Hikma Pharmaceuticals PLC Annual report 2008

# Trusted...

QUALITY

Hikma Pharmaceuticals PLC

Over the 30 years since Hikma was founded, we have grown into a successful speciality pharmaceutical group. Our business today is diverse in its product line and the breadth of its geographic coverage. This diversification will ensure that we maintain our track record of strong growth.

For more information visit our website www.hikma.com

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# Overview

## Who we are

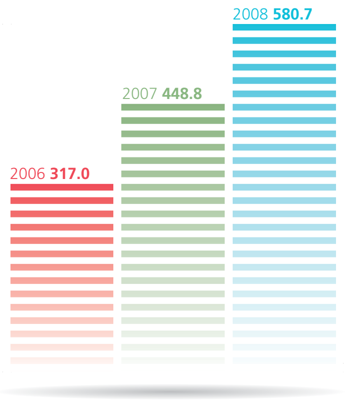
We are a fast growing speciality pharmaceutical company with operations in Europe and the United States and a unique focus in the Middle East and North Africa (MENA) region.

Our goal is to improve the health and well-being of people in all our markets by delivering high quality products across a wide range of therapeutic areas. We do this by developing, manufacturing and marketing branded and un-branded generic as well as in-licensed products in both oral and injectable dosage forms.

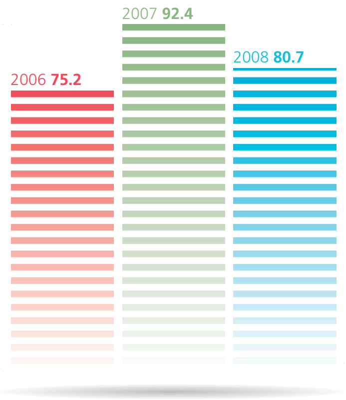
# How we performed

## Our 2008 results demonstrate the strength of our Branded and Injectables businesses as well as the challenges posed by our Generics business in the US.

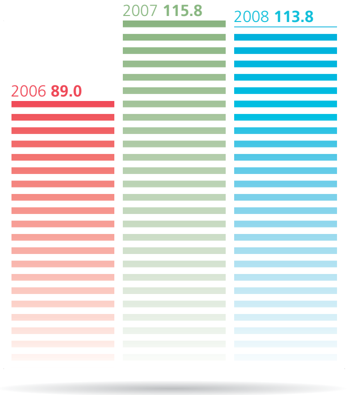
Revenue +29.4%
$million




Operating profit -12.7%
$million

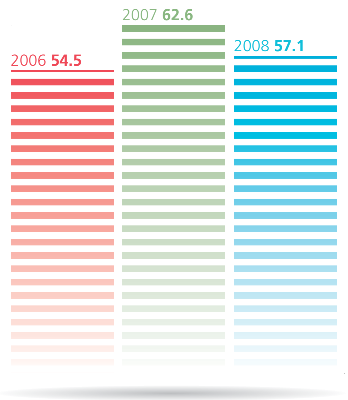



EBITDA[1] -1.7%
$million

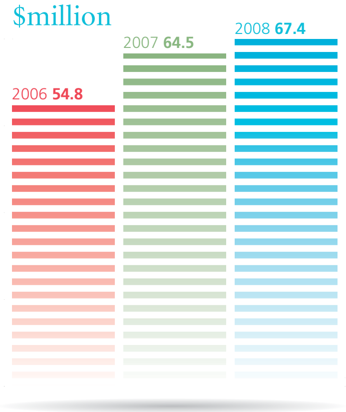



[1] Reported profit before interest, tax, depreciation and amortisation.

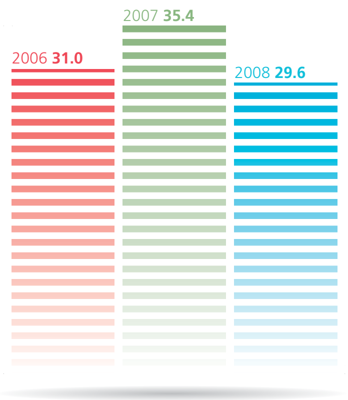
Profit attributable to shareholders -8.7%
$million




Adjusted[1] profit attributable to shareholders +4.5%
$million




Diluted earnings per share -16.4%
cents




[1] Profit before the amortisation of intangible assets (other than software) and exceptional items.

# Operational highlights of 2008

## Group performance

| $ million | 2008 | 2007 | 2006 |
|---|---|---|---|
| Operating cash flow | 75.0 | 53.3* | 35.3 |
| Capital expenditure | 56.7 | 49.4 | 53.2 |
| Net debt | -170.9 | -306.8* | +25.0 |
| Net debt/equity | 28% | 72% | ns |
| Dividend per share (cents) | 7.5 | 7.5 | 7.0 |

* 2007 figures restated.

Group revenues up 29% to $580.7 million with 63% of revenues generated in MENA

Adjusted profit attributable to shareholders up 4.5% to $67.4 million[1]

Branded revenues up 61% to $321 million reflecting strong organic growth of 22%[2]

Injectables revenues up 23% to $149 million, reflecting organic growth of 14%[3]. Injectables revenues in MENA grew by 43%, and in the US by 29%

Generics business returned to profit in Q4 2008 following management changes and operational improvements

Operating cash flow up 41% to $75 million through strong focus on working capital management

Net debt reduced by 44% to $171 million

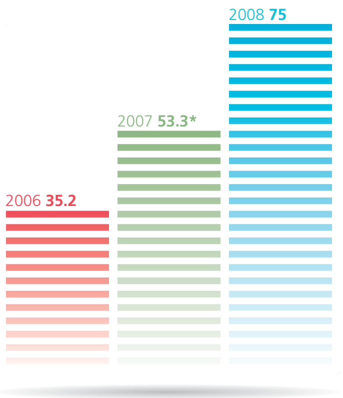
[1] Profit before amortisation of intangible assets (other than software) and exceptional items.
[2] Excluding the impact of Hikma Egypt and APM acquired in 2007.
[3] Excluding the impact of APM and Thymoorgan in 2007.

# Chairman's review

## 2008 was both a rewarding and challenging year at Hikma. Looking forward, I am confident in the Company's prospects for this year and the years to come.

Samih Darwazah *Non-Executive Chairman*

Operating cash flow
$million
+40.7%




* 2007 figures restated.

### Results

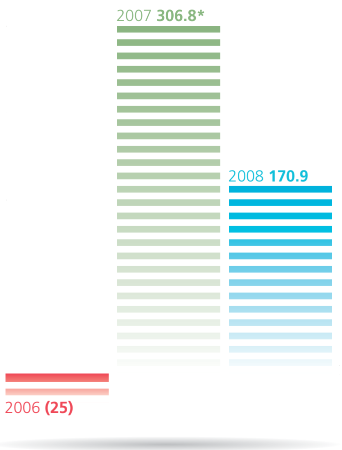
Our businesses in the Middle East and North Africa ("MENA") region continued to thrive and the successful integration of two important acquisitions significantly strengthened our position as the leading regional pharmaceutical manufacturer. In line with our commitment to become a leading global speciality pharmaceutical company, we also made excellent progress in our Injectables business, where revenues grew by 23.2%. We are making good progress in implementing our oncology strategy. Against these areas of progress, we faced some difficulties in our US Generics business, where the extremely competitive trading environment made it difficult for us to offset the completion of a large government contract. I am pleased to report that we took prompt management action and successfully restored this business to profitability by the end of the year.

For the year we delivered record revenues of $580.7 million and total revenue growth of 29.4%. The impact of the difficulties in our US Generics business in the first half of 2008 resulted in a lower gross margin for the Group of 44.2%, compared with 49.4% in 2007, and a decline of 12.7% in our operating profit to $80.7 million. However, earnings before interest, tax, depreciation and amortisation (EBITDA) declined by only 1.7% to $113.8 million and on an adjusted basis operating profit decreased by 1%. Profit attributable to shareholders for the period declined by 8.7% to $57.1 million, but on an adjusted basis increased by 4.5%. Diluted earnings per share declined by 16.4% to 29.6 cents per share. Impressively, our operating cash flow reached $75.0 million, an increase of 40.7%, through a strong focus on working capital management.

### Dividend

In order to pursue our growth strategy and mindful of the difficult economic times in which the world finds itself, the Board has recommended that the dividend should be held this year. Therefore the Board is recommending a final dividend of 4.0 cents per share (approximately 2.8 pence per share), which will make a dividend for the full year of 7.5 cents per share, the same as paid in 2007. The proposed final dividend will be paid on 2 June 2009 to shareholders on the register on 1 May 2009, subject to approval by shareholders at the Annual General Meeting.

Net debt
$million -44.3%




* 2007 figures restated.

## Balance sheet developments

In January 2008 we raised gross proceeds of £81.6 million (approximately $160 million) through the placing of 17 million ordinary shares to fund the December 2007 acquisition of Arab Pharmaceutical Manufacturing Co. Ltd ("APM"). We ended 2008 with net debt of $170.9 million, compared with $306.8 million at the end of 2007, reflecting not only the equity issue but also higher operating cash flow from improved management of our working capital. We are well invested and as a result our balance sheet is strong, with over $63 million in cash at the year-end and unutilised loan facilities of $121 million across multiple geographies.

## Outlook

With 60% of our sales generated in the MENA region, Hikma should continue to benefit from the overall pharmaceutical market growth in this region, which we expect will remain much higher than the global market. Our share of the MENA market should also continue to increase as we further penetrate existing markets, expand into new markets and grow our portfolio of own-brand and in-licensed products. With new products and entry into new markets, we believe that there remains considerable scope for us to grow our global Injectables business, particularly in the MENA region but also in the US and Europe. We expect our performance in our US Generics business, which returned to profitability in the fourth quarter of 2008, to continue to improve.

In summary, I am highly confident in the Company's prospects for this year and the years to come. This confidence is based on the strength of our Branded and Injectables businesses, the recovery in the Generics business that we have already begun to experience, and the excellent management team that we have in place.

Samih Darwazah *Non-Executive Chairman*

# What we do

## We develop, manufacture and market generic and in-licensed pharmaceutical products within three core businesses. We are increasingly focusing on high value products in key therapeutic areas such as oncology, diabetes and cardiovascular.

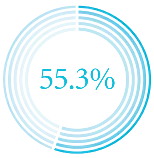
### Branded

Our Branded business develops, manufactures and markets 241 solid, semi-solid and liquid branded pharmaceutical products in 460 dosage strengths and forms including 33 patented products under-license from the originator. Most of these products are sold within the MENA region. Thanks to our strong brand recognition and our reputation of quality products, we are increasingly the licensing partner of choice in the MENA.


**2008 Revenue**

$320.8m

**Proportion of Group sales**




**Top products**

Actos®
Amoclan
Ciprolon
Prograf®
Votrex

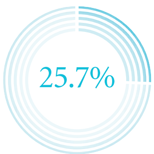
### Injectables

Our Injectables business focuses on a specialized sub-segment of the global generics market and has a growing presence in the MENA region, Europe and the US. We develop, manufacture and market over 81 injectable products in 202 dosage strengths and forms with a focus on four key therapeutic areas: anti-infectives, oncology, central nervous system and cardiology. Seven of these products are manufactured and marketed under license from the originator.


**2008 Revenue**

$149.3m

**Proportion of Group sales**




**Top products**

Cefizox
Cefuroxime
Ciprolon
Samixon
Vancomycin

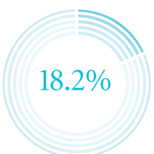
### Generics

Our Generic business operates in the competitive US market, where generic products are usually sold under the chemical name of the active pharmaceutical compound. We develop, manufacture and market 47 non-branded generic pharmaceutical products in 105 dosage strengths and forms. We are increasingly focusing our product portfolio on niche products in order to compete in this difficult and rapidly changing market.


**2008 Revenue**

$105.7m

**Proportion of Group sales**




**Top products**

Amoxicillin
Cefaclor
Doxycycline
Lisinopril
Lithium Carbonate

# How and where we work

## Our broad geographic footprint spans 49 countries around the world. Our growth is driven by high manufacturing standards, strong research and development capabilities and experienced sales and marketing teams.

### Key

Our markets
R&D centres
Manufacturing plants

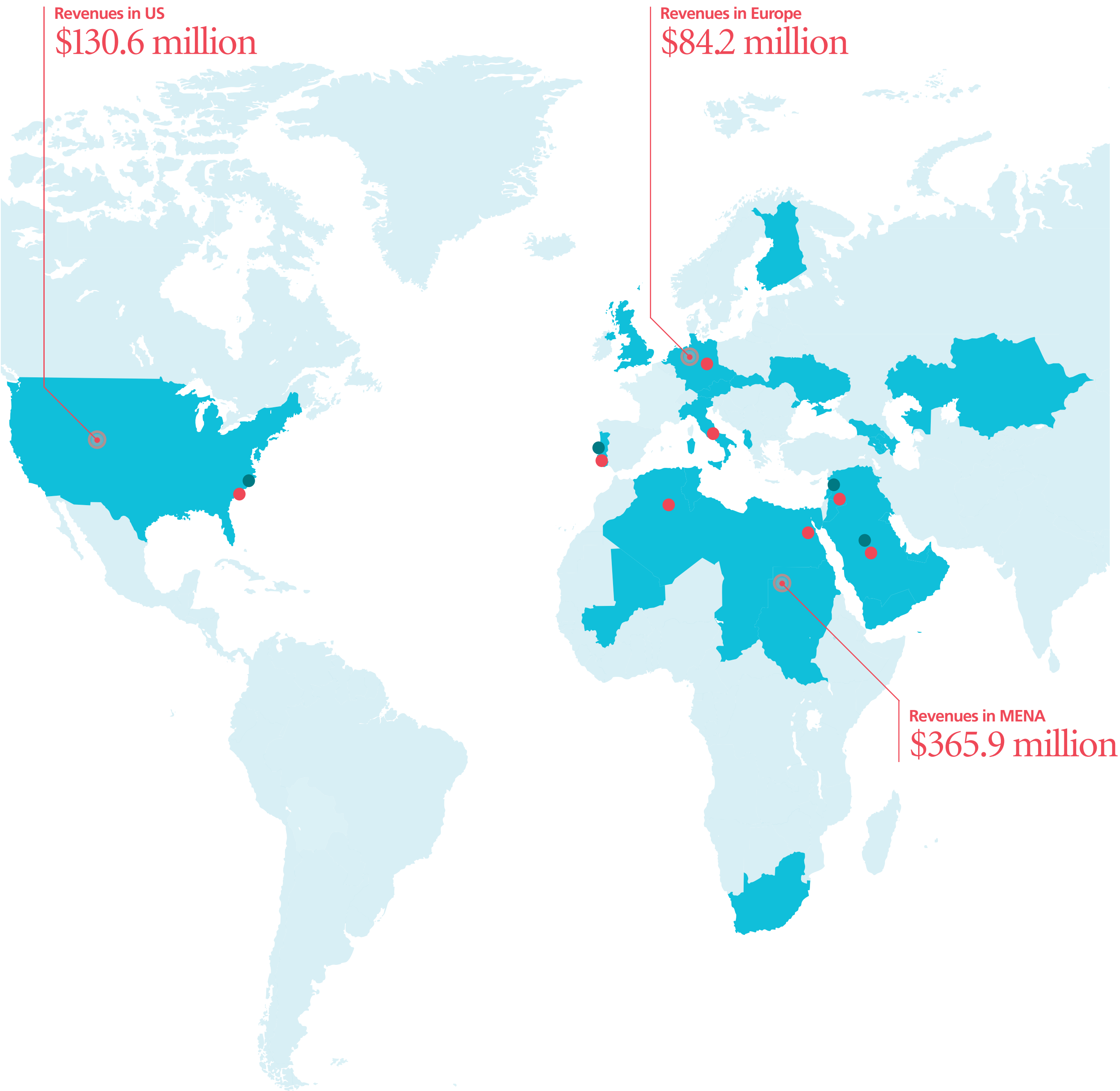
### 4 R&D centres

USA
Jordan
Saudi Arabia
Portugal

### 12 manufacturing plants

| | |
|---|---|
| Jordan* (x4) | Italy |
| Portugal* (x2) | Algeria |
| USA* | Germany |
| Saudi Arabia* | Egypt |

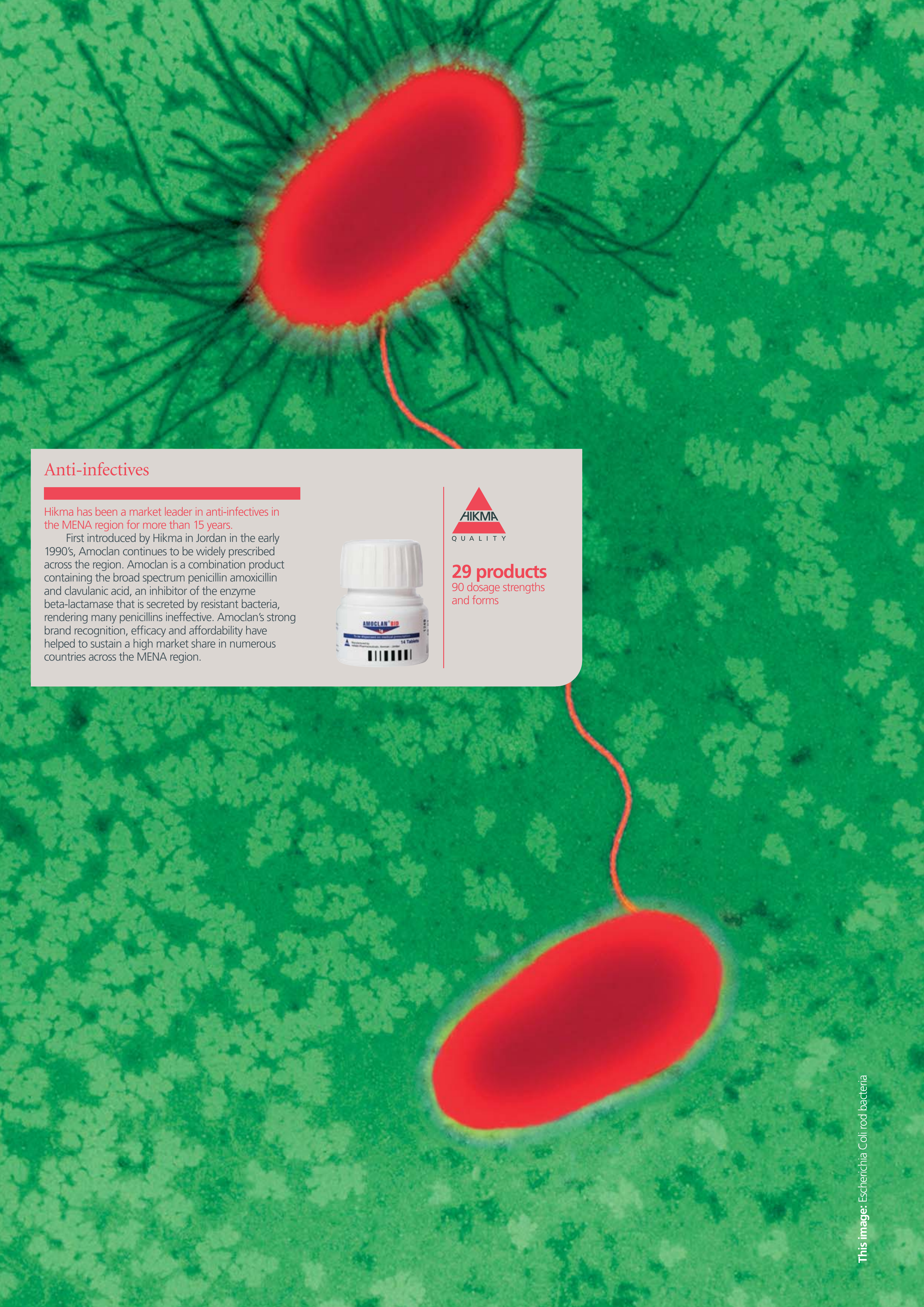
*FDA approved



# Trusted...
# to deliver better health

## How we improve people's lives

Our excellent product portfolio covering key therapeutic areas is focused on the patient. Our strong product pipeline, with 647 pending approvals across all regions and markets, demonstrates our commitment to continuing to improve people's lives. Our aim is also to provide better access to medicines in most of our markets by delivering cost effective products to patients.



