2006 \$000's	2005 \$000's
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	<b>54,522</b>	43,867
	<b>Number 000's</b>	<b>Number 000's</b>
<b>Number of shares</b>		
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	<b>167,279</b>	146,454
Effect of dilutive potential Ordinary Shares :		
Share options	<b>8,638</b>	8,402
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	<b>175,917</b>	154,856

**11. Earnings per share (continued)**

	2006 Earnings per share Cents	2005 Earnings per share Cents
Basic	32.6	30.0
Diluted	31.0	28.3

**12. Intangible assets**

	Goodwill \$000's	Marketing rights \$000's	Customer relationships \$000's	Product related intangibles \$000's	Software \$000's	Total \$000's
<b>Cost</b>						
<b>Balance at 1 January 2005</b>	1,420	778	–	–	3,443	5,641
Additions	–	665	–	–	–	665
Acquisition of subsidiary	975	–	–	2,581	–	3,556
Translation adjustments	–	(103)	–	–	–	(103)
<b>Balance at 1 January 2006</b>	<b>2,395</b>	<b>1,340</b>	<b>–</b>	<b>2,581</b>	<b>3,443</b>	<b>9,759</b>
Additions	21	998	–	1,037	659	2,715
Subsequent adjustments	(219)	–	–	–	–	(219)
Acquisition of subsidiary	6,727	–	4,946	3,256	–	14,929
Translation adjustments	–	121	–	–	–	121
<b>Balance at 31 December 2006</b>	<b>8,924</b>	<b>2,459</b>	<b>4,946</b>	<b>6,874</b>	<b>4,102</b>	<b>27,305</b>
<b>Amortisation</b>						
<b>Balance at 1 January 2005</b>	(608)	–	–	–	–	(608)
Charge for the year	–	(102)	–	–	(1,064)	(1,166)
Impairment charge	–	–	–	–	(250)	(250)
<b>Balance at 1 January 2006</b>	<b>(608)</b>	<b>(102)</b>	<b>–</b>	<b>–</b>	<b>(1,314)</b>	<b>(2,024)</b>
Charge for the year	–	(140)	–	(125)	(1,064)	(1,329)
Translation adjustments	–	(12)	–	–	–	(12)
<b>Balance at 31 December 2006</b>	<b>(608)</b>	<b>(254)</b>	<b>–</b>	<b>(125)</b>	<b>(2,378)</b>	<b>(3,365)</b>
<b>Carrying amount</b>						
<b>At 31 December 2006</b>	<b>8,316</b>	<b>2,205</b>	<b>4,946</b>	<b>6,749</b>	<b>1,724</b>	<b>23,940</b>
<b>At 31 December 2005</b>	<b>1,787</b>	<b>1,238</b>	<b>–</b>	<b>2,581</b>	<b>2,129</b>	<b>7,735</b>

Goodwill of \$1,350,000 arose on the acquisition of Arab Medical Containers in 1990. Goodwill of \$70,000 arose on the acquisition of the Group's shares of International Pharmaceuticals Research Center Limited ("IPRC") and Specialized Pharmaceuticals Research Center Limited ("SPRC") in 2004. The additions to goodwill in 2006 represent the acquisition of the remaining interest of Al Jazeera Pharmaceutical Industries Limited ("JPI") and SPRC (in 2005 additions represented the acquisition of the Italian subsidiary, Istituto Biochimico Pavese Pharma S.p.A. ("IBPP"). In accordance with International Accounting Standard 38 "Intangible Assets" the Group has tested its goodwill for impairment and assessed that the fair value exceeds its book value, therefore no impairment loss has been taken to the income statement.

Product related intangibles include product files and under-licensed products. In 2005, product files intangibles were recognised on the acquisition of IBPP and in 2006 by the Jordanian, Algerian and Portuguese operations. Also the under-licensed products were acquired at 11 September 2006 on the acquisition of JPI. The product related intangibles have an indefinite useful life and are being reviewed for impairment at least annually.

Software represents the new Enterprise Resource Planning solution ("ERP") that the Group implemented in the Jordanian operations during 2006 and in the US operations during 2005.

Customer relationships represent the full value attributed to the existing direct customers that the Company acquired on the acquisition of JPI. The customer relationships have an estimated useful life of 15 years. Amortisation will commence on 1 January 2007.

The Group tests goodwill annually for impairment and if there are any indications that goodwill might be impaired. The key assumptions for the value in use calculations are those regarding the growth rates. The growth rates are based on industry growth forecasts and on the Group's five years business plan.

**13. Property, plant and equipment**

	Land and buildings \$000's	Vehicles \$000's	Machinery and equipment \$000's	Fixtures and equipment \$000's	Projects under construction \$000's	Total \$000's
<b>Cost</b>						
<b>Balance at 1 January 2005</b>	37,587	3,894	62,153	9,051	4,800	117,485
Additions	736	1,066	8,085	2,681	13,631	26,199
Acquisition of subsidiary	3,440	56	6,249	112	–	9,857
Disposals	(208)	(349)	(885)	(1,009)	(17)	(2,468)
Transfers	2,543	–	2,401	465	(5,409)	–
Translation adjustment	(1,807)	(47)	(2,560)	(237)	(190)	(4,841)
<b>Balance at 1 January 2006</b>	<b>42,291</b>	<b>4,620</b>	<b>75,443</b>	<b>11,063</b>	<b>12,815</b>	<b>146,232</b>
Additions	3,059	1,331	9,082	3,303	36,396	53,171
Acquisition of subsidiary	16,247	348	15,922	1,883	–	34,400
Disposals	(11)	(658)	(747)	(192)	(113)	(1,721)
Transfers	5,121	75	7,286	833	(13,315)	–
Translation adjustment	1,480	113	2,206	262	833	4,894
<b>Balance at 31 December 2006</b>	<b>68,187</b>	<b>5,829</b>	<b>109,192</b>	<b>17,152</b>	<b>36,616</b>	<b>236,976</b>
<b>Accumulated depreciation</b>						
<b>Balance at 1 January 2005</b>	7,195	1,740	33,035	4,044	–	46,014
Charge for the year	1,121	573	5,908	1,307	–	8,909
Acquisition of subsidiary	475	14	2,710	45	–	3,244
Disposals	–	(250)	(653)	(251)	–	(1,154)
Transfers	(12)	–	(316)	328	–	–
Translation adjustment	(577)	(44)	(1,222)	(147)	–	(1,990)
<b>Balance at 1 January 2006</b>	<b>8,202</b>	<b>2,033</b>	<b>39,462</b>	<b>5,326</b>	<b>–</b>	<b>55,023</b>
Charge for the year	1,570	701	8,185	2,012	–	12,468
Acquisition of subsidiary	2,326	262	8,315	1,221	–	12,124
Disposals	(4)	(465)	(597)	(143)	–	(1,209)
Transfers	–	(13)	11	2	–	–
Translation adjustment	485	44	1,057	139	–	1,725
<b>Balance at 31 December 2006</b>	<b>12,579</b>	<b>2,562</b>	<b>56,433</b>	<b>8,557</b>	<b>–</b>	<b>80,131</b>
<b>Net book value</b>						
<b>31 December 2006</b>	<b>55,608</b>	<b>3,267</b>	<b>52,759</b>	<b>8,595</b>	<b>36,616</b>	<b>156,845</b>
<b>Net book value</b>						
<b>31 December 2005</b>	34,089	2,587	35,981	5,737	12,815	91,209