## Anti-infectives

Hikma has been a market leader in anti-infectives in the MENA region for more than 15 years.

First introduced by Hikma in Jordan in the early 1990's, Amoclan continues to be widely prescribed across the region. Amoclan is a combination product containing the broad spectrum penicillin amoxicillin and clavulanic acid, an inhibitor of the enzyme beta-lactamase that is secreted by resistant bacteria, rendering many penicillins ineffective. Amoclan's strong brand recognition, efficacy and affordability have helped to sustain a high market share in numerous countries across the MENA region.



HIKMA
QUALITY

**29 products**
90 dosage strengths and forms

**This image:** Escherichia Coli rod bacteria


"Feel like playing again."

This image: Gram-positive bacteria, staphylococcus aureus

## Cephalosporins

Our Injectables business has a long history in producing high quality cephalosporins. Cephalosporins are bactericidal antibiotics that have the same mode of action as other beta-lactam antibiotics such as penicillins. We are very proud to have in our portfolio Samixon (ceftriaxone) which is a potent third generation cephalosporin with a broad spectrum activity against both gram-positive and gram-negative bacteria.

In our cephalosporin manufacturing facility in Portugal, we produced 22 million vials for our markets in the US, MENA and Europe in 2008.


HIKMA QUALITY

**6 products**
34 dosage strengths and forms


"Back to my best."

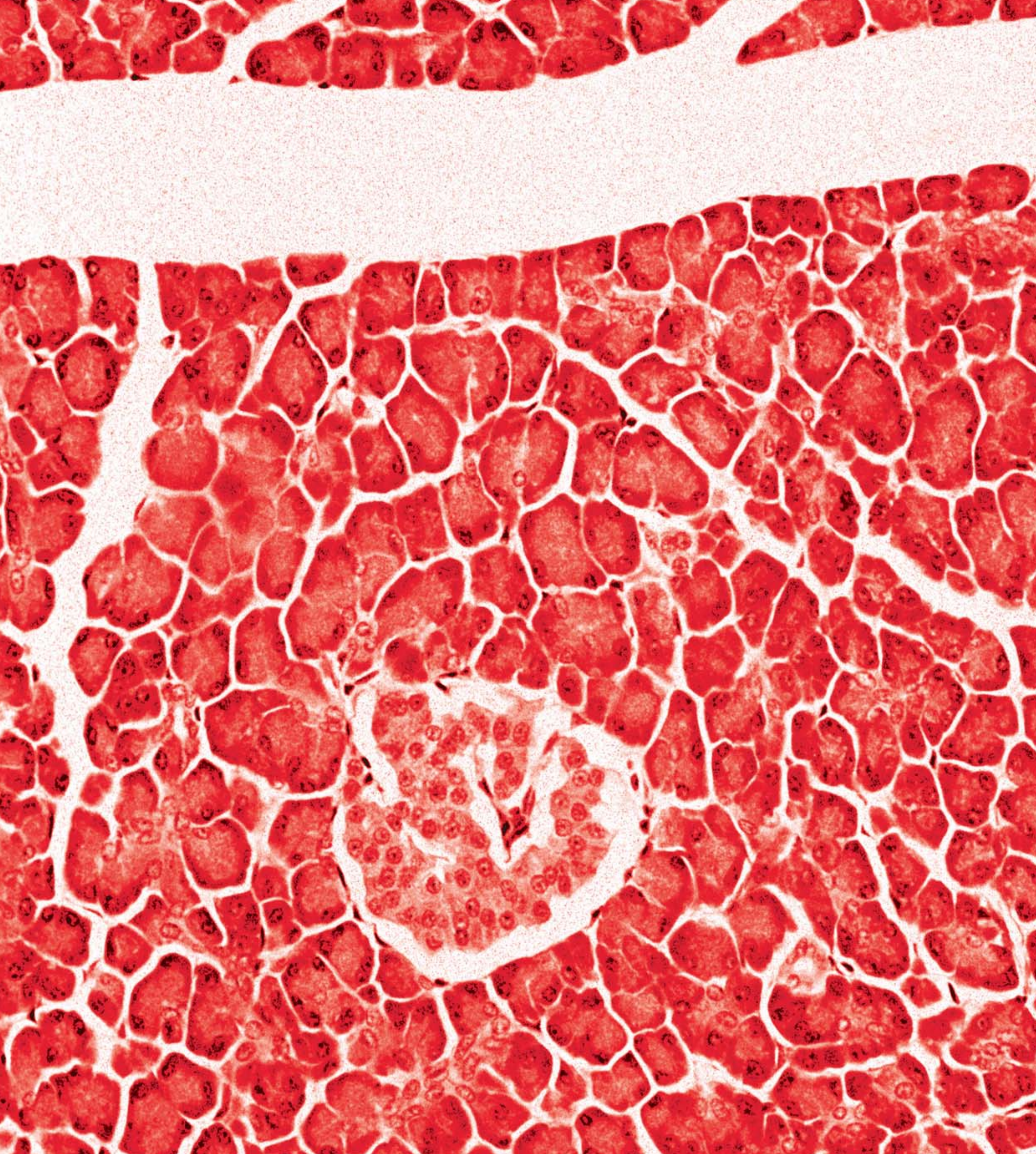
# Alimentary Tract and Metabolism

Through the acquisition of APM in December 2007, Hikma added Actos® (pioglitazone), a leading treatment for type 2 diabetes to its MENA product portfolio. Actos® is sold under-licence from Takeda.

Actos®, along with healthy eating and physical activity, works by treating insulin resistance, an important defect of type 2 diabetes. Actos® helps the body use insulin more effectively by making cells more sensitive and controlling blood sugar levels. Hikma's strong sales team across the MENA region have nearly doubled Actos® sales and significantly increased its market share.


HIKMA
QUALITY

**46 products**
76 dosage strengths and forms



“Harmonising my life.”

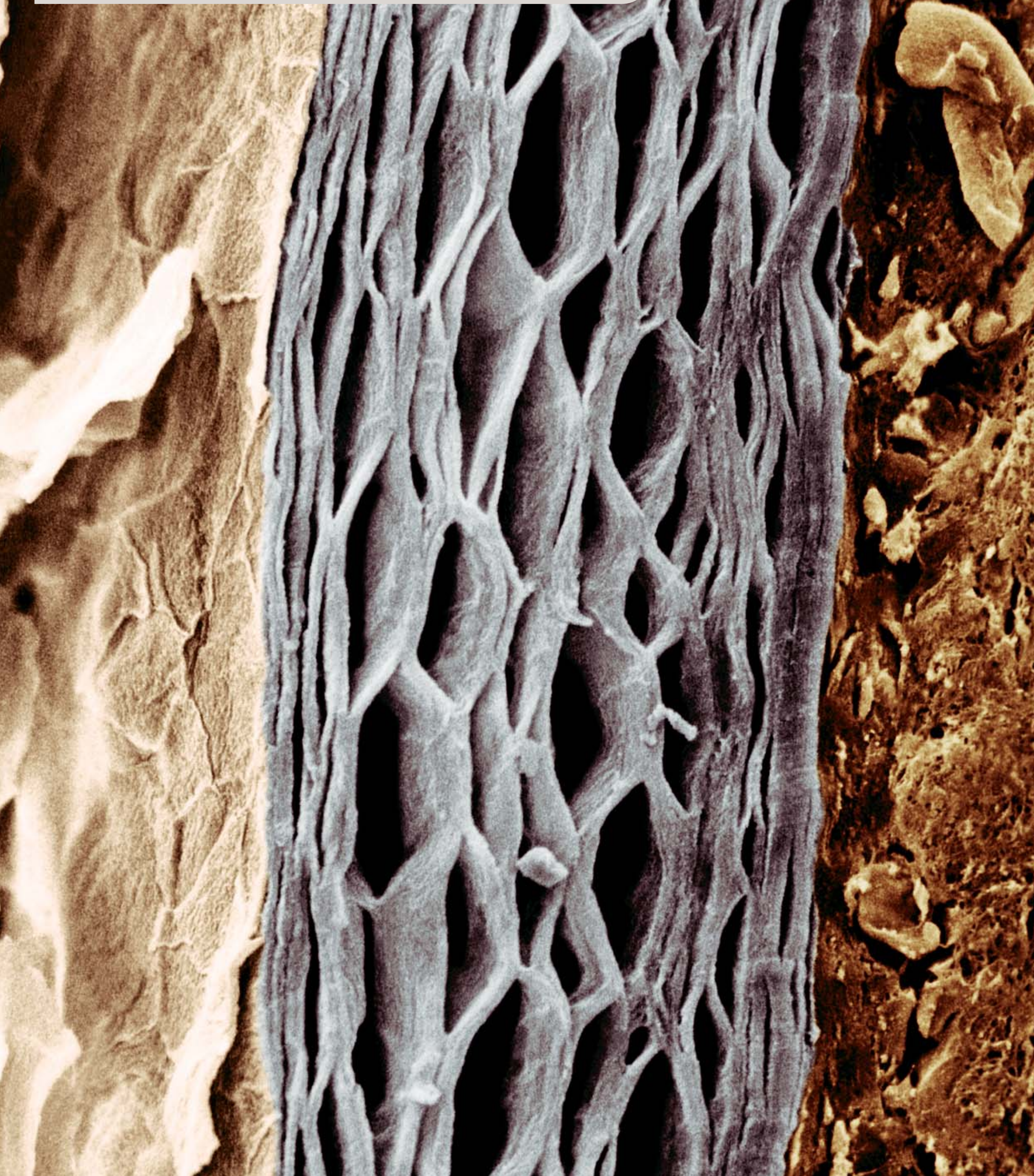
**Opposite image:** Human pancreas

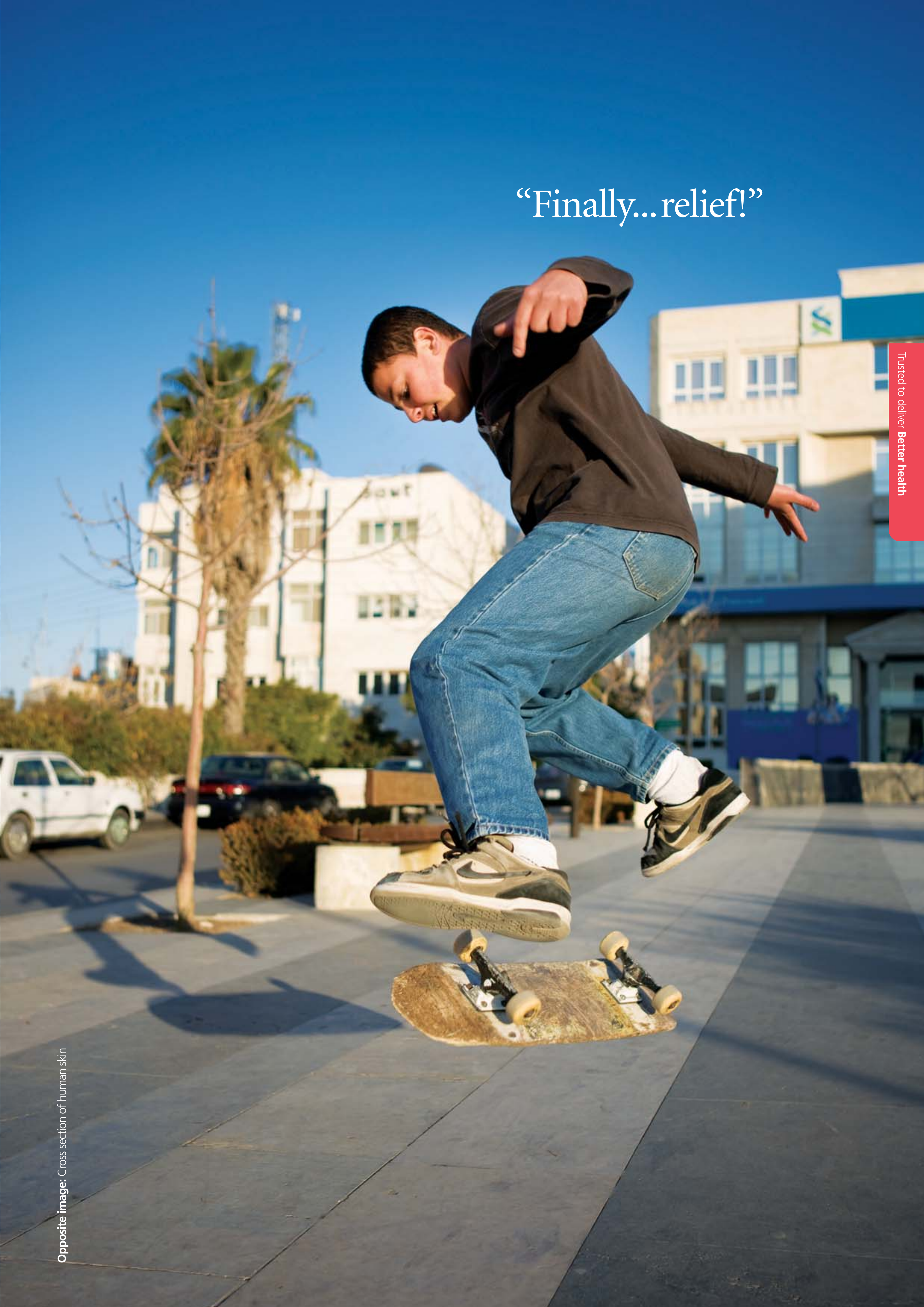
## Dermatologicals

Through Hikma's strong relationship with Astellas, which dates back to the late 1970's, Hikma is able to sell under-license some of Astellas' leading brands in the MENA region.

Protopic® (tacrolimus) is a prescription ointment containing the immunosuppressant tacrolimus and is used to treat moderate to severe eczema. It has proven effective in helping both adult and pediatric patients in controlling this troublesome condition. Through Hikma's strong promotion, Protopic® enjoys a market share of over 60% in the main MENA markets.


**33 products**
46 dosage strengths and forms






**Opposite image:** Cross section of human skin

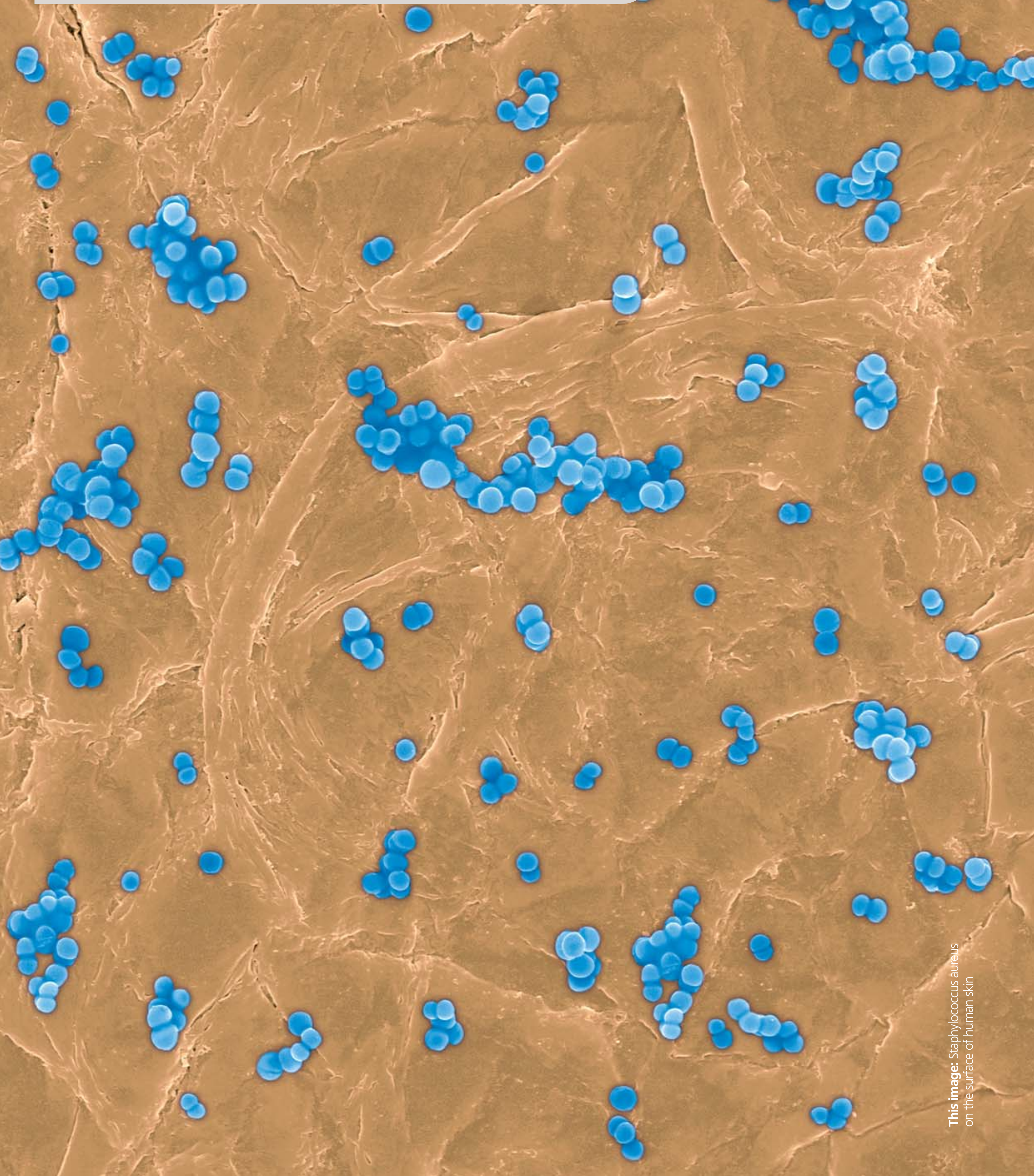
# Injectable Anti-infectives

Our injectable portfolio in the MENA region includes a number of excellent anti-infective products. Two of our leading brand names are Targoplanin (teicoplanin) and Prizma (piperacillin/tazobactam).