### 13. Property, plant and equipment (continued)

The net book value of the Group's machinery and equipment includes an amount of \$7,991,000 (2005: \$3,341,000) in respect of assets held under finance lease.

As at 31 December 2006 the Group had pledged property, plant and equipment, having a carrying value of \$53,468,000 (2005: \$31,538,000).

In 1994, the Portuguese Government granted Hikma Farmaceutica an amount of Euro 1,600,000 to build the Company's factory in accordance with the SINPEDIP programme. The grant amount is being released to the income statement over the period necessary to match it with the assets' life. The carrying value of the grant as of 31 December 2006 was \$357,000 (2005: \$416,000).

During the year 2006, the Group entered into contractual commitments for the acquisition of property, plant and equipment amounting to \$3.7 million (2005: Nil).

The amount of borrowing costs that have been capitalised within the projects under construction is \$612,000 (2005: \$300,000).

### 14. Interest in associate

On 11 September 2006 Hikma acquired the remaining 52.5% share capital of JPI. JPI was accounted for as an associate prior to this date. Thereafter, the results of JPI have been fully consolidated (See Note 31).

Summarised financial information in respect of the Group's 47.5% interest in the Ordinary Shares of JPI is set out below.

	For the period ended and as at 11 September 2006 \$000's	For the year ended and as at 31 December 2005 \$'000
Total assets	51,284	47,773
Total liabilities	(33,412)	(31,874)
Net assets	17,872	15,899
Interest in associate	8,490	7,552
Revenues	26,390	30,371
Profit	1,975	3,050
Share of result of associate	938	1,449

Profit is stated after management fees of \$923,648 for the period up to 11 September 2006 (year ended 31 December 2005: \$1,061,000) due to the Group.

### 15. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Tax losses \$000's	Deferred R&D costs \$000's	Reserves and others \$000's	Amortisable assets \$000's	Fixed assets \$000's	Stock options \$000's	Software development \$000's	Total \$000's
At 1 January 2005	–	(171)	(2,102)	(44)	1,578	–	1,312	573
Charge/(credit) to income	–	(128)	194	17	287	(214)	(410)	(254)
Credit to equity	–	–	–	–	–	(960)	–	(960)
Acquisition of subsidiary	(357)	–	–	–	651	–	–	294
Exchange differences	43	29	–	–	(69)	–	–	3
<b>At 31 December 2005/ 1 January 2006</b>	<b>(314)</b>	<b>(270)</b>	<b>(1,908)</b>	<b>(27)</b>	<b>2,447</b>	<b>(1,174)</b>	<b>902</b>	<b>(344)</b>
Charge/(credit) to income	(1,086)	17	(1,125)	–	(412)	(264)	(226)	(3,096)
Credit to equity	–	–	–	–	–	(1,805)	–	(1,805)
Acquisition of subsidiary	–	–	–	989	706	–	–	1,695
Adjustments	–	–	(500)	–	34	–	–	(466)
Exchange differences	(36)	(30)	–	–	58	–	–	(8)
<b>At 31 December 2006</b>	<b>(1,436)</b>	<b>(283)</b>	<b>(3,533)</b>	<b>962</b>	<b>2,833</b>	<b>(3,243)</b>	<b>676</b>	<b>(4,024)</b>

## 15. Deferred tax (continued)

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:

	2006 \$000	2005 \$000
Deferred tax liabilities	1,695	1,162
Deferred tax assets	(5,719)	(1,506)
	<b>(4,024)</b>	(344)

A deferred tax asset on unused tax losses totalling \$578,000 (2005: \$226,000) has not been recognised in the year due to the unpredictability of the related future profit streams. These losses may be carried forward indefinitely. In addition, a deferred tax asset of approximately \$8,500,000 (2005: \$310,000) on other deductible temporary differences has not been recognised due to uncertainty regarding the tax treatment of the profits against which these differences will reverse.

## 16. Available for sale investments

The investment in available for sale securities represents investments in listed equity securities and unlisted securities that are recorded at the fair value based on either quoted market price for listed companies or using other valuation methods for unlisted companies.

	As at 31 December 2006			As at 31 December 2005		
	Listed \$000's	Non Listed* \$000's	Total \$000's	Listed \$000's	Non Listed* \$000's	Total \$000's
<b>1 January</b>	<b>1,185</b>	<b>254</b>	<b>1,439</b>	175	254	429
Additions	–	–	–	30	–	30
Fair value adjustments recognised in equity	(579)	(84)	(663)	980	–	980
<b>31 December</b>	<b>606</b>	<b>170</b>	<b>776</b>	1,185	254	1,439

\*Included in this amount is an investment in a non-listed US company (MENA Innovative Technologies Inc.) of \$62,000 (2005: \$141,000) that represents 32.5% (2005: 32.5%) of its common share capital (see Note 37). The Group does not exert significant influence over this entity.