Both are recommended for treatment of resistant pathogens and life threatening infections and both products were the first generic versions introduced to the market. This has allowed increased patient reach and lowered institutional expenditure on this category of products.


HIKMA
QUALITY

**20 products**
59 dosage strengths and forms

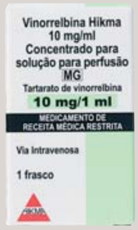


**This image:** Staphylococcus aureus on the surface of human skin

"A clean bill of health."

# Oncology

Following the oncology acquisitions we made in 2007, we are now present in one of the fastest growing therapeutic areas in the pharmaceutical industry. Our global oncology portfolio includes primarily injectable cytotoxics products. These products can be used for the treatment of a wide range of tumor types and are still the cornerstone of cancer therapy. Hikma will continue to build its oncology portfolio and aims to become a speciality provider of products for oncology and supportive care across all the Hikma markets.

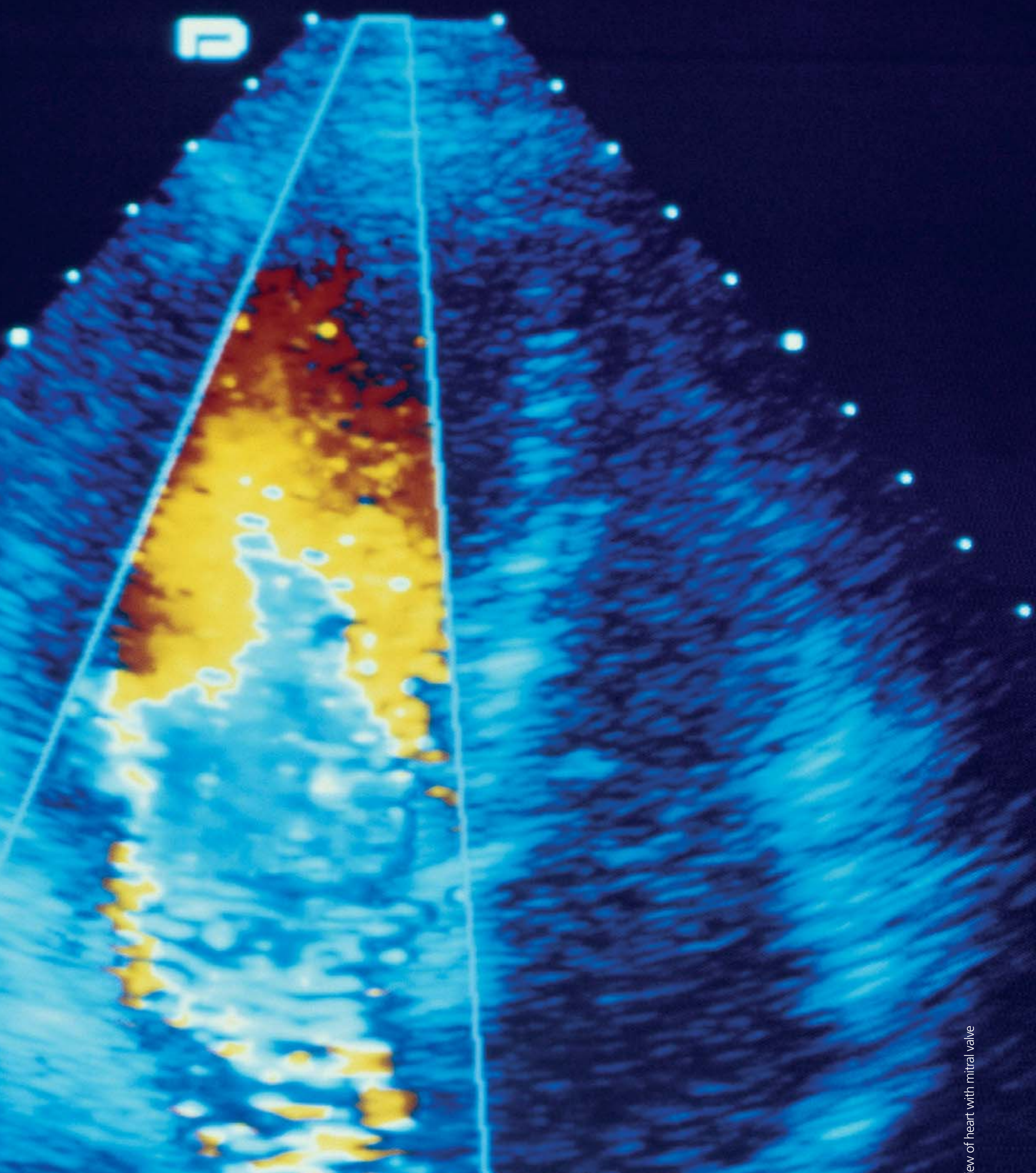



HIKMA QUALITY

**13 products**
49 dosage strengths and forms

**This image:** Cancer cells


“Beating cancer.”



**This image:** Ultra sound apical four chamber view of heart with mitral valve

## Cardiovascular

Heart disease and stroke, together remain the leading cause of death in the United States. It is estimated that cardiovascular products make up over 15% of the total US generic pharmaceuticals market. Hikma is committed to expanding its cardiovascular portfolio in the US to include a comprehensive line of treatments for a range of cardiovascular disease conditions. A leading product in Hikma's generic portfolio in the US is Digoxin. It is used to treat congestive heart failure and to lower heart rate.


HIKMA QUALITY

**8 products**
29 dosage strengths and forms

“Looking for a healthy life.”

# Trusted... to deliver our strategy

## Our vision

To build Hikma into a world class, leading speciality pharmaceutical company. This will be achieved through both organic growth and by acquisitions that align with our strategy. As we build the business it is our goal to maintain the high standards of ethics and responsibility that have always been central to the way we operate.

Our strategy has six core priorities:

- Strengthening our leading position in the MENA region
- Developing our global product range in growing therapeutic areas
- Extending our reach and diversity through partnerships
- Increasing the scale of our speciality Injectables business
- Leveraging our expertise and capacity in the US market
- Maintaining our world-class manufacturing and API sourcing capabilities

# Chief Executive Officer's strategic review

## In this year's report to shareholders, we've set out our vision – to build Hikma into a world-class, leading speciality pharmaceutical company – and the strategic priorities to achieve this vision, against which we can measure our progress.

Said Darwazah *Chief Executive Officer*

2008 Revenue
**$580.7m**

2008 Operating profit
**$113.8m**

2008 Submissions*
**233**

* across all regions and markets in 2008

In 2008, we made significant progress towards delivering on some of these priorities, particularly in the MENA region and in our speciality Injectables business. In our Generics business in the US, however, we found delivering on our priorities more challenging. Importantly, we ended the year on a stable footing in the US and better placed to drive each of our businesses forward in 2009.

### Strengthening our leading position in the MENA region

Our degree of focus on the fast-growing MENA region is unique and we increased our penetration of this valuable market in 2008 both through organic growth and the integration of two major acquisitions. Total MENA sales reached $366 million in 2008, or 63% of Group sales – an increase of 60% over 2007.

Clearly our business in the MENA region benefited from the fast growing local pharmaceutical markets, which grew by an average of 18.5% in 2008, four times as fast as the global market.

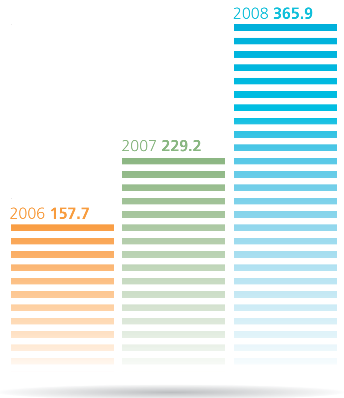
Acquisitions also played an important role in the growth we achieved. Following the integration of Hikma Egypt (previously Alkan) we are now firmly established in the Egyptian market, the second largest of the 17 private pharmaceutical markets in which we operate in the MENA region. Hikma Egypt's sales grew by 58% over the year reflecting the benefits of applying our sales and marketing expertise and substantial improvements in operating efficiency. The acquisition of Arab Pharmaceutical Manufacturing (APM) brought us valuable additional manufacturing capacity in Jordan and also licences for a number of patented products that we are now selling throughout MENA. Our sales effort has proven very successful, with APM's revenues growing by 38% in 2008.

### Developing our global product range in growing therapeutic areas

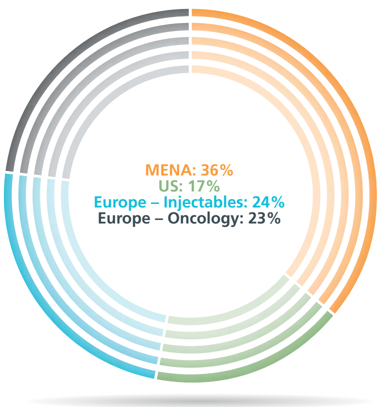
Further growth in the MENA region as well as in Europe and the US came from the development of our product portfolio. We increased our product range in 2008, from 353 to 369 products, enhancing our potential in core markets and bringing opportunities in newer markets across all regions.

Importantly, we continued to increase our focus on higher margin, value-added products in targeted therapeutic areas such as cardiovascular, CNS and oncology. We also increased our emphasis on "quality sales" to ensure that we are getting the most in terms of profit and cash collection from the very strong Hikma brand name and reputation.

MENA sales
$million
+60%




2008 Injectable sales
% by region




## Extending our reach and diversity through partnerships

We seek to strengthen our relationships with all stakeholders within the healthcare value chain. Expanding our in-licensed business with research-based multinational companies is a key part of this growth strategy and will enable us to continuously launch new innovative medical treatments valued by patients and physicians.

Our in-licensed products performed extremely well in 2008, with sales growing by 63%. Sales of in-licensed products acquired through acquisitions exceeded expectations and the Takeda products in particular, which include Actos™ and Blopress™, grew by 64% in 2008. This growth was achieved in APM's existing markets. As we begin to launch these products in new markets such as Egypt and Algeria we expect to see incremental sales coming through in 2009.

## Increasing the scale of our speciality Injectables business

Our speciality Injectables business experienced rapid growth in sales in MENA and the US in 2008, up 43% and 29%, respectively. This helped to compensate for the increase in pricing pressure in Germany.

We feel that our presence in the MENA region truly differentiates us from our global competitors. As MENA sales increase as a percentage of overall Injectable sales, our profitability in this business should also improve.

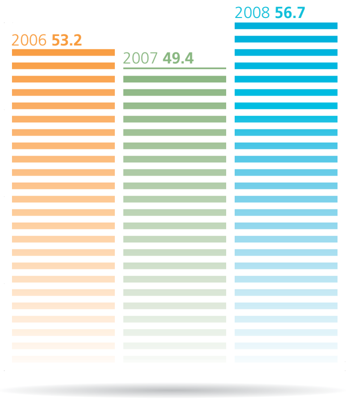
Our developing presence in the field of oncology is also a key strength and should help to drive future growth and improve profitability. The global oncology and cancer care market is growing rapidly, with an increasing number of specialist hospitals and clinics focused on treating this growing disease. Oncology is targeted to represent an increasing percentage of Injectable sales in 2009 as we launch our oncology products in the MENA region and continue to roll out our oncology portfolio across Europe.

## Leveraging our expertise and capacity in the US market

Sales in our Generics business in the US were adversely affected by the completion of a major Government supply contract at the end of 2007. The absence of these revenues in 2008 was coupled with deteriorating market conditions and intense competition and pricing pressure. We have responded with a thorough overhaul of the business that has involved improving our ability to obtain cost-effective supplies of APIs from multiple sources, raising prices where possible, terminating unprofitable supply arrangements, improving manufacturing and distribution efficiencies and raising service levels. We have also made several management changes.

# Chief Executive Officer's statement
continued

Capital expenditure +14.8%
$m




These actions, as well as the FDA-enforced withdrawal of some suppliers from the US market, helped the Generics business return to profitable trading in the last quarter of 2008 and we are confident that the business, which has an exemplary compliance record, will regain full year profitability in 2009.

## Maintaining our world-class manufacturing capabilities

In 2008 we invested approximately $57 million in expanding and upgrading our capacity to meet growing demand. Although the acquisitions we made in 2007 raised our capacity (and also brought some new manufacturing processes), certain facilities have required upgrading to ensure the highest quality of manufacture.

## Acquisitions

Much of 2008 was spent integrating the four acquisitions we completed in 2007. Looking forward, we are confident that there remains considerable scope for further acquisitions, particularly in the MENA region, where the pharmaceutical market is highly fragmented and where many countries require or prefer a local manufacturing presence. We are focusing efforts on acquisitions in countries where we do not currently have a direct presence or where we can accelerate our penetration of existing markets.

## Management evolution

Hikma has grown rapidly over the past couple of years, both organically and through our acquisitions. This has brought a need to ensure that our increased size and complexity does not hinder our growth prospects and our flexibility to quickly capture new revenue opportunities. Furthermore, in our competitive industry and the current economic environment, we need to increase our focus on productivity, supply chain efficiency and returns on investment for our shareholders. As a result, we will be adapting our management structure in order to facilitate these important priorities.

Our revenue generation functions of sales and marketing, business development, R&D and registration in both MENA and Europe will now be overseen by Taghreed Shunnar, who previously managed our Branded Business. Freeing Taghreed and her team from production and operational activities will enable them to dedicate their efforts towards maintaining our top-line growth, creating new business opportunities and capitalising on them quickly. Taghreed has demonstrated considerable success in growing our Branded business, both through Hikma products and licensing partnerships, and I am sure that she will maintain this track record for our sales in both MENA and Europe.

"Management changes mean we are focussing on productivity, supply chain efficiency and returns on investment for our shareholders."

**Said Darwazah** Chief Executive Officer

The growing significance of the MENA region in the Injectables business model has led to an increasing overlap between our Injectables and Branded supply chains. We have significant manufacturing capabilities in 12 facilities across seven countries in MENA and Europe and we are sure that there is significant room for improvement if these facilities and their supply chains are managed in a more unified manner. As a result, our operations teams in Europe and MENA will now be working together in order to realise that potential.

This will lead to enhanced working capital management, realisation of manufacturing, supply and distribution synergies, and help our sales function by efficiently delivering products to their customers – when they need them and where they need them. Bassam Kanaan will be heading our efforts in this regard in addition to his role as Chief Financial Officer. Bassam has been with us for seven years now as Group CFO and his thorough understanding of our global operations will enable him and his team to make this change a success.

The sales and operations aspects of the Generics business will continue to be run by Mike Raya, given the unique characteristics of the US market and the management changes that we have made there that have already proved successful.

Majda Labadi, who previously led our Injectables segment, will now be heading up the critical function of Group Human Resources, so that we can attract and retain the talent Hikma needs to grow.

Our position in growing markets and broad geographical spread, combined with our strong brands and reputation for quality, gives us great confidence that we can deliver on our objective to become a leading global multinational speciality pharmaceutical company.

Said Darwazah *Chief Executive Officer*

# Strengthening our leading position in the MENA region.

Our strong position in the MENA region is unique with operations in 17 MENA markets and more than 1,200 sales and marketing employees. Recent acquisitions have enhanced our presence in existing MENA markets, brought high quality and complementary product portfolios and provided access to new markets, including the large and fast growing Egyptian market. We are confident that the MENA region will continue to offer significant and sustainable market growth opportunities for our existing business and we continue to look for acquisitions across the region.

## Increasing penetration of our core markets

At the end of 2008, Hikma is the fifth largest pharmaceutical manufacturer in the MENA region with a market share of 3.4%* competing against major multinational pharmaceutical companies as well as local competitors. In our core markets, Saudi Arabia, Algeria, Jordan and Sudan, we are one of the top 5 players and across all our markets many of our products have a market share of 15% or more.

**Branded business market share***

| | Position | Share |
|---|---|---|
| **1 Jordan** | **1** | 12.4% |
| **2 Algeria** | **4** | 6.4% |
| **3 Saudi Arabia** | **5** | 4.9% |

* Source: IMS Health. MAT Dec. 08.
Retail sales only.

**A technician in our Jordan facility**
The combined efforts and dedication of our employees have been an important factor behind Hikma's strong market position.

“Proud to make a difference.”

# Business and financial review

## This year we have delivered record revenue growth of 29.4% with strong performances in the Branded and Injectables businesses and generated excellent operating cashflow through a strong focus on working capital management.

### Key performance indicators

The Board measures progress on our strategic objectives by reference to five key financial performance indicators ("KPIs") applied on a Group-wide and segmental basis. These same indicators are used by executive management to manage the business. Performance in 2008 against these indicators is set out in the table below left, together with the prior year performance data.

It is important to note that the 2008 figures were impacted by the difficulties experienced in the US Generics business.

For 2009 and onwards, the Board will measure Group performance by reference to an amended set of key performance indicators that better reflect the Group's focus on continued revenue growth and operational excellence. These indicators will be measured on both a Group-wide and a segmental basis. These new performance indicators are:

1. Revenue growth
2. Operating profit growth compared with revenue growth
3. Cash to cash cycle time
4. Return on invested capital
5. New product launches

### Hikma's key performance indicators

| | **Year ended 31 December 2008** | Year ended 31 December 2007 |
|---|---|---|
| Revenue growth | **29.4%** | 41.6% |
| Gross profit margin | **44.2%** | 49.4% |
| Operating profit margin | **13.8%** | 20.6% |
| Growth in profit attributable to shareholders | **–8.7%** | 14.8% |
| Number of new product launches in MENA, Europe and the US | **17** | 28 |

For the purposes of this report, "Company" means Hikma Pharmaceuticals PLC and "Group" means the Company and its subsidiary and associated undertakings.