## 17. Financial and other non current assets

	As at 31 December	
	2006 \$000's	2005 \$000's
Investments recorded at cost	488	488
Amounts due from investments recorded at cost	475	511
Other financial assets	279	277
	<b>1,242</b>	1,276

Investments at cost represent the Group's share of 49% (2005: 49%) and 32% (2005: 32%) in Societe Hikma Pharma – Tunisia and Societe D'Industries Pharmaceutiques Ibn Al Baytar S.A. – Tunisia, over which the Company does not exert significant influence.

Amounts due from investments recorded at cost include \$162,000 (2005: \$162,000), and \$375,000 (2005: \$459,000) due from Societe Hikma Pharma – Tunisia and Societe D'Industries Pharmaceutiques Ibn Al Baytar S.A. – Tunisia, respectively. While the remaining amount of \$236,000 (2005: \$188,000) represents the amount due from Societe Hikma Ibn Al Baytar Limited – Tunisia, which was sold to Societe D'Industries Pharmaceutiques Ibn Al Baytar S.A. – Tunisia. The amounts due from Societe Hikma Pharma – Tunisia and Societe Hikma Ibn Al Baytar Limited – Tunisia are stated after provision for doubtful debts of \$298,000 (2005: \$298,000).

## 18. Inventories

	As at 31 December	
	2006 \$000's	2005 \$000's
Finished goods	21,684	14,868
Work-in-progress	18,489	13,150
Raw and packing materials	36,109	24,247
Goods in transit	7,438	5,752
	<b>83,720</b>	58,017

Goods in transit include inventory held at third parties whilst in transit between Group companies.

**19. Trade and other receivables**

	As at 31 December	
	2006 \$000's	2005 \$000's
Trade receivables	<b>109,266</b>	72,609
Other prepayments	<b>6,148</b>	5,389
Value added tax recoverable	<b>5,701</b>	3,889
Interest receivable	<b>427</b>	217
Employee advances	<b>304</b>	68
Other receivables	<b>–</b>	462
	<b>121,846</b>	82,634

Trade receivables are stated net of provisions for chargebacks, doubtful debts and expired goods as follows:

	As at 31 December 2005 \$000's	Additions \$000's	Acquisition of subsidiary \$000's	Utilisation \$000's	Translation adjustments \$000's	As at 31 December 2006 \$000's
Chargebacks	15,828	<b>82,919</b>	–	<b>(83,829)</b>	–	<b>14,918</b>
Doubtful debts	4,408	<b>1,244</b>	<b>1,405</b>	<b>(40)</b>	<b>114</b>	<b>7,131</b>
Expired goods	1,693	<b>1,079</b>	–	<b>(168)</b>	<b>7</b>	<b>2,611</b>
	21,929	<b>85,242</b>	<b>1,405</b>	<b>(84,037)</b>	<b>121</b>	<b>24,660</b>

**20. Collateralised cash**

Collateralised cash represents an amount equal to 105% of bank facilities granted to the Group's Algerian operations.

**21. Cash and cash equivalents**

	As at 31 December	
	2006 \$000's	2005 \$000's
Cash on hand and at banks	<b>19,708</b>	33,405
Time deposits	<b>66,412</b>	1,194
Money market deposits	<b>107</b>	101,025
Restricted cash	<b>–</b>	335
	<b>86,227</b>	135,959

Cash and cash equivalents include highly liquid investments with maturities of three months or less.

**22. Bank overdrafts and loans**

	As at 31 December	
	2006 \$000's	2005 \$000's
Bank overdrafts	<b>3,031</b>	866
Import and export financing	<b>10,115</b>	5,208
Short-term loans	<b>11,281</b>	7,267
Current portion of long-term loans (Note 25)	<b>11,187</b>	7,805
	<b>35,614</b>	21,146

	2006 %	2005 %
The weighted average interest rates paid were as follows:		
Bank overdrafts	<b>5.11</b>	4.16
Bank loans (including the non-current bank loans)	<b>5.53</b>	5.14

Import and export financing represent short-term financing for the ordinary trading activities of the business.

**23. Trade and other payables**

	As at 31 December	
	2006 \$000's	2005 \$000's
Trade payables	32,331	26,738
Accrued expenses	15,000	11,705
Employees' provident fund*	2,106	2,301
VAT and sales tax payables	2,281	1,425
Dividends payable	361	841
Social security withholdings	653	416
Income tax withholdings	382	378
Other payables	802	213
	<b>53,916</b>	<b>44,017</b>

\*The employees' provident fund liability represents outstanding contributions to Hikma Pharmaceuticals Limited – Jordan retirement benefit plan, on which the fund receives 5% interest.

**24. Other provisions**

Other provisions represent the end of service indemnity provisions of Hikma Pharmaceuticals Limited – Jordan, IBPP, JPI and Pharma Ixir Co. Ltd (Sudan). This provision represents a one month salary payable for each year employed for certain individuals in accordance with the agreements for the Group employees for Hikma Pharmaceuticals Limited – Jordan, JPI, and Pharma Ixir Co, Ltd. Regarding IBPP, the end of service indemnity is not funded, and all calculations necessary to determine the annual expense are determined in accordance with Italian law. The annual accrual for end of service indemnity is calculated (as required by Italian law) by dividing the employees' remuneration for the year by 13.5 and it is subject to revaluation on an annual basis.

Movements on the provision for end of service indemnity:

	2006 \$000's	2005 \$000's
<b>1 January</b>	<b>1,233</b>	829
Addition	1,630	733
Utilisation	(347)	(300)
Translation adjustments	61	(29)
<b>31 December</b>	<b>2,577</b>	1,233

As at 31 December 2006, the balance of JPI's provision for end of service indemnity was \$1,157,000.

**25. Long-term financial debts**

	As at 31 December	
	2006 \$000's	2005 \$000's
Total loans	36,526	38,596
Less: current portion of loans (Note 22)	(11,187)	(7,805)
Long-term financial loans	<b>25,339</b>	30,791

**25. Long-term financial debts (continued)**

	As at 31 December	
	2006 \$000's	2005 \$000's
Breakdown by maturity:		
Within one year	<b>11,187</b>	7,805
In the second year	<b>10,101</b>	8,737
In third year	<b>9,354</b>	8,357
In the fourth year	<b>4,679</b>	7,532
In the fifth year	<b>1,179</b>	4,065
Thereafter	<b>26</b>	2,100
	<b>36,526</b>	38,596
Breakdown by currency:		
US Dollar	<b>14,250</b>	22,302
Euro	<b>5,387</b>	6,184
Jordanian Dinar	<b>7,928</b>	9,989
Algerian Dinar	<b>–</b>	121
Saudi Riyal	<b>8,961</b>	–
	<b>36,526</b>	38,596

At 31 December 2006, import and export financing, short-term loans and the current and long-term portion of long-term loans total \$57,922,000 (2005: \$51,071,000).

At 31 December 2006, loans and import and export financing of \$45,195,000 (2005: \$36,344,000), were arranged at fixed interest rates. The other borrowings at 31 December 2006 of \$12,727,000 (2005: \$14,727,000) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Loans amounting to \$13,350,000 (2005: \$9,993,000) are secured on property, plant and equipment.

**26. Obligations under finance leases**

	Minimum lease payments		Present value of minimum lease payments	
	2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
<b>Amounts payable under finance leases:</b>				
Within one year	<b>1,380</b>	838	<b>1,216</b>	797
In the second to fifth years inclusive	<b>5,183</b>	1,441	<b>4,441</b>	1,411
	<b>6,563</b>	2,279	<b>5,657</b>	2,208
Less: Interest lease charges	<b>(906)</b>	(71)		
Present value of minimum lease payments payable	<b>5,657</b>	2,208		

It's the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is six years (2005: two years). For the year ended 31 December 2006, the average effective borrowings rate was between 3.8% and 7.0% (2005: between 5.4% and 6.0%).



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## 27. Financial policies for risk management and their objectives

### Credit 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 in the US, expired goods and without recourse discounts. A provision for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has a significant credit concentration arising from one customer. The Group is owed \$27.6 million (2005: \$24.1 million) by its agent in Saudi Arabia. This receivable balance represents the consolidation of both Hikma Pharmaceuticals Jordan and JPI receivable balances due from this agent. During January 2007, JPI has agreed with the agent to change the payment method for private market sales from open account to domestic confirmed letters of credit. As such, during 2007, this receivable concentration is expected to gradually decrease, and the remaining receivables will be those related to the Saudi public sector and public sector tender sales, which the Directors believe carry little risk.

As a market norm, clients in the MENA region are offered relatively longer payment terms compared to clients in Europe and the U.S. As at 31 December 2006, the Group had a receivable balance in Algeria of \$19.3 million (2005: \$19.6 million) and management perceives that the risk associated with these balances has increased due to the concentration of debt with certain customers. The Group manages this risk through the implementation of stringent credit policies and procedures and credit insurance agreements.

### Market risk:

The Group's objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flow associated with changes in interest rates and foreign currency rates. The Group is exposed to foreign exchange and interest rate risk. Management actively monitors these risks and manages them by entering into a variety of derivative financial instruments.

### Foreign exchange risk:

The Group uses the US Dollar as its reporting currency and is therefore exposed to foreign exchange movements primarily in European, Algerian and Japanese currencies. Consequently, 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.

### Interest rate risk:

The Group manages its exposures to interest rate risks by changing the proportion of debt that is fixed by entering into interest rate swap agreements. Using these derivative financial instruments has not had a material impact on the Group's financial position at 31 December 2006 or the Group's results of operations for the year then ended.

### Fair value of financial assets and liabilities:

The fair value of financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair value:

- Cash and cash equivalents – approximates to the carrying amount.
- Short-term loans and overdrafts – approximates to the carrying amount because of the short maturity of these instruments.
- Long-term loans – approximates to the carrying amount in the case of floating rate bank loans and other loans.
- Forward exchange contracts – based on market prices and exchange rates at the balance sheet date.
- Receivables and payables – approximates to the carrying amount.
- Lease obligations – approximates to the carrying value.

Management consider that the book value of the Group's financial assets and liabilities do not materially differ from their fair value.

## 28. Derivative financial instruments

### Currency derivatives

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group is party to a variety of foreign currency forward contracts and options 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, total notional amount of outstanding forward foreign exchange contracts that the Group was committed to, are as below.

	2006 \$000's	2005 \$000's
Foreign exchange forward contracts (Euro)	–	414
Foreign exchange forward contracts (Yen)	–	300

These arrangements are designed to address significant exchange exposures.

At 31 December 2006 all forward foreign exchange contracts were closed. At 31 December 2005 the fair value of the Group's currency derivatives was \$709,648. The fair valuation of the currency derivatives that are designated and effective as cash flow hedge resulted in a loss of \$4,847 for the year ended 31 December 2005 that has been reflected in equity. These amounts are based on market values of equivalent instruments at the balance sheet date.

### Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. These contracts (with original nominal values of \$28 million as at 31 December 2005 reducing to \$15 million as at 31 December 2006) have fixed interest payments at rates ranging from 3.9% to 4.75% for periods up until 2011 and have floating interest receipts at LIBOR.

The fair value of swaps entered into by the Group is estimated as an asset of \$149,116 (2005: \$208,310). These amounts are based on market values provided by the banks that originated the swaps and are based on equivalent instruments at the balance sheet date. Some of these interest rate swaps are designated as effective cash flow hedges and the fair value thereof totalling \$149,116 (2005: \$126,333) has been deferred in equity. The ineffective element of the cash flow hedges are taken to the income statement. A gain of US\$nil (2005: \$171,483) has consequently been recognised in the income statement.

## 29. Share capital

	2006 \$000's	2005 \$000's
<b>Authorised:</b>		
500,000,000 Ordinary Shares of 10 pence each	<b>88,700</b>	88,700
49,998 non-voting, redeemable Preference Shares of £1 each	–	90

The Group redeemed the Preference Shares at par on 9 February 2006.

	2006		2005	
	Number 000's	\$000's	Number 000's	\$000's
<b>Issued and fully paid – included in shareholders' equity:</b>				
<b>At 1 January</b>	<b>166,798</b>	<b>29,457</b>	142,400	25,269
Issued during the year	<b>1,366</b>	<b>255</b>	24,398	4,188
<b>At 31 December</b>	<b>168,164</b>	<b>29,712</b>	166,798	29,457

## 30. Minority interest

	2006 \$000's	2005 \$000's
<b>At 1 January</b>	<b>3,601</b>	2,685
Minority interest share of profit	<b>1,435</b>	1,090
Other movements including dividends paid	<b>(304)</b>	(174)
<b>At 31 December</b>	<b>4,732</b>	3,601

### 31. Acquisition of subsidiary

On 11 September 2006, the Group acquired the remaining 52.5% of the issued share capital of JPI located in Saudi Arabia for cash consideration of \$21,000,000. The JPI operations manufacture products primarily for the Branded segment, which largely sells to customers in the GCC region.