### Group performance

Revenue for the Group increased by 29.4% to $580.7 million, compared with $448.8 million in 2007. The revenue contribution from Hikma Egypt (previously Alkan), APM and Thymoorgan – the acquisitions completed since the beginning of 2007 – was $102.5 million. Underlying organic revenue growth (excluding the impact of these acquisitions) was 9.5%, driven by strong performances in both the Branded and Injectables businesses but offset by a 14.9% decline in revenues in our US Generics business. As a result, the Branded and Injectables businesses accounted for 81% of revenues in 2008 compared with 71% in 2007.

The Group's gross profit increased by 15.8% to $256.5 million, compared with $221.5 million in 2007. Group gross margin was 44.2%, compared with 49.4% in 2007, primarily due to the impact of the significant decline in gross profit in the Generics business.

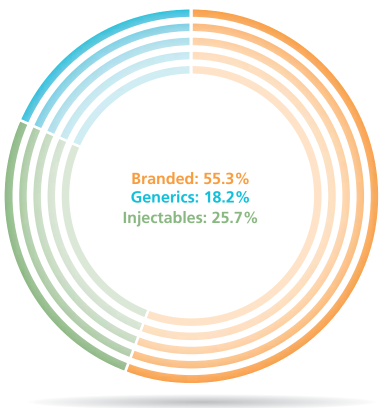
Group operating expenses rose by 36.1% to $175.8 million, compared with $129.1 million in 2007. This reflects primarily a strategic increase in sales and marketing expenses and control of our general and administrative and research

## Group revenues

| | 2008 | 2007 |
|---|---|---|
| **Revenue by segment** | | |
| Branded | **55.3%** | 44.3% |
| Injectables | **25.7%** | 27.0% |
| Generics | **18.2%** | 27.7% |
| **Revenue by region** | | |
| MENA | **63.0%** | 51.0% |
| US | **22.5%** | 32.0% |
| Europe and rest of world | **14.5%** | 17.0% |

[4] Before the amortisation of intangible assets (other than software) and exceptional items, which include acquisition integration costs and revisions to estimates for charge-backs, rebates and returns.

## 2008 Revenue by segment
%




and development costs during the year. Excluding acquisitions, operating expenses grew by 19.7%. On an adjusted basis[4], operating expenses as a percentage of sales increased by 0.3 percentage points to 28.5%, up from 28.2% in 2007.

Sales and marketing expenses increased by 48.5% to $90.6 million, largely reflecting the consolidation of APM and Hikma Egypt and the higher amortisation costs related to intangible assets arising on these acquisitions. Excluding the 2007 acquisitions of APM, Hikma Egypt and Thymoorgan, sales and marketing expenses rose by 19.8% as we invested in the promotion of our leading own-brand and in-licensed products. We expect to see further benefits from this in 2009. Sales and marketing expenses represented 15.6% of Group revenue in 2008, compared with 13.6% in 2007. We expect sales and marketing expenses as a percentage of sales to begin to decline slightly in 2009.

The Group's general and administrative expenses increased by 23.6% to $56.9 million, compared with $46.0 million in 2007. This increase partially reflects the consolidation of APM, Hikma Egypt and Thymoorgan and includes exceptional acquisition integration costs of $1.6 million. Tighter control of corporate general and administrative costs meant that there was only a slight increase of $1.3 million, bringing total corporate general and administrative costs to $19.4 million, compared with $18.0 million in 2007. Overall, general and administrative expenses represented 9.8% of Group revenue in 2008, compared with 10.3% in 2007.

Investment in R&D increased by 14.6% to $22.2 million, with total investment in R&D now representing 3.8% of Group revenue, compared with 4.3% in 2007. This decline mainly reflects an increase in the proportion of our development projects in the MENA region where development costs tend to be lower than in the USA or Europe. It also reflects a strategic shift towards the acquisition of product files and related product intangibles.

Other net operating expenses, consisting mainly of provisions against slow moving items of $8.6 million partially offset by foreign exchange gains of $1.2 million, were $6.2 million, compared with $2.8 million in 2007. The major reason for the increase in 2008 was the provision that we made in our US Generics business for slow moving items due to deteriorating market conditions.

Operating profit for the Group decreased by 12.7% to $80.7 million, compared with $92.4 million in 2007, and Group operating margin decreased to 13.9%, compared with 20.6% in 2007. This decline reflects, for the most part, the loss incurred in our Generics business where operating profit fell by $37.4 million from 2007 to 2008.

Adjusted operating profit for the Group, defined as operating profit before the amortisation of intangible assets (other than software) and exceptional items, which include acquisition integration costs and revisions to estimates for charge-backs, rebates and returns, was largely unchanged in 2008 at $94.3 million,

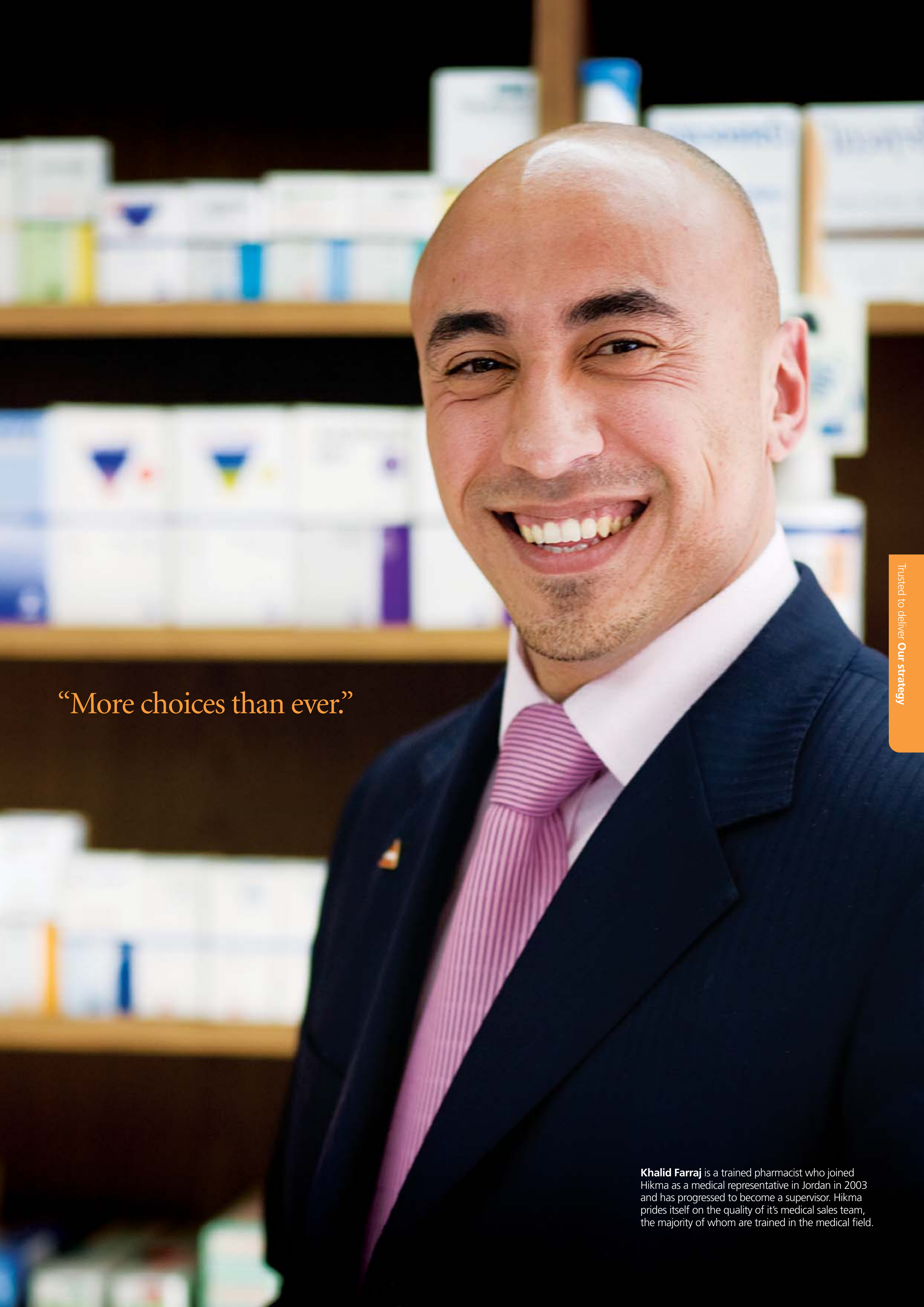
# Developing our global product range in growing therapeutic areas.

Diabetes is growing in the MENA region, where the ageing population together with lifestyle changes have led to an increase in type 2 diabetes. In fact the United Arab Emirates, Bahrain, Kuwait and Oman are amongst the 10 countries in the world experiencing the greatest increases of diabetes amongst their populations. With the growing incidence of diabetes comes an increase in cardiovascular disease, with diabetes patients two to four times more likely to develop cardiovascular disease than the general population.

To address the changing needs of patients in our markets our portfolio is more focused on the cardiovascular and metabolic therapeutic areas. In 2008 we launched five new cardiovascular products, one diabetes product and two central nervous system products.

## Accessing quality products through our in-licensing partnerships

**Blopress® and Blopress® Plus from Takeda**
Blopress® (candersatan cilexetil) which is an angiotesin II receptor blocker (ARB) revolutionizes hypertension treatment by blocking the action of the hormone responsible for high blood pressure. Blopress® Plus offers hypertensive patients additional blood pressure control through an innovative single pill combination and was recently launched in Jordan, Tunisia, Bahrain and Qatar as a line extension.



“More choices than ever.”

**Khalid Farraj** is a trained pharmacist who joined Hikma as a medical representative in Jordan in 2003 and has progressed to become a supervisor. Hikma prides itself on the quality of it’s medical sales team, the majority of whom are trained in the medical field.

# Business and financial review
continued

compared with $95.1 million in 2007. These exceptional items include a $4.8 million one-off provision for revisions to our estimates for chargebacks, returns and rebates in our US Generics business and $1.6 million of acquisition integration costs associated with the acquisition of APM and Hikma Egypt. Adjusted operating profit margin was 16.1%, compared with 21.2% in 2007. This decline is attributed primarily to the difficulties experienced by our Generics business in the US but also to planned investment in sales and marketing related to new product launches in the Branded business.

## Research and development[5]

The Group's product portfolio continues to grow. During 2008, we added 17 new products to the Group portfolio that now includes 369 products in 767 dosage strengths and forms. We manufacture and/or sell 40 of these products under licence.

In 2008, Hikma received 154 regulatory approvals of which 91 approvals were for the Branded business, 60 for the Injectables business and three for the Generics business. Over the same period, 168 products and line extensions were launched across the Group, including the 17 new pharmaceutical compounds not previously marketed.

To ensure a continuous flow of new products from our pipeline, we submitted 46 regulatory filings for new products, and a total of 233 submissions across all regions and markets. As of 31 December 2008, we had a total of 107 pending approvals for new products and 647 pending approvals across all regions and markets.

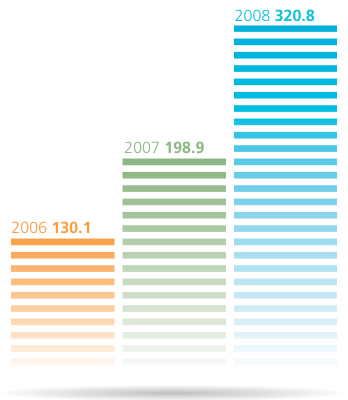
We estimate the approximate addressable market for our portfolio of pending approvals to be approximately $24 billion, based on estimates by IMS Health for the 2008 full year sales of the currently marketed equivalent products in the markets covered by the pending approvals.

At 31 December 2008, we had a total of 111 new products under development. We expect the majority of these to receive several marketing authorisations for differing strengths and/or product forms over the next few years.

| | Filings in 2008 | Filings in 2008 for new products and new line extensions | Filings in 2008 for new products only | Total pending approvals as of 31 December 2008 | Pending approvals for new products and new line extensions as of 31 December 2008 | Pending approvals for new products only as of 31 December 2008 |
|---|---|---|---|---|---|---|
| **Generics** | | | | | | |
| United States | 4 | 4 | 2 | 33 | 33 | 25 |
| **Branded** | | | | | | |
| MENA | 169 | 32 | 16 | 386 | 41 | 23 |
| Europe and rest of world | 16 | 16 | 6 | 37 | 37 | 14 |
| **Injectables** | | | | | | |
| United States | 8 | 8 | 6 | 32 | 32 | 21 |
| MENA | 26 | 12 | 7 | 145 | 17 | 11 |
| Europe and rest of world | 10 | 9 | 9 | 14 | 13 | 13 |
| **Group total** | 233 | 81 | 46 | 647 | 173 | 107 |

[5] Products are defined as pharmaceutical compounds sold by the Group. New products are defined as pharmaceutical compounds not yet 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. Filings include only filings for new products and the first filing of line extensions in a segment or region. Approvals are comprehensive and include approvals for new products and line extensions and approvals in new countries. Pending approvals include only applications that are pending for new products and the first filing of a line extension in a segment or region.

Branded revenues
$million +61.3%




2008 MENA market share

| | Rank | YoY Growth % | Market share % |
|---|---|---|---|
| Top nine MENA markets | | 18.5 | 100 |
| Sanofi-Aventis | 1 | 20.9 | 11.1 |
| Glaxosmithkline | 2 | 17.2 | 7.7 |
| Novartis | 3 | 18.6 | 5.7 |
| Pfizer | 4 | 12.7 | 5.2 |
| **Hikma** | **5** | **27.0** | **3.4** |
| Spimaco | 6 | 12.9 | 2.4 |
| Bayer | 7 | 18.8 | 2.2 |
| Astrazeneca | 8 | 30.2 | 1.9 |
| Johnson & Johnson | 9 | 12.7 | 1.8 |
| Pharco | 10 | 24.2 | 1.6 |

## Branded Pharmaceuticals

The Branded business is our largest business in terms of revenue and operating profit. Branded revenues increased by 61.3% to $320.8 million in 2008, compared with $198.9 million in 2007, reflecting strong organic growth of 22.4% enhanced by the acquisitions we made in the MENA region in 2007. Trading continued to be strong across all our MENA markets, particularly Algeria, Jordan, Saudi Arabia and the other Gulf Cooperation Council (GCC) countries.

Both of the acquisitions in 2007 in the MENA region performed ahead of our expectations in 2008.

Sales at APM, acquired in December 2007, grew by 38% to $61.3 million in 2008 compared with reported sales of $44.4 million in 2007. This performance demonstrates how successful the integration process has been. We have improved APM's organisational structure by creating a new sales operation and logistics, supply chain, budgeting and production planning functions and we have integrated the Hikma and APM distribution channels in many markets. These changes are bringing synergies and will reduce future sales and marketing expenses. In order to improve working capital management, we have applied Hikma's standard terms of trade wherever possible. We have upgraded APM's manufacturing facilities to bring them into line with Hikma's demanding levels of quality and compliance standards. Through this process we nearly doubled production on most lines. Further capacity upgrades were made towards the end of the year that required a scheduled suspension of production at the APM plant for almost two months. Production has since restarted.

Sales at Hikma Egypt, acquired in September 2007, grew by 58% to $28.8 million (2008) compared with $18.2 million (2007). This acquisition significantly enhanced our exposure to the fast-growing Egyptian market. Hikma Egypt has now been fully integrated, with key functions such as finance, marketing and R&D incorporated into Hikma's global systems. We have also made significant process improvements, nearly doubling production output and units sold compared with 2007. We also made a significant investment in sales and marketing to launch the Hikma brand in the Egyptian market and to promote key products.

In 2008 our largest markets were Algeria, Saudi Arabia, Jordan and Egypt. More focused sales and marketing efforts have helped to drive customer demand and increase sales across these and most other Branded markets. Significant attention was paid to promoting new and recently launched products, strengthening our market position in key therapeutic areas and building brand recognition.

As a result of these efforts, Hikma is now the fifth largest pharmaceutical manufacturer in the MENA region, with a market share of 3.4%[6]. For the top nine retail pharmaceutical markets in MENA in which we operate, the total private market was worth approximately $7.3 billion in 2008 with year-on-year growth of 18.5%.

Algeria is the largest private pharmaceutical market in the MENA region. The private market in Algeria was worth over $1.7 billion in 2008, when it grew at a rate of over 30%. In 2008, we raised our market share in Algeria to 6.4% compared with 6.1% in 2007. We are now the fourth largest pharmaceutical manufacturer and the largest generic pharmaceutical manufacturer by value in the Algerian market.

[6] Source of all market and market share data: IMS Health, Moving Annual Totals as of December 2008 for the top 9 MENA markets in which Hikma operates (Algeria, Egypt, Jordan, Kuwait, Lebanon, Morocco, Saudi Arabia, Tunisia and the United Arab Emirates). These market figures are for retail pharmacy sales only and exclude hospital sales and government contracts that can be significant in certain markets

# Extending our reach and diversity through partnerships.

Hikma seeks to strengthen its partnerships with all stakeholders within the healthcare value chain. Expanding our under license business with research based multinational companies is a key part of this strategy and will enable us to continuously launch new innovative medical treatments valued by patients and physicians. In 2008, we signed three new agreements with originator pharmaceutical companies.

In order to differentiate ourselves from other local generic companies in the MENA region, we are forging strong lasting relationships and loyalty with physicians and the medical community by providing medical education programs and scientific workshops and conducting clinical studies.