The net assets acquired in the transaction and the goodwill arising are set out below:

	Book value \$000's	Fair value adjustment \$000's	Fair value \$000's
Net assets acquired			
Product related intangibles	–	3,256	3,256
Customer relationships	–	4,946	4,946
Property, plant and equipment	18,248	4,029	22,277
Inventory	8,209	(74)	8,135
Other current assets	2,258	–	2,258
Accounts receivable, net	20,760	(342)	20,418
Cash and cash equivalents	860	–	860
Trade accounts payable	(5,147)	–	(5,147)
Income tax provision	(96)	–	(96)
Bank overdrafts and loans	(13,223)	–	(13,223)
Provision for end of service indemnity	(982)	–	(982)
Other current liabilities	(3,345)	–	(3,345)
Long-term financial debts	(6,934)	–	(6,934)
Due to sister companies	(3,200)	–	(3,200)
Deferred tax liability	–	(1,695)	(1,695)
Net assets acquired (100%)	17,408	10,120	27,528
Net assets acquired (52.5%)	9,139	5,313	14,452
Goodwill			6,727
Total consideration			21,179
Satisfied by :			
Cash			21,000
Directly attributable costs			179
			21,179
Cash consideration			21,000
Cash and cash equivalents acquired			(860)
Net cash outflow arising on acquisition			20,140

In addition to the consideration paid above, an amount of \$454,000 has been paid in 2006 in respect of previous acquisitions.

Directly attributable acquisition costs include legal and accounting costs incurred in the preparation of the acquisition contracts and in performing due diligence activities.

The Group placed significant emphasis on the value of property, plant and equipment in making the decision to acquire JPI. The property, plant and equipment of JPI complement the Group's Branded business.

The revenue and net profit of JPI from the date of acquisition that are included in the Group's income statement for the period amounted to \$11,737,000 and \$1,918,000 respectively.

If the acquisition of JPI had been completed on the first day of the financial year, Group revenues for the year would have been \$338,948,000 and the Group's profit attributable to equity holders of the parent would have been \$55,828,000.

In accordance with IFRS, the Group has consolidated 100% of JPI at fair value. The fair value adjustment of \$4,807,000 arising on consolidation that relates to the previously held 47.5% share of JPI has been reflected as a revaluation reserve in equity. This reserve will be transferred to retained earnings to offset the depreciation and amortisation charges arising on the total tangible and intangible assets over their useful economic lives.

**32. Net cash from operating activities**

	2006 \$000's	2005 \$000's
<b>Profit before tax and minority interest</b>	<b>75,596</b>	64,409
Adjustments for:		
Depreciation, amortisation and impairment of:		
Property, plant and equipment	<b>12,468</b>	8,909
Intangible assets	<b>1,329</b>	1,416
Results from associated companies	<b>(938)</b>	(1,449)
Losses on disposal of property, plant and equipment	<b>59</b>	440
Movement on provisions	<b>362</b>	152
Deferred income	<b>(59)</b>	(174)
Cumulative effect of change in fair value of derivatives	<b>27</b>	164
Share option charge	<b>879</b>	713
Finance income	<b>(5,258)</b>	(1,562)
Interest and bank charges	<b>4,958</b>	5,211
<b>Cash flow before working capital</b>	<b>89,423</b>	78,229
Change in trade and other receivables	<b>(17,059)</b>	(20,544)
Change in due from associate/related party	<b>(896)</b>	(691)
Change in other current assets	<b>(290)</b>	219
Change in inventories	<b>(17,565)</b>	(13,306)
Change in trade and other payables	<b>610</b>	14,297
Change in other current liabilities	<b>138</b>	(4,029)
<b>Cash generated by operations</b>	<b>54,361</b>	54,175
Income tax paid	<b>(19,397)</b>	(17,800)
Finance income	<b>5,258</b>	1,562
Interest paid	<b>(4,972)</b>	(5,224)
<b>Net cash generated from operating activities</b>	<b>35,250</b>	32,713

**33. Contingent liabilities**

The Group was contingently liable for letters of guarantee and letters of credit totalling \$16.9 million (2005: \$11.1 million).

The integrated nature of the Group's worldwide operations, involving significant investment in research and strategic manufacture at a limited number of locations, with consequential cross-border supply routes into numerous end-markets, gives rise to complexity and delay in negotiations with revenue authorities as to the profits on which individual Group companies are liable to tax. Disagreements with, and between, revenue authorities as to intra-Group transactions, in particular the price at which goods and services should be transferred between Group companies in different tax jurisdictions, can produce conflicting claims from revenue authorities as to the profits to be taxed in individual territories. Resolution of such issues is ongoing.

In common with many other companies in the pharmaceutical industries the Group is subject to certain legal and product liability claims from time to time. Whilst provisions have been made for probable losses that management deems to be reasonable or appropriate there are inherent uncertainties connected with these estimates.

The Group does not expect the resolution of uncertainties to have a material effect on the consolidated financial statements.

### 34. Equity settled share option scheme

During the year ended 31 December 2006 and 2005, the Company had one share-based compensation scheme settled by equity instruments with two separate grant dates. The options over these instruments are settled in equity once exercised.

Details of the grants under the scheme are shown below:

2005	
Type of arrangement	General employee share option plan
Date of grant	13 October 2005
Number granted	1,600,000
Contractual life	10 years
Vesting conditions	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 plan is \$0.74. This was calculated by applying a binomial option pricing model. The model inputs were the share price at grant date of \$4.50, exercise price of \$4.50, expected volatility of 26.2%, expected dividend yield of 6.67%, expected contractual life of 7.5 years, and a risk-free interest rate of 4.54%. To allow for the effects of early exercise, it was assumed that the employees would exercise the options immediately after vesting date.

2004	
Type of arrangement	General employee share option plan
Date of grant	12 October 2004
Number granted	9,520,000
Contractual life	10 years
Vesting conditions	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 plan is \$0.35. This was calculated by applying a binomial option pricing model. The model inputs were the share price at grant date of \$0.91, exercise price of \$0.91, expected volatility of 44.8%, expected dividend yield of 3.85%, expected contractual life of 7.5 years, and a risk-free interest rate of 4.22%. To allow for the effects of early exercise, it was assumed that the employees would exercise the options immediately after vesting date.

Further details of the general employee share option plan are as follows:

	2006		2005	
	Number of shares option	Weighted average exercise price (in \$)	Number of shares option	Weighted average exercise price (in \$)
Outstanding at the beginning of the year	11,120,000	1.42	9,520,000	0.91
Granted during the year	–	–	1,600,000	4.5
Exercised during the year	(1,365,800)	1.18	–	–
Expired during the year	(156,000)	2.94	–	–
Outstanding at the end of the year	9,598,200	1.44	11,120,000	1.42
Exercisable at the end of the year	2,606,200	1.09	1,904,000	0.91

A stock based compensation charge of \$879,000 (2005: \$712,000) has been recorded in the income statement as part of general and administrative expenses.

The weighted average share price at the date of exercise for share options exercised during the period was \$3.92. The options outstanding at 31 December 2006 had a weighted average remaining contractual life of 3 to 4 years.

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 to 4 years.

### 35. Operating lease arrangements

	2006 \$000's	2005 \$000's
Minimum lease payments under operating leases recognised in income for the year	532	655

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:

	2006 \$000's	2005 \$000's
Within one year	1,074	1,421
In the second to fifth years inclusive	3,493	4,320
After five years	3,836	4,726
	<b>8,403</b>	<b>10,467</b>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of one to 7.5 years.

### 36. Related party balances

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 associate and other related parties are disclosed overleaf.

#### Trading transactions:

During the year, Group companies entered into the following transactions with related parties:

**Darhold Limited:** is a related party of the Group because it is considered one of the major shareholders of Hikma Pharmaceuticals PLC with ownership percentage of 31.3% at the end of 2006 (2005: 31.6%). During the year, the Group has not paid any administrative expense on behalf of Darhold Limited and there is no outstanding balance with the Group at year end (2005: \$21,000).

**Capital Bank (previously Export & Finance Bank) – Jordan:** is a related party of the Group because two board members of the Bank are also Board members at Hikma Pharmaceuticals PLC. Total cash balances at Export & Finance Bank – Jordan were \$207,000 (2005: \$5,180,000). Loans and overdrafts granted by Export & Finance Bank to the Group amounted to \$594,000 (2005: \$1,201,000) with interest rates ranging between 8.1% and LIBOR + 1 to 1.25%. Total interest expense incurred against Group facilities was \$81,000 (2005: \$107,000).

**Jordan International Insurance Co:** is a related party of the Group because one board member of the company is also a Board member at Hikma Pharmaceuticals PLC. Total insurance premiums paid by the Group to Jordan International Insurance Co during the year were \$1,214,000 (2005: \$1,185,000). The Group's insurance expense for Jordan International Insurance Co contracts in the year 2006 was \$1,183,000 (2005: \$967,000). The amounts due to Jordan International Insurance Co at the year end were \$90,000 (2005: \$78,000).

**Mena Innovative Technology:** is a related party of the Group because it holds a minority stake in this company (see Note 16) and because the majority shareholder is the wife of Mr. Nabil Rizk – CEO of Generic Pharmaceuticals. Total purchases during the year were \$75,000 (2005: \$67,000). Purchases were made at market price discounted to reflect the quantity of goods purchased. At 31 December 2006, the Group has no outstanding balance with Mena Innovation Technology (2005: \$10,000).

**Tunisian companies:** Amounts due from Tunisian companies include \$162,000 (2005: \$162,000), 236,000 (2005: \$188,000) and \$375,000 (2005: \$459,000) due from Societe Hikma Pharma – Tunisia, Societe Hikma Ibn Al Baytar Limited – Tunisia and Societe D'Industries Pharmaceutiques Ibn Al Baytar S.A. – Tunisia, respectively. The amounts due from Societe Hikma Pharma – Tunisia and Societe Hikma Ibn Al Baytar Limited – Tunisia are stated after provision for doubtful debts of \$298,000 (2005: \$298,000).

**West-ward Pharmaceuticals Corp:** Certain expenses of the Chairman were paid in the USA by West-ward Pharmaceuticals Corp and reimbursed by the Chairman. At 31 December 2006, the balance outstanding amounted to \$101,000 (2005: \$120,000). The total amount has been repaid since the year end.

**Al Jazeera Pharmaceuticals Industries (up to 11 September 2006):** Total purchases from JPI during the period amounted to \$4,401,000 (2005: \$3,619,000) and total sales amounted to \$914,000 (2005: \$1,905,000). Balances due from JPI at 11 September 2006 amounted to \$4,432,000 (2005: \$2,304,000). Sales of goods were made at the Group's usual list prices and purchases were made at market price discounted to reflect the quantity of goods purchased and the relationship between the parties.



### 36. Related party balances (continued)

#### Remuneration of key management personnel

The remuneration of the key management personnel of the Group are 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 Directors remuneration report on pages 33 to 42.

	2006 \$000's	2005 \$000's
Short-term employee benefits	4,227	4,342
Share-based payments	414	414
Post employment benefits	55	53
Other benefits	136	171
	<b>4,832</b>	<b>4,980</b>

### 37. Hikma Pharmaceuticals PLC main subsidiaries

The main subsidiaries of Hikma Pharmaceuticals PLC are as follows:

Company's name	Established in	Ownership % Ordinary shares 2006	Ownership % Ordinary shares 2005
Hikma Pharmaceuticals Limited	Jordan	100	100
Trust Pharma Co.	Algeria	100	100
Hikma Farmaceutica S.A.	Portugal	100	100
West-Ward Pharmaceuticals Corp.	USA	100	100
Pharma Ixir Co.	Sudan	51	51
Istituto Biochimico Pavese Pharma S.p.A. (IBPP)	Italy	100	100
Al Jazeera Pharmaceutical Industries (JPI)	KSA	100	47.5

### 38. Hikma Pharmaceuticals PLC defined contribution retirement benefit plan

Hikma Pharmaceuticals PLC has defined contribution retirement plans in two of its subsidiaries: West ward Pharmaceuticals Corp and Hikma Pharmaceuticals Limited – Jordan. The details of each contribution plan are as follows:

#### Hikma Pharmaceuticals Limited – Jordan:

The Group currently has an employee saving plan wherein the Group fully matches employee's contributions, which are fixed at 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 fully vest in the Group contributions after ten years of employment. The Group's contributions for the year ended 31 December 2006 were \$493,000 (2005: \$410,000).