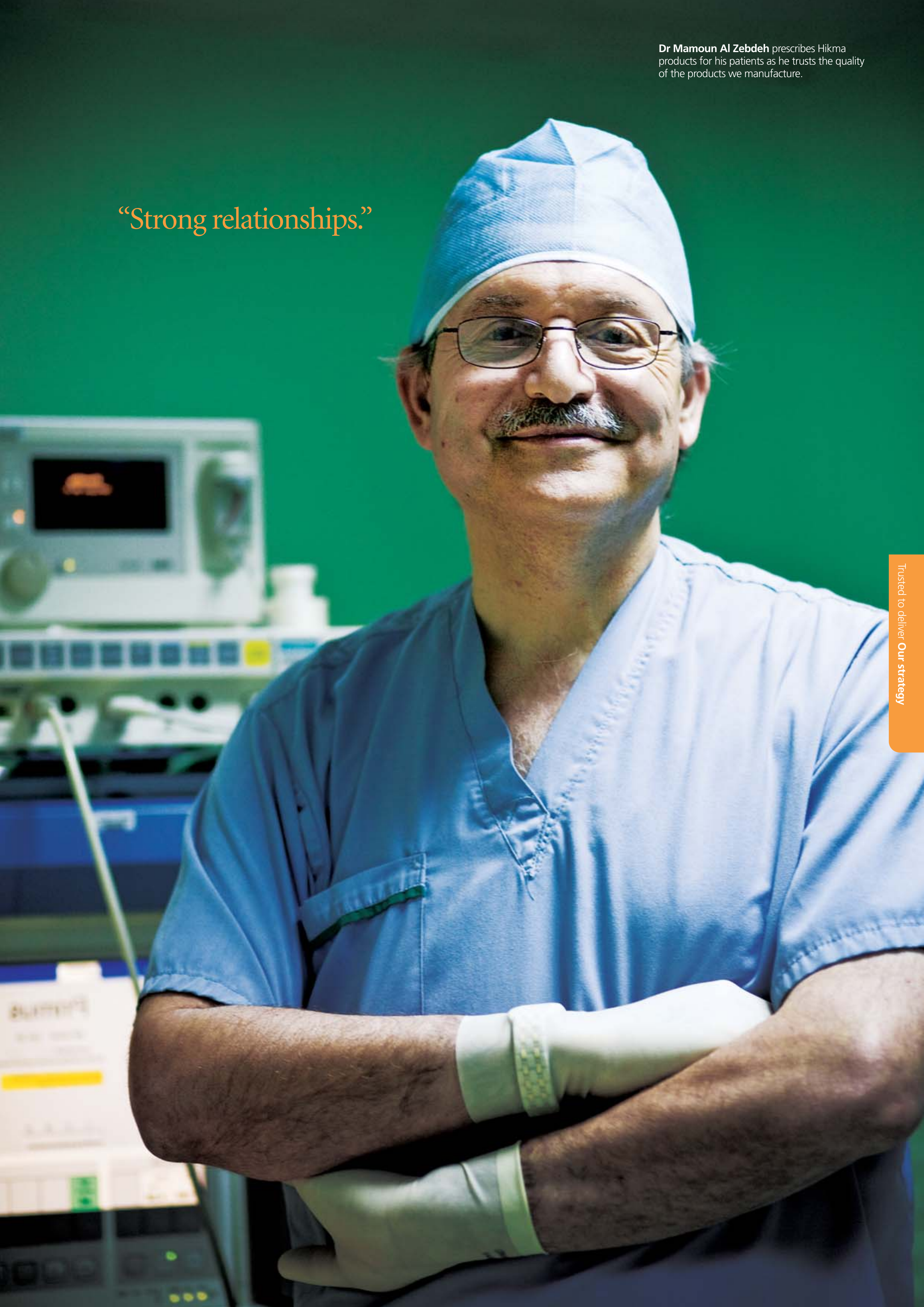
## The pioneering role of the GLORY study

Hikma is working on becoming a true long-term partner to health care providers. In April 2008, Hikma signed a major agreement with the Jordan Cardiologists Collaborating Group (JCC Group) to conduct an epidemiological study called Glory which aims to measure the relationship between Myocardial Infarction (MI) and the diabetes state of the MI patient. Hikma is the full sponsor of this study. The first results are expected at the end of 2009.

HIKMA CARDIOVASCULAR UNIT
CARING PARTNER

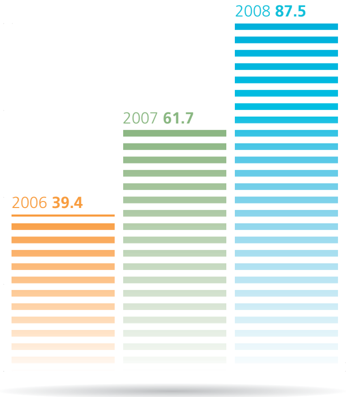
Dr Mamoun Al Zebdeh prescribes Hikma products for his patients as he trusts the quality of the products we manufacture.

“Strong relationships.”



# Business and financial review
continued

Branded operating profit +41.8%
$million




**Pharmaceutical market growth in 2008***

Egypt
+19%

Algeria
+31%

Saudi Arabia
+6%

Jordan
+17%

* Source: IMS Health MAT Dec 2008 Retails Sales only

Egypt is currently the second largest private pharmaceutical market in MENA. In 2008 it grew by 19% and was worth over $1.6 billion in retail sales. Our market share in Egypt, while still well below our strategic target of 5%, has increased significantly and currently stands at 1.4%. We expect further strong growth in 2009 as we launch more Hikma products through our Egyptian sales network.

Saudi Arabia is the third largest private pharmaceutical market in MENA. The retail market was worth in excess of $1.5 billion in 2008 when it grew by 6%. The acquisition of APM in 2007 has helped to strengthen Hikma's position in the Saudi market where we are the fifth largest pharmaceutical manufacturer, with a market share in value terms of 4.9% in 2008, compared with 4.8% in 2007.

Although the Jordanian pharmaceutical market is still comparatively small, we remain the clear market leader with a market share of 12.4%, up from 7.7% in 2007, and more than twice the share of the second largest pharmaceutical company operating in this market. The increase in our market share is due to our expanding product range and the consolidation of APM.

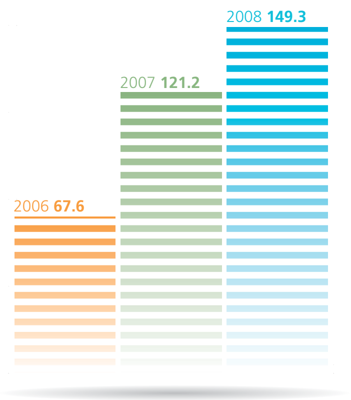
In-licensing remains an important part of our growth strategy in the MENA region and our portfolio of licensed products continues to deliver excellent results. In 2008 revenue from our 40 in-licensed products (including in-licensed products that we acquired from APM and Hikma Egypt) grew by 63% and accounted for one-third of total Branded sales. Our long-term strategic target is to raise this proportion to 50%. We are confident that our strong market position in the MENA region and our excellent track record with licensed products will continue to attract leading multinational partners. This is demonstrated by the excellent performance of the Takeda products that entered our portfolio in 2007. Sales of the antidiabetic Actos®, the antihypertensive Blopress® and the other products in-licensed from Takeda in 2007 grew by more than 64% in 2008 as we captured greater market share.

Gross profit in the Branded business increased by 60.0% to $172.8 million, compared with $108.0 million in 2007. The Branded business's gross margin remained stable at 53.9%, compared with 54.3% in 2007.

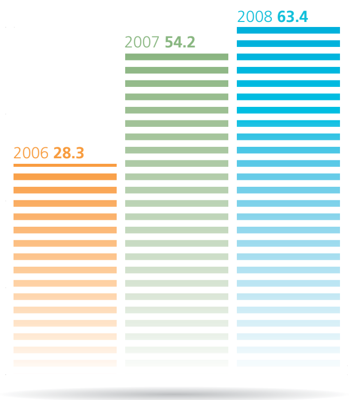
Branded operating profit increased by 41.8% in 2008 to $87.5 million. Operating margin in the Branded business was 27.3% in 2008, down from 31.0% in 2007. On an adjusted basis, excluding the amortisation of acquisition related intangible assets and exceptional items, operating margin in 2008 was 29.2% against 31.2% in 2007. The decline in margin primarily reflects the additional investment in sales and marketing activities and research and development to support the strong growth in Branded sales. This investment in sales and marketing relates in particular to the promotion of key products including the new in-licensed products acquired from APM.

In 2008, the Branded business received 91 regulatory approvals, including 17 new products in Jordan and Egypt, 67 in other MENA markets and seven in Europe and the rest of the world. In line with our strategic objectives for the Branded business, we launched a total of six new products in 2008, four in Jordan and two in Egypt. The total number of Branded sales and marketing staff operating across our 17 MENA markets at year end was 1,090, including 296 in Egypt, 222 in Saudi Arabia, 149 in Jordan and 164 in Algeria.

Injectables revenues +23.2%
$million




Injectables operating profit +8%
$million




## Injectable Pharmaceuticals

Revenue in our global Injectables business increased by 23.2% to $149.3 million. Excluding the contribution from the acquisitions of Thymoorgan and APM that we made in 2007, organic growth was 14.2%, driven by a strong performance in the MENA region and our growing business in the US.

Injectables revenue grew by 43.0% in the MENA region with Jordan and Algeria performing particularly well. This growth is attributable to the strength of our product portfolio, the quality of our sales force and a 50% increase in attractive tender business. The MENA region now represents 36.6% of Injectables sales, compared with 31.5% in 2007. We continue to see excellent prospects for growth in Injectables sales in the MENA region which we expect to account for an increasing percentage of our future Injectable sales.

Despite intensifying competition in the US injectable market, our US Injectables sales grew by 29.2% compared with 2007 and represented 16.7% of our global Injectables business. We saw strong demand in both our own product and private label business in the US. We benefited from a number of new product launches that resulted in a US product portfolio that was significantly more diverse than in 2007. We are also achieving higher sales volumes across a broader portfolio of cephalosporin antibiotics and have seen excellent growth in some of our liquid products.

In Europe, which includes our oncology business, we saw increasing pricing pressure in the German market. Overall European injectable sales reached $69.8 million, compared with $63.7 million in 2007, an increase of 9.6%. Excluding a $7million decrease in the year for non-recurring sales relating to 2 in-licensed products. European injectable sales rose by 25.7%. Europe now represents 46.7% of our Injectables business compared with 52.5% in 2007. We have appointed a new management team for the oncology business that will be expanding our product portfolio and also marketing these products in markets outside Germany in 2009, particularly in the MENA region.

Injectables gross profit increased by 17.0% to $63.4 million, compared with $54.2 million in 2007, but gross margin decreased to 42.4% compared with 44.7% in 2007. The decrease in gross margin reflects, in part, the inclusion for a full year of the Thymoorgan contract manufacturing business that has a lower gross margin than the rest of Hikma's Injectables business. It also reflects the consolidation of some low margin injectable sales contracts at APM that will not be renewed on completion. Excluding the acquisitions of Thymoorgan and APM, the Injectables gross margin was 45.1%, slightly below the 2007 level of 45.7%.

Injectables operating profit increased by 8.0% to $22.1 million, compared with $20.5 million in 2007. Injectables operating margin decreased to 14.8% in 2008, down from 16.9% in 2007, primarily as a result of the consolidation of APM's lower margin injectable sales. Excluding the consolidation of APM and amortisation of intangibles (excluding software), the Injectables operating margin was slightly higher at 17.3%.

During 2008, the Injectables business received 60 regulatory approvals across all markets, including 37 in the MENA region, 16 in Europe and the rest of the world and seven ANDA approvals in the US. A total of 61 products were launched, including nine new products.

# Increasing the scale of our speciality injectables business.

We see considerable scope to develop our market positions in each of our injectables markets. In MENA, we have an excellent opportunity to gain market share in both existing and new markets by leveraging our extensive product portfolio and pipeline. In Europe and the US where we benefit from expanding product pipelines and expect a steady stream of new product launches, we also have scope to continue to develop our growing market positions.

Building our oncology business will be a key priority across all our markets. In 2009 we expect to launch a number of these products in MENA and Europe and we will begin to register these products for the US market.

## A leading injectables supplier in MENA

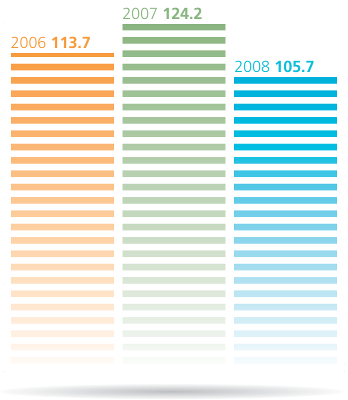
In the MENA region, we are the sole generic supplier of six injectable products. This has helped us to build brand recognition and gain market share, while at the same time bringing a lower cost alternative to the originator into the market. Sales of our injectables in MENA grew by more than 40%. Our aim is to differentiate ourselves from our competitors by focusing on high value added products such as lyophilised, oil suspension and oncology products where we benefit from a growing expertise.

**Dr Ragheb Al-Shakhshir** joined Hikma in 2000 as an R&D manager. He currently works in our Jordan facility as Vice-President R&D and is also responsible for analytical research reporting.

"Quality differentiates us."

# Business and financial review
continued

Generics revenues -14.9%
$million




## Generic Pharmaceuticals

Our Generics business is entirely focused on the US market for oral generics. Sales of injectable generics in the US market are included in our Injectables segment.

Revenue in our Generics business decreased by 14.9% to $105.7 million, compared with $124.2 million in 2007. This decline resulted initially from lower sales of the antihypertensive lisinopril following the completion, in December 2007, of our contract to supply the Department of Veterans Affairs. The absence of these revenues in 2008 was exacerbated by continued price erosion across other product lines and lower than expected demand for new products. In addition, as reported in our interim results, we made a one-off provision of $4.8 million relating to revisions in our estimates for chargebacks, rebates and returns.

All of these factors, as well as higher than expected production and API costs, led to a 67% decline in the Generics gross profit to $19.3 million, compared with $58.6 million in 2007. The Generics gross margin was 18.3%, compared with 47.2% in 2007. Consequently, the Generics business realised an operating loss of $5.8 million compared with an operating profit of $31.6 million in 2007.

We focused on stemming the losses in this business as quickly as possible and made several management changes. These included the appointments of a new General Manager and a new Vice-President, Sales and Marketing for all US operations.

This strengthened management team undertook a comprehensive review of the business in the second half of 2008 and identified a number of approaches to improving operating performance. Following an in-depth examination of profitability by product and by customer, we withdrew from the supply of some low margin products, implemented price increases where possible, secured lower cost sources of APIs, improved our manufacturing and distribution efficiencies, raised service levels and renegotiated our standard terms of trade.

We are pleased to report that these actions resulted in the Generics business returning to profitability in the closing months of 2008, although the profit achieved was not sufficient to offset losses incurred earlier in the year. We expect profitable trading to be sustained during 2009 as we continue to focus on implementing these actions. We have also noted a recent improvement in the prices of certain products in the US following the FDA-enforced withdrawal of some non-US suppliers in 2008.

During 2008, the Generics business received three regulatory approvals, of which two were new products. A total of seven products were launched, including two new products.

## Other business

Our other business segment consists primarily of Arab Medical Containers, a manufacturer of plastic specialised packaging, and International Pharmaceuticals Research Centre, which conducts bio-equivalency studies. These businesses, which supply third parties as well as other Group operations, had aggregate revenues of $4.8 million in 2008, compared with aggregate revenue of $4.5 million in 2007. This represented 0.8% of Group revenues in 2008.

These Other businesses delivered an operating loss of $3.7 million in 2008, compared with an operating loss of $3.4 million in 2007. This loss can be attributed primarily to corporate research and development costs that cannot be allocated to specific business segments.


**Metoprolol** is part of the beta-blockers' group which affect the heart and circulation. This drug is used to treat angina (chest pain), hypertension (high blood pressure) as well as heart attack. In the US, metoprolol was the highest selling new product for 2008.

"Efforts to improve operating performance in the Generics business resulted in a return to profitabilty in the last quarter of 2008."

**Said Darwazah** Chief Executive Officer

## Financial performance

Finance income and costs Net financing cost for the year was $16.7 million compared with $8.8 million during 2007. The increase is due to higher average debt levels during 2008 compared to 2007.

Profit before tax Profit before taxes for the Group decreased by $19.8 million, or 23.6%, to $64.0 million, compared with $83.8 million in 2007.

Tax The Group had a tax expense of $6.9 million in 2008. The effective tax rate was 10.8%, a year-on-year decrease of 12.7 percentage points. This improvement reflects the absence of profits in the USA and a further increase in the proportion of sales and profits generated in the MENA region.

Minority interest Hikma's minority interest was nil in 2008, compared with $1.6 million in 2007. This was primarily due to a decline in the profitability of Hikma's 51% owned subsidiary in Sudan.

Profit for the year The Group's profit for the year attributable to equity holders of the parent decreased by 8.7% to $57.1 million for the year ended 31 December 2008, compared with $62.6 million in 2007.

Adjusted profit for the year Excluding the amortisation of intangible assets (other than software) and exceptional items, which include integration costs and revisions to estimates for charge-backs, rebates and returns, the Group's adjusted profit for the year attributable to equity holders of the parent increased by 4.5% to $67.4 million for the year ended 31 December 2008, compared with $64.5 million in 2007.

Earnings per share Diluted earnings per share for the year to 31 December 2008 were 29.6 cents, down by 16.4% from 35.4 cents in 2007.

Dividend The Board has recommended a final dividend of 4.0 cents per share (approximately 2.8 pence per share), which will make the dividend for the full year of 7.5 cents per share, the same amount paid in 2007. The proposed final dividend will be paid on 2 June 2009 to shareholders on the register on 1 May 2009, subject to approval at the Annual General Meeting.

Operating cash flow and investment Net cash inflow from operating activities was $75.0 million, compared with $53.3 million in 2007. The previously reported 2007 operating cash flow has be reclassified and increased by $8.1 million. This improvement came as a result of our focus on effective working capital management where, excluding acquisitions, receivable days decreased by nine days and inventory days decreased by 21 days.

Net cash used for investing activities was $66.1 million, compared with $348.9 million in 2007. The latter included just under $300 million of expenditure on acquisitions ($71.7 million for Ribosepharm and Thymoorgan, $58.7 million for Alkan Pharma in Egypt and $163.4 million for Arab Pharmaceutical Manufacturing in Jordan). Capital expenditure amounted to $56.2 million, compared with $50.4 million in 2007. This expenditure related primarily to expansion projects in the Branded and Injectables businesses. During the year the Group also made regular investments to upgrade and maintain existing facilities.

On 17 January 2008 we successfully raised gross proceeds of £81.6 million (approximately $160 million) in an equity placing of shares, funding the acquisition of APM, strengthening our balance sheet and enhancing our flexibility to finance future growth.

# Leveraging our expertise and capacity in the US market.

Our Generics business operates in the competitive US market, by far the largest generics market in the world. Our experienced sales and marketing team is organized to meet the needs of this commoditized market with the support of our world class manufacturing facilities and an excellent regulatory record. With our renewed commitment to customer service, we continue to build on our solid relationships with our key customers across the various classes of trade in the US. In particular, we also support our business in the field through dedicated representatives who call on our hospital customers.

## High profile marketing

In addition to our sales directors and managers who service and strengthen our relationships with retailers, wholesalers and distributors across the country, we have a specialist hospital sales team that covers 34 states in the USA. This team works closely with the hospital pharmacists and buyers, to ensure excellent customer service and prompt product delivery in order that patients benefit from Hikma's quality products.


"Helping hospitals treat patients"

**Mary Beth Mobley** is one of our US Specialist hospital medical representatives, she covers the south east of the US and provides a support service for the hospital pharmacists.

# Business and financial review
continued

> "Our solid balance sheet and our focus on operating cash flow will enable us to pursue our growth strategy."
>
> **Said Darwazah** Chief Executive Officer

Outlook Given the prevailing economic conditions, in 2009 we are expecting Group revenues to grow by 10-15%, with an improvement in our gross margin of 1-2%. This will be driven by organic growth and supported by the acquisitions and investments we have made over the past two years. The higher end of these ranges is based on constant exchange rates while the lower end can be expected if the 2009 average exchange rate is at the current level.[7]

With over 60% of sales now generated in the MENA region, we should continue to benefit from the growth in that pharmaceutical market, which remains much higher than the global market. Our share of the MENA market should also continue to increase as we further penetrate existing markets, expand into new markets and grow our portfolio of own-brand and in-licensed products.

With new products and new markets, we believe that there remains considerable scope for us to grow our global Injectables business, particularly in the MENA region where we will be starting to launch our portfolio of oncology products. In our US Generics business, which returned to profitability in the fourth quarter of 2008, we will continue to implement the changes that helped to turn this business around and benefit from improving market conditions in the US.

Our solid balance sheet and continued focus on operating cash flow generation will give us the financial flexibility to pursue strategic acquisitions that will enhance our strong organic growth.

We are confident that the proven strength of Hikma's business model will enable us to deliver a strong performance in 2009 and the years ahead.

## Basis of preparation and forward-looking statements

This Business and Financial review has been prepared solely to provide additional information to shareholders 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 – using words such as "intends", "believes", "anticipates" and "expects". Where included, these 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 are based on assumptions and involve inherent risks and uncertainties 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 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.

## Principal risks and uncertainties

The Group's business faces risks and uncertainties. The section below includes the principal risks and uncertainties that the Group considers could have a significant effect on its financial condition, results of operations or future performance. The list is not set out in order of priority and other risks, currently unknown or not considered material, could have a similar effect.

[7] As of 16 March 2009, the exchange rate against the US dollar of the Algerian dinar was 73.846 and of the Euro was 0.77378 (Source Oanda Corporation www.oanda.com)

## Risk management: *Operational risks*

Regulatory Hikma is subject to extensive regulation on the approval, manufacture and distribution of its products in all its markets. There is no single worldwide harmonised set of regulations relating to the development, manufacture and sale of pharmaceutical products and the Group is therefore subject to different laws, regulations and codes depending on the regions or countries in which products are marketed. This is particularly relevant in the MENA region where there is no mutually-recognized regional regulatory body. Specific jurisdictions can therefore refuse to register a product or may require additional information even though it is approved in another jurisdiction. This can create significant compliance costs, and can also increase the time it takes to realise the full penetration of products into all markets.

The Group operates in diverse markets and geographic regions and is therefore subject to a broad range of industry, economic and political dynamics. The laws and regulations governing the manufacture and supply of our products are subject to change, which may lead to unanticipated business interruption or increased costs for compliance. Whilst the cost of such disruption of compliance can be significant, we believe that the wide geographic spread of our operations gives the Group the strength and flexibility to lessen the impact on the Group's results and financial condition of any such disruption.

Economic and political dynamics The Group operates in emerging markets, some of which have less developed political and legal systems, or which have a history of political volatility and therefore present greater challenges to the conduct of business than more developed markets. Whilst the Group has a wide geographical spread of operations, the failure of control, a change in the economic conditions or political environment or sustained civil unrest in any particular market or country could adversely affect the financial condition of the Group.

Risk of interruption of production Product manufacture is subject to continual regulatory control, and products must be produced in accordance with good manufacturing practice regulations. Our manufacturing sites are subject to approval and ongoing inspection by a large number of regulatory agencies. In addition, small changes in manufacturing processes may require further regulatory approval. These issues could result in additional compliance expense, and compliance failure could result in interruptions to production, product recalls, closure of manufacturing sites and other sanctions, which could adversely affect our business and its financial condition.

Regulated and other suppliers A compliance failure by any of our regulated suppliers – for both active and bulk ingredients – could lead to delays in production, product recalls, the potential for product liability claims and other regulatory sanctions. The business undertakes supply chain planning, and alternative sourcing of key products. However, for some components we may have to rely on single sourcing, which creates a greater risk of disruption to production in the event of regulatory non-compliance or interruption of supply. While the Group does not believe that any third-party supplier relationship is individually significant in terms of the entire Group, a failure in supply could disrupt production and restrict sales.

Government tender bids Whilst the majority of Group sales are 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.

# Maintaining our world-class manufacturing and API sourcing capabilities

We are extremely proud of our 12 world-class manufacturing facilities, most of which have passed inspections by regulators from multiple jurisdictions. Five of our facilities have been FDA approved. We are committed to maintaining an excellent compliance record at all of our facilities and to this end we make continuous investment in training our excellent workforce. API sourcing also remains a key priority. Our dedicated API sourcing team is focused on identifying high quality, cost effective suppliers for all our markets.

## One more FDA approved manufacturing plant

We continually seek to improve our production facilities. During 2008 Hikma Portugal's new cephalosporin plant was granted FDA approval and the same approval process was started at Thymoorgan. In Portugal we have commenced construction of a third plant containing state of the art liquid nitrogen freeze drying capacity and a high speed liquid filling line. FDA appoval of this plant is expected towards the end of 2010.

**A technician at our Portuguese plant**
Hikma's commitment to providing high-quality products starts with continuous training of our workforce and is an integral part of maintaining high manufacturing standards.

“Focused on high quality products”

Business and financial review
continued

**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 pharmaceutical product 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 material costs represented over 30% of the Group's net sales in the year ended 31 December 2008, 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 API's 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.

**Acquisitions and strategic alliances** Acquisitions remain a key part of the Group's strategy to develop and grow its business. The Group also seeks long-term licensing arrangements and strategic alliances to expand its product portfolio and geographical presence. The risks associated with this strategy include the availability of suitable acquisition candidates and assimilating and integrating acquired companies into the Group. Other risks include delays in implementation or unexpected costs or liabilities. The Group may be at risk of failing to realise operating benefits or synergies from completed acquisitions. The Group mitigates these risks by implementing a structured integration process which can include placing experienced management into the acquired company to effect the swift installation of internal controls and by subjecting management processes to close monitoring and review by internal audit and senior management. In respect of long-term licensing arrangements, a failure to agree appropriate commercial terms on renewal of such agreements could lead to a reduction in revenues as replacement products are sourced.

## Risk management: *Financial risks*

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

**Foreign exchange risk** The Group uses the US Dollar as its reporting currency and is therefore exposed to foreign exchange movements, primarily in the European, Algerian, Sudanese and Egyptian currencies, that could materially affect the

Group's financial results. Group Treasury attempts to mitigate this risk through various methods: entering into currency derivative contracts where possible, foreign currency borrowing and matching foreign currency revenues and costs. Using these methods has not had a material impact on the Group's financial position at 31 December 2008. See Note 29 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 rates. Using these swap agreements has not had a material impact on the Group's financial position at 31 December 2008. See Note 29 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 use of various financial instruments such as letters of credit, factoring and credit insurance arrangements. Further details are set out in Note 29 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. Corporate Treasury ensures the Group debt/capital structure and banking arrangements can accommodate these financing needs. Corporate Treasury also endeavours to efficiently utilise excess liquidity from one subsidiary to another, while complying with any foreign currency, legal or tax restrictions.

Going concern Although, the current economic conditions may affect short-term demand for our products, as well as place pressure on customers and suppliers which may face liquidity issues, the Group's geographic spread, product diversity and large customer and supplier base substantially mitigate these risks. In addition, the Group operates in the relatively defensive generic pharmaceuticals industry which we expect to be less affected compared to other industries that are subject to greater cyclical changes.

The Group has $229 million of banking facilities of which $121 million were undrawn as at 31 December 2008. These facilities are well diversified across the operating subsidiaries of the Group with a number of financial institutions. The majority of these facilities are short term, uncommitted working capital related. See Notes 24, 27 and 29 for details. However, we continue to expect them to be renewed annually. In addition the Group maintained cash balances of $63.5 million as at 31 December 2008. The Group's forecasts, taking into account reasonable possible changes in trading performance, facility renewal sensitivities and maturities of long-term debt, show that the Group should be able to operate well within the levels of its facilities and their related covenants.

After making enquiries, the Directors believe that the Group is adequately placed to manage its business and financing risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts, as stated in the Directors' report.

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

# Business and financial review
continued

## Taxation

Almost all of the Group's earnings are derived in jurisdictions other than the United Kingdom and are taxed there. Some of these overseas countries offer more favourable tax rates in comparison to each other and the United Kingdom. In addition to the United Kingdom, tax laws and regulations in many of the countries where the Group operates include international rules that aim to protect the tax base of such country. Any change to such rules could negatively affect the effective tax rate of the Group or could create costly compliance requirements. Therefore, the management maintains close observation of any intended or proposed changes to such rules, both in the United Kingdom and in other key countries where the Group operates.

## Critical accounting policies and estimates

The Group's accounting policies are more fully described in Note 2 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, 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 US, 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 has significant investments in goodwill and intangible assets as a result of acquisitions of businesses and purchases of assets such as product development and marketing rights.

Under IFRS, goodwill and intangibles with indefinite useful economic lives are held at cost and tested annually for impairment, whilst the remaining intangibles are amortised over their estimated useful lives. Estimated useful lives are reviewed annually and impairment reviews are undertaken if events occur which indicate 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. These potential liabilities are considered to have a remote probability of crystallising and are therefore 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 and 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.

# Trusted... to deliver responsibly

How we are ensuring that what we do and the way we do it has a positive impact on the world and people who our business touches.

## What we stand for

We continue to align our desire to act responsibly with our strategic business objectives. Our core values remain:

Honesty, integrity and the highest ethical standards

A focus on quality in all aspects of our business

Dedication to the welfare and education of our employees

Investment in the communities in which we work

Care and preservation of our environment

Respect for all people, regardless of race, religion, gender or background

# Corporate and social responsibility report

## The CSR programme we established in 2007 has continued apace, and is a key part of our strategic commitment to our core values.

### Introduction

Acting responsibly has been a core value of Hikma since its foundation and a value we strive to bring to life in our day-to-day work. In 2008 we continued to formalise our CSR programme and reporting, and remained focused on working to integrate sustainable behaviour into our business.

This report demonstrates how we continue to extend our engagement with the communities in which we operate, support our people, develop our business practices, and improve awareness of how to minimise our impact on the environment. Acting responsibly exists at the core of the way Hikma does business, with the ultimate intention of improving the well-being of the patients using our products and building strong relationships with other stakeholders.

### Aligning business and CSR

The year ended with a significant review of our CSR governance structure in line with our ongoing aim of embedding CSR throughout the Hikma group and driving the CSR programme from the Board and senior management, to operational functions. The changes seek to ensure that our CSR activities are consistently aligned with the Company's ongoing business objectives.

This new structure provides for a Board-level Steering Committee and an expanded Working Committee. The Steering Committee, is chaired by Hikma's Vice Chairman, and comprises an independent Non-Executive Director (Ronald Goode) the Corporate Vice President of Finance and the General Counsel. It is responsible for oversight of the Group's CSR activity, its strategic direction and implementation and reporting to the Board of Directors. The Working Committee is composed of key executives – covering VP Regional Operations, supply chain and finance – together with the Director of Investor Relations, the Director of Corporate Communication, and the Group CSR Manager.

These new committees will bring consideration of social, economic and environmental issues to a wider audience within Hikma, deliver implementation of CSR policies and practice throughout the Group and improve feedback from business units to ensure the continued relevance of the CSR programme. The committees have set goals for Hikma's 2009 CSR programme in the areas of reporting, the Hikma Volunteering Day and the appointment of CSR Champions.

In 2008 we saw increasing levels of activity from our CSR Champions. Based in six of Hikma's manufacturing units, the Champions play a critical role in implementing CSR practice within the operating units and attaining employee engagement for our growing number of initiatives. In early 2009 we appointed CSR Champions at our manufacturing sites in Egypt, APM (Jordan), Italy and Thymoorgan (Germany).

### Reporting

We are guided by the Global Reporting Initiative's (GRI) G3 guidelines, in particular focusing on data gathering on:

- community investments;
- environmental impacts; and
- employee and labour practices.

**Hikma responsibility structure**

- **Board of directors**
- Steering Committee
- Working Committee
- CSR Champions

"Responsibility has been one of Hikma's core values since its foundation in 1978."

**Number of CSR champions**

# 10

This year we have selected a number of champions at our plants in Egypt, APM (Jordan), Italy and Thymoorgan (Germany) and are seeking to raise awareness of the work the champions do in promoting the CSR agenda.

Community

$350,000

In 2008, we donated a total of $350,000 to the King Abdullah Fund to fight poverty in Jordan.

Gifts in kind

$1.4m

The Company donated $1,411,000 of medicines in 2008.

**Above:** For the first time in 2008 Hikma employees joined together for a volunteering day.

Through GRI reporting, we have started to identify performance improvements on some key metrics. Measurement of this data will not only help to identify the benefits derived in our targeted units but also to benchmark good performance between business units.

2008 was our second year of GRI data gathering. We saw improvements in both the quality and consistency of data gathered, but with only two data points available, establishing trends remains at a preliminary stage. During 2009 we will implement a dedicated software system to improve data gathering and analysis, to gain better and more consistent data and enable analysis of trends in our business.

We continue to review the need for additional indicators – for example, on emissions – to ensure that reporting is aligned with our overall business strategy.

## People

We value our employees as our most important asset, ensuring that we recruit and retain the quality of people that distinguishes us from our competitors. We aim to be recognised as a leading employer and repay our employees' loyalty by investing in their future.

With our commitment to GMP (Good Manufacturing Processes), technical training has always been very strong across the business. GRI data has shown that non-GMP training represents approximately 25% of all training, helping us identify areas of need for further non-technical training. In 2009 this will include additional training for the CSR Champions and employee training on CSR Policies and the Code of Conduct. In 2008, we also continued our Continuing Education Scheme which supports employees in fully funded further education programmes.

We continue to focus on employee welfare. In November 2008, we celebrated World Diabetes Day, raising employee awareness by the distribution of posters throughout our business, e-mails to employees and hosting an internal lecture in Jordan. We also undertook a breast cancer awareness day, which alerted employees to issues and preventative screening, and have implemented a life insurance scheme for all employees in Algeria.

## Community: *A Core Value*

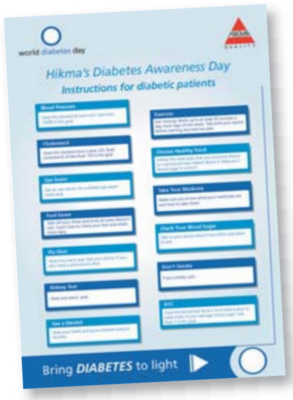
We remain resolute in our belief that investment in our communities brings benefit both to us and to those around us. This idea was embedded at the foundation of Hikma as a family-owned company. In many cases, our community involvement focuses on supporting young people with the aim of developing their professional skills, while at the same time providing a broader pool of talented recruits for Hikma.

We have continued to build our university partnerships by providing student scholarships. Following on from our 2007 acquisition in Egypt, 150 students from Egyptian universities were supported through cross-departmental training at Hikma. In 2008 we launched a collaboration with the German Jordanian University in Amman, whereby three students will receive six-month technical training scholarships at Hikma's German plant.

We continue to give significant donations both financial and in kind. In 2008, the total value of our community investments was US$2,490,632. We also encourage employees to donate their time through volunteering to add capacity to the financial donations made by the Group.

**University Partnerships** Hikma has continued to build partnerships with universities in MENA, this enables students to engage in valuable work experience whilst encouraging future graduates to consider Hikma as an employer of choice.

# Corporate and social responsibility report
continued




We have chosen to focus our community support on helping those with cancer and diabetes, because of the increasing recognition of the effect of these diseases in MENA and in Hikma's developments in therapeutic areas. During the year we:

signed an agreement with the King Hussein Cancer Foundation in Jordan, providing US$140,000 of funding which has helped with the reprinting of Cancer Awareness Booklets for public distribution.

introduced Hikma's breast cancer awareness day – with more than 50% of our employees being female, we chose to undertake this project to raise awareness and encourage dialogue around the risks that we face.

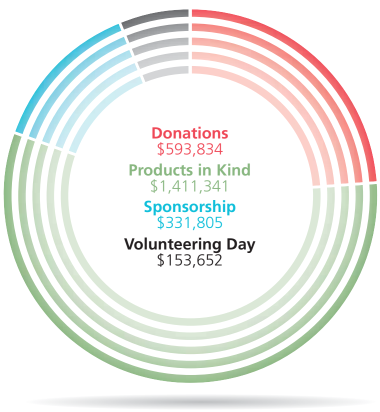
In April 2008 we undertook a group-wide Volunteering Day which focused on raising cancer awareness and supporting patients suffering from cancer. We encouraged employees across the business to spend one day giving their time, and 500 employees were involved in the projects. Activities ranged from assisting a field survey related to early detection of breast cancer, to spending the day at pediatric oncology hospital units with child cancer patients, to renovating and painting a cancer hospital ward.

We also continued to work with charities in our communities helping to fight poverty. In Jordan we:

sponsored an SOS Children's Village home. Our donation of US$17,000 covered the costs of the home for 12 children.

donated US$ 350,000 to the King Abdullah 2nd Fund to Fight Poverty, which supports the building of houses for underprivileged people in a number of locations in Jordan.

Value of community investment
$2.49 million




Hikma Algeria was the key sponsor for Algeria's first Scientific Forum on Health, Sport and Food, which brought together students for sporting events and provided advice on balanced nutrition and awareness-raising of diseases to which young people can be susceptible.

Finally, we continued to use our experience to influence business and social development in the Middle East. Hikma was a regional partner for the World Economic Forum Middle East summit in May and was invited to speak on the panel at sessions focused on identifying and building opportunities to improve the global competitiveness of businesses operating in the Middle East.

## Health and Safety

Hikma's dedication to quality extends across all areas of our business. It cannot be upheld without a continued commitment to providing a safe working environment and ensuring that the health and safety of our employees is given critical attention.

Following its development in 2007, 2008 brought the initial implementation of Hikma's Health and Safety Policy, which requires the appointment of an HSE supervisor in each business unit. In 2008 we saw the first appointments to this role, but fell short of our target of appointments in all main business units. The necessary additional appointments will be made during 2009. During 2008, many of our units implemented the necessary health and safety processes through the use of external HSE advisors. The process of employee education on the Group Health and Safety Policy, which was not fully realised in 2008, remains a key priority for 2009.

# Corporate and social responsibility report
continued

**Environmental initiatives launched in 2008**

**Jordan:** Installed solar system for hot water.

**US:** Overnight lighting procedures introduced.

**ISO 14001**

Hikma Jordan and AMC Jordan plants achieved ISO 14001 certification in 2008.