#### West-ward Pharmaceuticals Corp: (401(k) salary saving plan)

Prior to 2001, West ward Pharmaceuticals Corp established a 401 (k) defined contribution plan, which allows all eligible employees to defer a portion of their income through contributions to the plan. All employees not covered by any collective bargaining agreement are eligible after being employed for one year. Employees can defer up to 25% of their gross salary into the plan, not to exceed \$15,000 and \$14,000 for 2006 and 2005, respectively, not including catch-up contributions available to eligible employees as outlined by the Internal Revenue Service. The company matches 40% of the employees' eligible contribution. Employer contributions vest 0% after one year 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 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 2006 were \$265,000 (2005: \$275,000).

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.

### 39. Subsequent events

In January 2007, the Group announced the acquisition of Ribosepharm GmbH for consideration of \$45 million. The value of tangible assets acquired was \$0.6 million. The Group is currently in the process of determining the fair value adjustments and hence the goodwill and intangibles arising on the acquisition. Due to the timing of this transaction, it is not practicable to calculate and disclose the amounts arising.

On 9 February 2007, the Group completed the acquisition of the remaining share capital of 51% Hikma Pharma Co, a distribution business in Tunisia for \$3,800. At this stage it is not practicable to determine the goodwill arising on this acquisition.

## Directors' responsibilities

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Company Law requires the Directors to prepare accounts and Notes for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and the income statement of the Company for that period.

In preparing those accounts and notes the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

The Directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts and notes comply with the Companies Act 1985. They are also responsible for the Company's system of internal control, for safeguarding of the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board of Directors and signed on its behalf by:

**Samih Darwazah**  
Director

21 March 2007

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

We have audited the individual company financial statements (the "financial statements") of Hikma Pharmaceutical PLC for the year ended 31 December 2006 which comprise the balance sheet, the statement of changes in shareholders' equity, the cash flow statement and the related Notes 1 to 11. These individual company financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the Directors' remuneration report are included in the Group annual report of Hikma Pharmaceuticals PLC for the year ended 31 December 2006. We have reported separately on the Group financial statements of Hikma Pharmaceuticals PLC for the year ended 31 December 2006 and on the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the individual company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the individual company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual company financial statements give a true and fair view and whether the individual company financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the individual company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited individual company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual company financial statements. Our responsibilities do not extend to any further information outside the annual report.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the individual company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual company financial statements.

### Opinion

In our opinion:

- the individual company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2006;
- the individual company financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the individual company financial statements.

### Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
London, United Kingdom

21 March 2007

## Company balance sheet at 31 December 2006

	Notes	2006 \$000's	2005 \$000's
<b>Non-current assets</b>			
Investment in subsidiaries	2	1,353,342	740,298
Due from subsidiaries		72,039	54,000
Tangible fixed assets		597	–
		<b>1,425,978</b>	794,298
<b>Current assets</b>			
Other current assets		986	422
Cash and cash equivalents	3	65,442	58,732
Due from subsidiaries		726	–
Accounts receivable		18	–
Dividends receivable		–	1,500
		<b>67,172</b>	60,654
<b>Total assets</b>		<b>1,493,150</b>	854,952
<b>Current liabilities</b>			
Other payables	4	454	994
Other current liabilities		1,098	354
Income tax provision		142	110
Due to subsidiaries		593,290	–
		<b>594,984</b>	1,458
<b>Non-current liabilities</b>			
Due to subsidiaries		–	4,836
<b>Total liabilities</b>		<b>594,984</b>	6,294
<b>Net assets</b>		<b>898,166</b>	848,658
<b>Equity</b>			
Share capital	7	29,712	29,457
Share premium account	8	818,800	817,443
Retained earnings	9	49,654	1,758
<b>Equity attributable to equity holders to the parent</b>		<b>898,166</b>	848,658

The financial statements were approved by the Board of Directors and signed on its behalf by:

Samih Darwazah  
Director

Mazen Darwazah  
Director

21 March 2007

## Company statement of changes in equity for the year ending 31 December 2006

	Notes	Paid up capital \$000's	Share premium \$000's	Retained earnings \$000's	Total \$000's
<b>At 8 September 2005</b>		–	–	–	–
Issue of share capital	8	29,457	817,443	–	846,900
Net income for the period	9	–	–	1,758	1,758
<b>At 31 December 2005/1 January 2006</b>		29,457	817,443	1,758	848,658
Issue of share capital		255	1,357	–	1,612
Net income for the year		–	–	54,405	54,405
Dividends paid		–	–	(6,509)	(6,509)
<b>At 31 December 2006</b>		<b>29,712</b>	<b>818,800</b>	<b>49,654</b>	<b>898,166</b>

As permitted by section 230 of the Companies Act 1985, the income statement of the Company is not presented as part of these accounts.

## Company cash flow statement for the year ending 31 December 2006

	2006 \$000's	2005 \$000's
<b>Profit before tax</b>	<b>53,851</b>	1,695
Stock option charge	<b>196</b>	172
Increase in other current assets	<b>(564)</b>	(422)
(Decrease)/increase in other payables	<b>(540)</b>	994
Depreciation on tangible fixed assets	<b>93</b>	–
Increase in net receivables	<b>(18)</b>	–
Change in amounts due to/from subsidiaries	<b>1,764</b>	–
Increase in other current liabilities	<b>744</b>	354
Income tax paid	<b>(610)</b>	–
<b>Net cash from operating activities</b>	<b>54,916</b>	2,793
<b>Investing activities</b>		
Change in amounts due to/from subsidiaries	<b>(22,875)</b>	(49,164)
Decrease/increase in dividends receivable	<b>1,500</b>	(1,500)
Investment in tangible fixed assets	<b>(690)</b>	–
Investment in subsidiary	<b>(21,244)</b>	(7,500)
<b>Net cash used in investing activities</b>	<b>(43,309)</b>	(58,164)
<b>Financing activities</b>		
Proceeds from share issuance	<b>1,612</b>	124,913
Costs of share issue	–	(10,810)
Dividends paid	<b>(6,509)</b>	–
<b>Net cash (used in)/from financing activities</b>	<b>(4,897)</b>	114,103
<b>Net increase in cash and cash equivalents</b>	<b>6,710</b>	58,732
<b>Cash and cash equivalents at beginning of the year</b>	<b>58,732</b>	–
<b>Cash and cash equivalents at end of the year</b>	<b>65,442</b>	58,732