> "We aim to improve our performance by integrating our policies into all activities at all Hikma locations."

Nevertheless, our strong commitment to conducting our business within the Health and Safety Policy delivered results during the year. New health and safety initiatives developed during 2008 include the opening of a weekly health clinic at our Algerian factory. Attended by local GP, this enables all employees to be given an annual general health check.

We were also delighted to receive external recognition for our commitment to health and safety. Firstly this was gained through the award of the OHSAS 18001 certification at our AMC facility in Jordan, with the main Hikma Jordan facility also working towards this certification. Secondly, Hikma Jordan was granted the Award of Excellence in Health and Safety as the best private sector pharmaceutical company in Jordan, a prestigious award granted by the country's Social Security Corporation, the most comprehensive official body tracking occupational injuries in Jordan.

During 2008 we focused on the collection and analysis of GRI data on absenteeism and occupational injury rates to enable a clearer understanding for ongoing policy development. 2009 will see further emphasis on employee training on the Health and Safety Policy and target a zero level of occupational injuries across all business units.

## Environment

Our Environmental Policy states that we will manage our operations to minimise our impact on the environment where possible. Our critical priorities remain the reduction of:

- energy consumption;
- water usage; and
- waste production.

We aim to improve our performance through integrating our Environmental Policy into all activities at Hikma, and our key performance metrics reflect these priorities.

A significant achievement during the year, incorporating all three of these areas, was the certification of our main Hikma Jordan and AMC Jordan manufacturing plants to ISO14001 standard.

### Energy consumption

GRI data collection has heightened awareness of energy usage and is helping us to identify ways to drive energy reduction across the units. New initiatives that have helped to reduce energy usage in 2008 include:

- The installation of a solar system for hot water usage in Jordan – assessment is ongoing for Algeria and Portugal.
- The calibration of the Hikma Jordan boiler system to reduce diesel consumption and reduce CO2 emissions.
- Amending overnight lighting procedures at West-ward's warehouses in the US.
- The use of low energy light bulbs in Saudi Arabia and Portugal.

"Honesty and integrity lie at the core of our business values, with all activities covered by our Code of Conduct."

**Ethics targets in 2009**

- Undertake regular training on anti-corruption policies and procedures at our main manufacturing sites.
- Provide training on whistleblowing and share dealing code.

Initial reporting from our manufacturing site in Portugal, which was designed to operate to high environmental standards, indicates a reduction in electricity and gas usage which we hope will be confirmed with further data. Whilst investigations during 2008 into renewable energy sources for our US business were not successful, we continue to seek ways to implement our Environmental Policies in this business.

During the year we worked in Jordan with the Royal Scientific Society's Environment Research Centre and at AMC Jordan started an energy saving study in association with National Energy Research Centre (NERC) to identify additional methods for reducing energy consumption. The primary data suggest that AMC can save up to 25% of its total energy costs.

Water usage With a significant manufacturing presence in the Middle East water scarcity continues to be a major concern. A number of new initiatives have quickly led to significant improvements in our water usage. Water usage decreased by just over 50% at our main Hikma Jordan plant, attributable to the installation of new external cleaning pumps, replacement of corroded pipes, and employee education on water resources.

Waste production We continue to measure our waste and focus on reduction. Our Environmental Policy commits us to encourage the reuse or recycling of all non-hazardous waste and initial GRI data collected indicates that there has been success in this area, in particular with the introduction of employee led recycling initiatives. ISO 14001 certification in Jordan also mandates specific procedures for processing hazardous and specialised waste.

Central to all of these changes are education, communication and awareness-raising, and we remain committed to communicating our Environmental Policy to employees, customers and other stakeholders. For example, at AMC a booklet was developed for contractors, employees and visitors that contains an overview of, and advice about, the Company's Environmental, Health and Safety Policies.

## Ethics

Honesty and integrity lie at the core of our business values. Ethical issues continue to be overseen by the Ethics Committee, which is chaired by Ronald Goode an independent non-executive Director, and reports to the Board of Directors.

Through our partnership with PACI (Partnering Against Corruption Initiative) we are committed to a zero tolerance policy to all forms of bribery and corruption. We have also committed to developing and implementing internal systems and controls for that policy, which are supported by the ongoing delivery of anti-corruption training.

We previously committed to all Hikma management signing the Company-wide Code of Conduct, and this undertaking continues. The Company continues to operate a whistle-blowing policy – to encourage reporting of activities that are not in compliance with the Code of Conduct, ethics or financial reporting guidelines – which along with Share Dealing Code and Disclosure Policies will be the subject of further education in 2009.

We have continued to work with our suppliers to understand their ethical policies (including human rights and environmental behaviour), targeting certain key suppliers with a questionnaire to investigate this further. During 2009 the CSR Committee will work to identify where action may need to be taken with suppliers to align their values with those of Hikma.

A copy of this report and ongoing updates about Hikma's CSR programme can be found at www.hikma.com/csr

# Governance and financial results

# Board of Directors


1. Samih Darwazah
*Non-Executive Chairman, 78*
Samih Darwazah, remained as Chairman of the Company following his resignation as Chief Executive Officer in July 2007. Mr Darwazah is a qualified pharmacist, and he held various managerial positions with Eli Lilly prior to establishing Hikma Pharmaceuticals in 1978. Between 1995 and 1996 he served as Minister of Energy and Mineral Resources in Jordan and was a member of the Advisory Economic Council to His Majesty the King of Jordan. He also founded the Jordan Trade Association. Samih holds a masters degree from the St. Louis College of Pharmacy, Missouri. He is also Chairman of Labatec Pharma SA.

2. Said Darwazah
*Chief Executive Officer, 51*
Said was appointed Chief Executive Officer in July 2007. He joined Hikma in 1981, and was Chairman and CEO of the Group holding company from 1994-2003. Said played a key role in the development of the Group strategy including the acquisition of West-ward Pharmaceuticals in the USA and the development of the Injectables business in Europe and the MENA region. During this period the Company's facilities in the USA, Jordan, and Portugal received FDA approval. Said was Minister of Health for the Hashemite Kingdom of Jordan from 2003-2006. He is currently on the board of the Central Bank of Jordan and Chairs the Dead Sea Touristic and Real Estate Investments and Health Care Accreditation Council of Jordan. He has a degree in industrial engineering from Purdue University in the US and an MBA from INSEAD.

3. Mazen Darwazah
*Executive Vice-Chairman, CEO of MENA, 50*
Mazen Darwazah was appointed Executive Vice-Chairman in 2005. Since joining Hikma in 1985 he has held various positions, including Chairman and CEO of Hikma Pharmaceuticals Limited (Jordan), Chairman of Trust Pharma Limited and Pharma Ixir Co. Ltd. He is a director of Jordan International Insurance Company and has served as the President of the Jordanian Association of Manufacturers of Pharmaceuticals and Medical Appliances. Mazen is currently a Non-Executive Director on various non-governmental and educational organisations. Mazen holds a BA in Business Administration from Beirut University, Lebanon.

4. Ali Al-Husry
*Non-Executive Director, 51*
Ali Al-Husry has been a Director of Hikma Pharma Limited and other companies within the Hikma Group since 1991. He was a founder of The Capital Bank of Jordan and its Chief Executive Officer from its establishment in 1995 until 2007. 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 MBA from INSEAD.

5. Michael Ashton * † •
*Independent Non-Executive Director, 63*
Michael Ashton was appointed to the Board in October 2005 and is Chairman of the Remuneration Committee. Michael has over 30 years' experience in the pharmaceutical industry, having worked with Pfizer, Inc., Merck, Inc., and held the positions of Chairman, President and Chief Executive of Faulding, Inc and Chief Executive of Skyepharma PLC. He serves on the boards of Transition Therapeutics, Proximagen, and Phosphagenics Limited.

6. Breffni Byrne *† •
*Independent Non-Executive Director, 63*
Breffni Byrne was appointed to the Board in October 2005 and is Chairman of the Audit 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, a director of Irish Life and Permanent plc, Cpl Resources plc, Coillte Teoranta (the Irish state forestry company) and other companies.

7. Sir David Rowe-Ham * † •
*Senior Independent Non-Executive Director, 73*
Sir David Rowe-Ham was appointed to the Board in October 2005 and holds the position of Chairman of the Nomination 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, and Olayan Europe Ltd.

8. Dr. Ronald Goode * † •
*Independent Non-Executive Director, 65*
Ronald Goode was appointed to the Board in December 2006. 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 a director of Greystone Pharmaceuticals. He sits on the Advisory Board of ART Recherches et Technologies Avancees Inc. (a TSX-listed company), and is a director of Mercy Ships International and a trustee of Thunderbird School of Global Management. He was formerly President and Chief Executive Officer of Unimed Pharmaceuticals, Inc. and eXegenics Inc.

Board Committee membership key

* Audit Committee
† Remuneration Committee
• Nomination Committee

# Senior management


1. Bassam Kanaan, *Executive Vice President & 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, he started his career in 1986 with Deloitte & Touche in Los Angeles where he worked until 1992 in the position of audit manager. Between 1994 and 2001 he was the CFO of PADICO. He currently serves on the board of Zara Holding, and Aqaba Development Co in Jordan. He previously served as a board member of Palestine Telecommunication Co. and Central Electricity Generation Company in Jordan. He qualified as a CPA and holds an Executive MBA from Northwestern University and a BA from Claremont McKenna College in the United States. From February 2009, in addition to his role as CFO, Bassam assumed responsibility for Operations, Manufacturing and Supply Chain management in Europe & MENA.

2. Nabil Rizk, *Corporate Vice President & Chairman of West-ward Pharmaceuticals* 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 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 BSc in applied chemistry from Cairo University.

3. Taghreed Al-Shunnar, *Executive Vice President Head of Pharma* 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 completed her Executive MBA from INSEAD in December 2007. From February 2009, Taghreed assumed responsibility for Sales & Marketing, R&D & Business Development MENA & EU.

4. Majda Labadi, *Corporate Vice President Human Resources* Majda joined the Company in 1985 as a purchasing manager at Hikma Pharmaceuticals Limited. Majda was promoted to Vice President of Injectables and General Manager Hikma Farmacêutica in 2001 and held this position until February 2009 when she was appointed Group Vice President for Human Resources. Majda holds a masters degree in health economics and a BA from the American University of Beirut.

5. Henry Knowles, *General Counsel and Company Secretary* Henry joined the Company in September 2005. Before joining Hikma, he worked for the international law firm, Ashurst. Since joining Hikma, Henry has advised on all aspects of the Group's business, supervised corporate governance and compliance and contributed to the execution of the Group's acquisition strategy. Henry is admitted as a solicitor in England and Wales and holds an MA in Social and Political Science from Cambridge University.


6. 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 BA in history from Cornell University and an MBA from London Business School.

7. Dr Ibrahim Jalal, *Corporate Vice President Technical Affairs* Ibrahim joined Hikma in June 1979 as Technical Director. He was promoted to Corporate Technical Vice President for Compliance in 1998 and to Senior Corporate Vice President for R&D in 2008. He has played a leading role in obtaining FDA approval for Hikma manufacturing units. Ibrahim holds a PhD in pharmacy from the University of Wisconsin/Madison in the United States.

8. Fadi Nassar, *Corporate Vice President, Active Pharmaceutical Ingredients (API)* Fadi joined Hikma in 1988 and has worked in many areas across the Group including Operations, Purchasing and Business Development. He was promoted to Corporate Vice President, API in 2007. Fadi holds a bachelors degree in chemical engineering from Newcastle University and a master's degree in chemical engineering from Leeds University. Fadi is also a graduate of INSEAD's International Executive Program.

9. Michael Raya, *Corporate Vice President & CEO West-ward* Michael joined the Company in 1992 from Vitarine Pharmaceuticals where he worked from 1984 until 1992 in various capacities, including Vice President, Quality Control. Prior to Vitarine, Michael worked at Schering-Plough and Hoffman LaRoche. Michael is a member of Hikma's Corporate Ethics Committee and is in charge of the Corporate CAPEX Committee. Michael holds a master's degree in industrial pharmacy from Long Island University and a bachelor's degree in chemistry from St. Francis College. Michael is also a graduate of INSEAD's International Executive Program.

10. Khalid Nabilsi, *Corporate Vice President for Finance* Khalid joined Hikma in 2001 and was a member of the IPO team in 2005. Prior to assuming his current role Khalid held several senior positions in the Finance department including Group Financial Controller. Following qualification as a CPA he held a variety of roles in financial accounting, reporting and financial advisory services, most recently with Atlas Group where he was involved in merger and acquisition advisory services and as a senior audit manager at Arthur Andersen in Amman, Jordan. Khalid has an MBA from the University of Hull in UK.

11. Ragheb Al-Shakhshir, *Corporate Vice President Research & Development* Ragheb joined Hikma in 2000 as a Research & Development Manager. Prior to joining Hikma he held a variety of roles as Senior Scientist at Novartis Pharmaceuticals, and at Alcon Labs. From 2003-2008 Ragheb led the Hikma R&D Injectable team and from February 2009 assumed the responsibility of Vice President for Research and Development. Ragheb has a PhD in Industrial and Physical Pharmacy from Purdue University and a BA in Chemical Engineering from the University of Wisconsin-Madison.

# Corporate Governance report

## 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 June 2006 (as revised) (the "Combined Code") and 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 75 to 77 and the Directors' Remuneration Report set out on pages 81 to 91 describe how the Board applied the Corporate Governance Principles during the year under review.

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, and the corporate governance principles. At the year end the Company was in full compliance with the Corporate Governance Principles.

The Listing Rules of the Financial Services Authority and the Markets Law require the Group to report on their application of the principles of good governance and the extent of their compliance with 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 the Group's long-term strategy; to monitor the achievement of its business objectives; to ensure the Group has adequate resources available to meet these objectives; to promote good corporate governance; and to ensure that the Group meets its responsibilities to shareholders, employees, suppliers, customers and other stakeholders. There is a formal schedule of matters reserved to the Board for consideration and decision, which is reviewed and, if necessary updated annually. This includes approval of strategic plans, approval of financial statements and the annual Group budget, approval of material investment decisions, acquisitions and divestments, and review of the effectiveness of the Group's systems of internal control. No individual or group of individuals dominates the Board's decision making process.

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 Officer, to its executive management team.

## Composition of the Board

The Board currently comprises eight members: a Non-Executive Chairman, four independent Non-Executive Directors, one Non-Executive Director not classified as independent for the purposes of the Combined Code and two Executive Directors. The names of the Directors and their biographical details are set out on pages 68 and 69. The Chairman and the Executive Vice-Chairman were appointed to the Board on the incorporation of the Company on 8 September 2005. The Chief Executive Officer was appointed to the Board on 1 July 2007, and save for Ronald Goode, who joined the Board on 12 December 2006, each of the Non-Executive Directors joined the Board on 14 October 2005. 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. The Chairman, Executive Vice-Chairman and each of the Non-Executive Directors except Ronald Goode, offer themselves for re-election at the Annual General Meeting.

The roles of the Chairman and Chief Executive Officer are separate, and their responsibilities are defined in writing and approved by the Board. These guidelines are reviewed annually by the Board. Prior to the appointment of the current Chief Executive Officer the Board undertook consultation with its major shareholders and external advisers regarding the continuation of Samih Darwazah in his role as Chairman. The Board concluded that his former executive role should not prevent him from remaining as Chairman, thus enabling the Group to continue to receive important guidance through the Board in his capacity as Non-Executive Chairman.

The Board does not classify Ali Al-Husry, as an independent Director for the purposes of the Combined Code as a result of his close links to the Darwazah family through Darhold Limited, the Company's largest shareholder. However, he continues to bring broad financial experience to the Board as well as a detailed knowledge of the MENA region which is significant to the Group's business.

The Senior Independent Director is Sir David Rowe-Ham. Sir David is Chairman of the Nomination Committee and responsible for chairing the meetings of Non-Executive Directors conducted without the presence of the Chairman or executive management. He is also the key contact for shareholders, should they have concerns that they do not wish to raise with the Chairman.

## Information flow

Board and committee papers are circulated to members in advance of the meetings. In addition to formal meetings, the Chairman and Non-Executive Directors maintain regular contact with executive management. The Chairman also holds informal meetings with Non-Executive Directors without the executive management present to discuss issues affecting the Group. Senior executives attend Board meetings and make presentations on the results and strategies of their business units.

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 the Chairman on all matters of corporate governance. The appointment and removal of the Company Secretary is a matter reserved for the Board. To the extent necessary, the Directors are able to obtain independent professional advice at the Company's expense in the performance of their duties as Directors.

## Board training/continuing professional development

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. The Board is also encouraged to visit the major business units and to meet the senior management teams in order to facilitate a better understanding of the key issues facing business. In the year under review, Board meetings were held in Egypt and the USA. The company's brokers also present industry and market updates to the Board. These sessions are in addition to the written briefings on areas of regulatory and legislative change presented at each Board meeting.

## Board meetings

During the year under review, the Board held eight scheduled meetings and five other meetings. The Company Secretary attended all Board meetings and Committee meetings. A table showing attendance at these meetings is set out below. Whilst in 2008 all Directors attended meetings of the Board and committees of which they are members, to the extent they are unable to attend additional meetings called on short notice, or where prevented from doing so by prior commitments, Directors receive and read the papers for consideration at that meeting, relay their comments in advance and, where necessary, follow up with the Chairman on the decisions taken.

| | Board | | | | |
|---|---|---|---|---|---|
| Meeting record | Scheduled | Other | Audit | Remuneration | Nomination |
| Number of meetings | **8** | **5** | **8** | **5** | **1** |
| Samih Darwazah | **8** | **5** | | | |
| Said Darwazah | **8** | **5** | | | |
| Mazen Darwazah | **8** | **5** | | | **1** |
| Ali Al-Husry | **8** | **5** | | | |
| Michael Ashton | **8** | **5** | **8** | **5** | **1** |
| Breffni Byrne | **8** | **5** | **8** | **5** | |
| Sir David Rowe-Ham | **8** | **5** | **8** | **5** | **1** |
| Ronald Goode | **8** | **5** | **8** | **5** | |

## Board performance evaluation

All Directors other than Said Darwazah who was appointed on 1 July 2007 and elected by shareholders on 15 May 2008, and Ronald Goode who was appointed on 12 December 2006 and elected by the shareholders at the AGM held on 6 June 2007, were elected by shareholders at the first Annual General Meeting, held on 25 May 2006 and will therefore be subject to re-election by shareholders at the Annual General Meeting to be held on 14 May 2009. All Directors are subject to re-election 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.