## Notes to the Company financial statements

### 1. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards and UK law.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in Note 2 to the consolidated financial statements with the addition of the policy as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

### 2. Investment in Subsidiaries

Investment in subsidiaries represents 100% share in Hikma Pharma Limited – Jersey, 100% of Hikma Holdings, 100% of Hikma Limited and 52.5% of Al Jazeera Pharmaceutical Industries; the cost method is used to account for these investments.

On 10 November 2006 the Company subscribed 9,038 Ordinary Shares of £1 each in the share capital of Hikma Holdings (UK) Limited for an aggregate amount of \$591,865,487, \$65,487 was paid up in cash and the remaining of \$591,800,000 was left outstanding in the intercompany account.

### 3. Financial assets

#### Cash and cash equivalents

These comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

### 4. Financial liabilities

#### Other payables

The Directors consider that the carrying amount of other payables approximates to their fair value.

### 5. Staff costs

Hikma Pharmaceuticals PLC currently has four employees; total compensation paid to them amounted to \$923,000 (2005: \$117,000) of which salaries and wages comprise an amount of \$492,000 (2005: \$73,000) the remaining balance of \$367,000 (2005: \$44,000) represent social security and other benefits.

### 6. Share options

The details of the share compensation scheme are provided in Note 35 to the Group financial statements. The number of options granted to the employees of the Company (including Directors) was 2,600,000 (2005: 2,560,000) and the total amount of the compensation expenses charged to income statement is \$196,400 (2005: \$172,000).

### 7. Share capital

	2006 \$000's	2005 \$000's
<b>Authorised:</b>		
500,000,000 Ordinary Shares of 10 pence each	<b>88,700</b>	88,700
49,998 non-voting, redeemable Preference Shares of £1 each	–	90

The Company redeemed the Preference Shares at par on 9 February 2006.

	2006		2005	
	Number 000's	\$000's	Number 000's	\$000's
<b>Issued and fully paid – included in shareholders' equity:</b>				
<b>At start of period</b>	<b>166,798</b>	<b>29,457</b>	142,400	25,269
Issued during the year	<b>1,366</b>	<b>255</b>	24,398	4,188
<b>At 31 December</b>	<b>168,164</b>	<b>29,712</b>	166,798	29,457

## 8. Share premium

	Share premium \$000's
<b>Balance at 8 September 2005</b>	–
Premium arising on issue of Equity Shares	828,253
Expenses on issue of Equity Shares	(10,810)
<b>Balance at 31 December 2005</b>	817,443
Premium arising on issue of Equity Shares	1,357
<b>Balance at 31 December 2006</b>	<b>818,800</b>

## 9. Retained earnings

Included in the retained earnings an amount of \$196,400 (2005: \$172,000) represents the current year charge of share option expenses.

## 10. Contingent liabilities

At 31 December 2006, the Company has agreed to guarantee the payment of the \$591,800,000 from Hikma Holdings (UK) Ltd to Hikma Acquisitions (UK) Ltd. The guarantee relates to loan notes issued to Hikma Acquisitions (UK) Limited by Hikma Holdings (UK) Ltd as consideration for the transfer of the entire issued share capital in Hikma UK Limited to Hikma Holdings (UK) Ltd as part of the Hikma Group reorganisation.

## 11. Subsequent events

In January 2007, the Group announced the acquisition of Ribosepharm GmbH for consideration of \$45 million. The book value of assets acquired was \$0.6 million. The Group is currently in the process of determining the fair value adjustments and hence the goodwill and intangibles arising on the acquisition. Due to the timing of this transaction, it has been impractical to calculate and disclose the amounts arising.

## Shareholder information

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### 2007 financial calendar

22 March	2006 preliminary results and final dividend announced
16 May	2006 final dividend ex-dividend date
18 May	2006 final dividend record date
6 June	Annual General Meeting
18 June	2006 final dividend paid to shareholders
5 September*	2007 interim results and interim dividend announced
19 September*	2007 interim dividend ex-dividend date
21 September*	2007 interim dividend record date
19 October*	2007 interim dividend paid to shareholders

\*Provisional date.

### Shareholding enquiries

Enquiries or information concerning existing shareholdings should be directed to the Company's registrars, Capita Registrars either:

- in writing to Shareholder Services, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU;
- by telephone from within the UK on 0870 162 3100;
- by telephone from outside the UK on +44 20 8639 2157; or
- through the website [www.capitaregistrars.co.uk](http://www.capitaregistrars.co.uk).

Changes of address should be promptly notified to the registrars.

### Website

Press releases, the share price and other information on the Group are available on the Company's website [www.hikma.com](http://www.hikma.com).

### Share listings

The Company's Ordinary Shares are listed on the London Stock Exchange. They are listed under EPIC – HIK, SEDOL – B0LCW08 GB and ISIN – GB00B0LCW083. The Company also has listed Global Depository Receipts ("GDRs") on the Dubai International Financial Exchange ("DIFX"). They are listed under EPIC – HIK and ISIN – US4312882081.

Further information on this market, its trading systems and current trading in Hikma Pharmaceuticals PLC shares can be found on the London Stock Exchange website [www.londonstockexchange.com](http://www.londonstockexchange.com).

Further information on the DIFX, its trading systems and current trading in Hikma Pharmaceuticals PLC GDRs can be found on the DIFX website [www.difx.ae](http://www.difx.ae).

### Company details

Hikma Pharmaceuticals PLC

Registered in England and Wales number 5557934

Registered office:

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E-mail: [susan.ringdal@hikma.uk.com](mailto:susan.ringdal@hikma.uk.com)

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## Principal Group companies

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**West-ward Pharmaceutical Corporation**

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**Hikma Farmacêutica S.A.**

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## Advisers

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