As required by the Combined Code, a formal 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 evaluation process was led by the Senior Independent Director, who met with each of the Directors and the Committee Chairmen to undertake a formal appraisal of the performance of the Board, its committees and each of the individual Directors. These discussions focused on Board and Committee performance, 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. The results of the evaluation process and feedback were reviewed with the Chairman and formed part of his appraisal of the overall effectiveness of the Board and its members. Overall the review concluded that the Board functions well, with good communication, and with issues raised in good time to allow for consultation, debate and effective decision-making.

# Corporate Governance report
continued

In addition to the matters set out above in respect of all Directors, the Senior Independent Director met with the Non-Executive Directors to undertake a formal appraisal of the performance of the Chairman. This review also addressed the effectiveness of his leadership, the setting of the Board agenda, communication with shareholders, internal communication and Board efficiency.

## 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 report on page 87.

## Directors' remuneration

Details of the remuneration of the Executive and Non-Executive Directors are contained in the Remuneration report set out on pages 87 and 88.

## 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, an Ethics Committee and a Corporate Social Responsibility Committee. All draw their 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. Their Chairmen give regular 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. As required by the Corporate Governance Principles, 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.

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 once during the year, with full attendance.

### 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. The Remuneration Committee therefore complies with the membership requirements laid out in the Corporate Governance Principles.

The Committee met five 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 advice from external consultants when required. A full report on the role of the Remuneration Committee is set out in the Directors' remuneration report on pages 81 to 91.

### 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. The Audit Committee therefore complies with the membership requirements laid out in the Corporate Governance Principles.

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 75 to 77.

### Executive Committee

The Executive Committee is made up of the Executive Directors and senior management of the Group. The Committee oversees the Group's operations and implements the decisions of the Board.

### Ethics Committee

The Ethics Committee is chaired by Ronald Goode and draws its members from the Board 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.

### CSR Steering Committee

The CSR Steering Committee is chaired by the Executive Vice-Chairman, Mazen Darwazah and draws its members from the Board (Ronald Goode) and senior management. The CSR Committee is responsible for reviewing and implementing the strategy and direction of all matters within the Group pertaining to social, community and environmental matters. The Committee is also responsible for the appointment of the CSR Working Committee to undertake the implementation of the Group's CSR programme.

## Internal control

The Board of Directors has overall responsibility for the Group's systems of internal control and risk management and has complied with the requirements of the Corporate Governance Principles in establishing a continuous process for identifying, evaluating and managing the risks the Group faces. The Board is responsible for monitoring the effectiveness of these systems on an ongoing basis and, at least annually, conducting a formal review of the Group's policies on internal control. The system of internal control provides reasonable but not absolute assurance against material misstatement or loss.

The key elements are as follows:

- a reporting structure with clear procedures, authorisation limits, segregation of duties and delegated authorities;
- annual budgets, updated forecasting, and long-term business plans for the Group that identify risks and opportunities 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 and forecast, informed by management commentary;
- a clearly defined process for controlling capital expenditure and other financial commitments, including appropriate authorisation levels, which are monitored and approved by the Board as appropriate;
- written policies and 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 which commenced in 2006. This involves a risk-driven approach to internal audit which is overseen by the Audit Committee. The internal audit process focuses on reviewing areas of business risk, internal controls over financial reporting and other systems in the Company's main subsidiaries and at the corporate level, with regular reports of its findings made 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 Corporate Governance Principles, 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.

## Audit Committee report

The Combined Code requires 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 Corporate Governance Principles and clearly sets out its authority and duties. These can be found on the Company's website at www.hikma.com and are summarised as follows:

- monitor the integrity of the financial statements and any other formal announcements 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 and Markets Law;
- 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.

# Corporate Governance report
continued

The Audit Committee's terms of reference were reviewed by the Audit Committee during the period under review and amended to include responsibility for the operation of the Company's policies for monitoring directors' conflicts of interest. The terms of reference were subsequently reviewed and approved by the Board.

## Composition
Hikma's Audit Committee comprises four members – Breffni Byrne, Michael Ashton, Sir David Rowe-Ham, and Ronald Goode – all of whom are independent Non-Executive Directors, and whose biographical details are set out on page 69. 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 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. This includes reviewing the Company's annual financial statements, interim report, interim management statements and trading updates, reviewing and monitoring the extent of non-audit work undertaken by external auditors, and monitoring the effectiveness and output 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 financial statements and the half-yearly reports remains with the Board. This year the Board delegated responsibility for the operation of the Company's policies on monitoring directors' conflicts of interest to the Audit Committee. This responsibility has been included in the terms of reference.

## 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 2007 annual report and financial statements, the 2008 interim report the two interim management statements released by the Company and each of the regulatory statements made by the Company in respect of trading and results issued during the year. The Committee also reviewed and approved the audit plans for 2009 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 financial statements on these matters. The Committee also reviewed its own terms of reference and general effectiveness, both specifically and in the context of the overall annual review of corporate governance matters conducted by the Company.

The Group's external auditors, Deloitte LLP, attended four Audit Committee meetings for the purposes of presenting their 2007 audit results and findings, the results of the 2008 interim review and their audit plan for 2009. The internal auditors, Ernst & Young presented the results of their audit programme for 2008 to the Audit Committee together with their proposed audit plan for 2009. The Audit Committee continues to review 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, during 2008, the Audit Committee met with the external auditor in the United States and the Audit Committee Chairman met with external auditors in Jordan and Algeria. The Audit Committee Chairman also met with Ernst & Young in Jordan to discuss the results of the 2008 internal audit programme.

Attendance of members at Audit Committee meetings is shown on page 73 of the 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 6 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 audit independence requirements 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, the Senior Independent Director, and Ronald Goode (as a US-based member of the Audit Committee) 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 auditors. The Audit Committee also reviewed the effectiveness of the external auditors and recommends to the Board that they be re-appointed. The Chairman of the Audit Committee will be available at the Annual General Meeting to answer questions on the work of the Committee.

## Dialogue with shareholders

Ongoing communication with shareholders is a high priority. The Company undertakes a continuous programme of meetings 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, investor days, conference calls and presentations at investor conferences. In addition the Company makes formal presentations at the time of its annual and interim results which are webcast and disseminated on the Company's website.

The Chief Executive Officer, Executive Vice-Chairman, Chief Financial Officer and other senior corporate executives have all participated in the 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, interim results and interim management statements, together with the opportunity to question the Board and committees at the Annual General Meeting. Shareholders are encouraged to attend the AGM and if unable to do so are encouraged to vote by proxy. Copies of presentations made at the AGM are available on the website after the event together with the results of the voting. The full Board is present at the AGM. The Company maintains a website (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.

## Procedures to deal with conflict of interests

The Company has implemented procedures to deal with Directors' conflicts of interest or potential conflicts of interest. Responsibility has been delegated to the Audit Committee to operate, monitor and review the procedures, which have operated effectively.

# Directors' report

## The Directors are pleased to present their report and audited financial statements for the year ended 31 December 2008.

### Business review

The Company is required by the Companies Act 2006 to set out a fair review of the business during the year and a description of the principal risks and uncertainties facing the Company, noting the performance and development of the Company during the year and the position at the year end. The information that fulfils these requirements and which is incorporated into this report by reference, is included in the following sections of the Annual Report:

- a review of the business and strategy and expected future developments is set out in the Chairman's statement on pages 6 to 7, the Chief Executive's review on pages 28 to 31 and the Business and Financial review on pages 34 to 57;
- the principal risks and uncertainties are set out on pages 50 to 54 and financial risks are described on pages 54 to 57;
- key financial performance indicators are described on pages 34 to 36;
- information on environmental, social and community issues is set out in our Corporate and Social Responsibility report on pages 58 to 65, which also provides key performance indicators in this area;
- the principal operating subsidiaries are set out on page 152.

### Principal activity

The principal activities of the Group are the development, manufacture and marketing of a broad range of generic and in-licensed pharmaceutical products in solid, semi-solid, liquid and injectable final dosage forms. Hikma's operations are conducted through three business segments: Branded Pharmaceuticals, Generic 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 and operating profit are shown by business segment in Note 4 to the consolidated financial statements.

### Results and dividends

The Group's profit for the year attributable to shareholders in 2008 was $57.1 million (2007: $62.6 million). The Board is recommending a final dividend of 4.0 cents per share (approximately 2.8 pence). The proposed final dividend will be paid on 2 June 2009 to shareholders on the register on 1 May 2009, subject to approval at the Annual General Meeting.

An interim dividend of 3.5 cents per share was paid on 17 October 2008 (approximately 1.9 pence per Ordinary Share) which together with the final dividend, will make a total of 7.5 cents per share for the period (2007: 7.5 cents).

### 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 68 and 69. Details of the independence of Non-Executive Directors are set out in the report on corporate governance on page 72.

The Executive and Non-Executive Directors served the Company throughout the year. At the 2009 Annual General Meeting, all of the Directors other than Said Darwazah and Ronald Goode will retire in accordance with Article 104 of the Articles of Association, and, being eligible, will offer themselves for re-election. The explanatory notes to the Notice of Annual General Meeting sets out why the Board believes these Directors should be re-elected.

Details of Directors' share-based incentives and interests in the Ordinary Shares of the Company are provided in the Directors' remuneration report on pages 90 and 91.

### 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 and abide by the terms of payment and abide by the terms of payment. Trade creditors of the Company at 31 December 2008 were equivalent to 48 days' purchases (2007: 81 days), 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 approximately $2.4 million (2007: $1.3 million), principally to local charities serving the communities in which the Group operates. [Other disclosures of charitable donations]. Donations of medicines accounted for approximately $1.4 million(2007: $590,000) of total donations made.

The Group does not make political donations.

### Research and Development (R&D)

The Group's investment in Research and Development during 2008 represented 3.8% of Group revenue (2007: 4.3%). Further details on the Group's R&D activities can be found on page 38.

### Going concern

The Directors have formed a judgement, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and the Directors continue to adopt the going concern basis in preparing the financial statements. Further details are provided in the Financial risks section of the Financial and Business review on pages 54 to 57.

## Capital structure

Details of the authorised and issued share capital, together with movements in the issued share capital during the year can be found in Note 31 to the consolidated financial statements. The Company has one class of Ordinary Shares which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. As at 31 December 2008, the Company had 189,237,607 Ordinary Shares of 10 pence each in issue. During 2008 the Company issued 1,503,800 Ordinary Shares pursuant to the exercise of options under the Hikma Pharmaceuticals PLC 2004 Stock Option Plan, and 17,000,000 Ordinary Shares pursuant to a placing to institutional and other shareholders to refinance the debt incurred in respect of the acquisition of the entire issued share capital of Arab Pharmaceutical Manufacturing Co. made in December 2007, undertaken on 17 January 2008.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may have resulted in restrictions on the transfer of securities or on voting rights. No person has any special rights with regard to the control of the Company's share capital and all issued shares as fully paid.

Details of the employee share schemes are set out in Note 37 to the financial statements. Shares are also held by the Hikma Pharmaceuticals Employee Benefit Trust ("EBT") and are detailed in Note 34 to the financial statements. The EBT has waived its right to vote on the shares it holds and also to its entitlement to a dividend.

At the Annual General Meeting on 15 May 2008, the Directors were authorised to issue relevant securities up to an aggregate nominal amount of £6,276,920, and to be empowered to allot equity securities for cash on a non pre-emptive basis up to an aggregate nominal amount of £941,538, at any time up to 14 August 2009. The Directors propose to renew these authorities at the Annual General Meeting to be held on 14 May 2009 for a further year. In the year ahead, other than in respect of the Company's obligations to satisfy rights granted to employees under its various share-based incentive arrangements, the Directors have no present intention of issuing any of the authorised but unissued share capital of the Company.

The powers of the Directors are determined by its Articles of Association, the Combined Code and other relevant UK legislation. Directors' powers are detailed in the Corporate Governance report starting on page 72. The articles give the Directors the power to appoint and remove Directors and they also provide for re-election at three year intervals. The power to issue and allot shares contained in the Articles, are subject to shareholder approval at each annual general meeting. The articles, which are available on the website, may be amended by special resolution of the shareholders.

## Significant agreements and contracts

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

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

## Pre-emptive issue of Ordinary Shares

During the year under review, and in the period since 1 November 2005, the date of the Company's IPO, the Company did not issue any Ordinary Shares pursuant to an authority given by shareholders at Annual General Meeting to issue Ordinary Shares for cash on a non pre-emptive basis, other than in respect of the placing undertaken on 17 January 2008, detailed above.

## Directors' indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force at the date of this report. These indemnities are uncapped in amount in relation to losses and liabilities which Directors may incur to third parties in the course of the performance of their duties.

## Substantial shareholdings

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

| Name of shareholder | Number of shares | Percentage held |
|---|---|---|
| Darhold Limited* | 57,183,028 | 30.22% |

* Messrs Samih Darwazah, Said Darwazah, Mazen Darwazah and Ali Al-Husry, each being a Director and shareholder of the Company, are shareholders in the capital of Darhold Limited, Samih Darwazah, Said Darwazah and Mazen Darwazah are also Directors of Darhold Limited.

# Directors' report
continued

## The Takeover Code – Rule 9

At the Annual General Meeting held on 6 June 2007, a vote of the independent shareholders of the Company approved the award of up to an aggregate of 437,141 Ordinary Shares pursuant to the Company's 2006 Long-Term Incentive Plan to Said Darwazah and Mazen Darwazah (the "LTIP Holders"). Because of the relationship of the LTIP Holders with Darhold Limited, who at the time of the Annual General Meeting held 52,649,972 Ordinary Shares (at 25 April 2007 representing 31.129%. of the issued share capital of the Company, and as at 16 March 2009 being the latest practicable date prior to the publication of this document, holding 57,183,028 Ordinary Shares, representing 30.22% of the issued share capital of the Company), each of the LTIP 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 25 April 2007, the Concert Party held, in aggregate, interests in 60,550,416 Ordinary Shares in the capital of Hikma (then representing 35.800% of the then issued share capital of the Company). As at 16 March 2009 being the latest practicable date prior to the publication of this document, the Concert Party held, in aggregate, interests in 66,097,758 Ordinary Shares in the capital of Hikma (representing 34.917% of the then issued share capital of the Company). On full exercise of the options under the Hikma Pharmaceuticals 2004 Stock Option Plan (the "2004 Plan") and full vesting of the LTIPs, the Concert Party would potentially have, in aggregate, interests in 67,077,258 shares in the capital of the Company (representing 35.252% 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 or vesting of LTIPs).

During the period from the Annual General Meeting in 2007 to 16 March 2009, the LTIP Holders together with other members of the Concert Party who hold options over Ordinary Shares pursuant to the 2004 Plan (the "Option Holders") have exercised, in aggregate, options over 1,000,000 Ordinary Shares in the capital of the Company, of which 200,000 Ordinary Shares were sold immediately upon exercise, and 480,000 Ordinary Shares were retained and 320,000 were retained but subsequently disposed of by the Options Holders.

## Auditors

Each person who was 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 of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

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

## Annual General Meeting

The Annual General Meeting of the Company will be held at 88 Wood Street, London, EC2V 7RS on Thursday, 14 May 2009, 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 16 March 2009 and signed on its behalf by

Henry Knowles *Company Secretary*
16 March 2009

# 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 74 in the Corporate Governance report.

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 ongoing 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.

The Remuneration Committee sought the assistance of the Chairman, the Chief Executive Officer and Executive Vice Chairman on matters relating to Directors' performance and remuneration in respect of the period under review. The Chairman, Chief Executive Officer, Executive Vice Chairman and General Counsel may attend meetings by invitation except when their individual remuneration arrangements are discussed. No Director takes part in discussions relating to his own remuneration or benefits. As detailed below, during the year the Remuneration Committee received wholly independent advice on executive compensation from Halliwell Consulting. Halliwell Consulting also provided administrative support for the operation of the Company's share plans. No services other than those detailed in this report were provided to the Company by Halliwell during the year under review.

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.

### Philosophy behind Remuneration Committee's approach

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

# Remuneration Committee report
continued

## Remuneration policy 2008

### Overall policy

The Remuneration Committee's policy during the year under review 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. | |

### 2008 Comparator Group

The constituents of the Company's Comparator Group ("CG") for benchmarking remuneration during 2008 were as follows:

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

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;
- 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.

Neutec Pharma Plc and CAT Group PLC were removed from the 2008 Comparator Group due to their acquisition during 2007. Towards the end of 2008, Barr Pharmaceuticals Inc, Acambis Plc, Protherics Plc and Alpharma Inc were also acquired by other companies.

Therefore, the Remuneration Committee will take the opportunity in 2009 to review the constituents of the whole Comparator Group to ensure a Comparator Group which is appropriate for 2009 and on an ongoing basis. It is currently anticipated that the core of the 2009 Comparator Group will be based on those companies remaining from the 2008 Comparator Group.

The new 2009 Comparator Group will be used as the total shareholder return performance condition comparator group for awards granted in 2009 under the Hikma Pharmaceuticals PLC 2006 Long-Term Incentive Plan ("LTIP"). The Company has historically used the same comparators for both benchmarking remuneration and the performance condition for awards granted during the relevant year.

The Remuneration Committee will also consider whether to introduce a control benchmarking group based on the FTSE 250 due to the international nature of the 2008 Comparator Group and its likely successor.

## Ongoing review

The Remuneration Committee continues to review the remuneration policy on an annual basis to ensure it remains appropriate for the financial year under review. 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; and
- the current economic climate.

It is the current intention of the Remuneration Committee to apply the 2008 policy in 2009.

## 2008 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 2008.

| | Fixed compensation is calculated as: Salary, Benefits, Pension contribution | Variable performance compensation is calculated as: Maximum bonus available, Fair market value of maximum potential LTIP award |
|---|---|---|
| Said Darwazah | 38% | 62% |
| Mazen Darwazah | 41% | 59% |

## Elements of Executive Directors' remuneration

### Base salary

*Policy 2008 and 2009 – 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.

When determining the base 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.

The following tables summarises the base salary of Executive Directors:

| Name | **2008 salary** | 2009 salary | Rise | Median rise in Comparator Group |
|---|---|---|---|---|
| **Said Darwazah** | **$630,000** | $630,000 | 0% | 8.8% |
| Median | | $886,000 | | |
| Lower quartile | | $574,000 | | |
| **Mazen Darwazah** | **$420,000** | $420,000 | 0% | 5.0% |
| Median | | $458,000 | | |
| Lower quartile | | $345,000 | | |

After reviewing the above criteria, the Committee has elected not to increase Executive Directors' salaries for 2009. It remains the Committee's ongoing policy that, save in exceptional circumstances, only modest rises in base salary should be required.

# Remuneration Committee report
continued

## Annual performance related bonus

*Policy 2008 and 2009 – Upper quartile bonus potential* Bonus payments are not pensionable. The following tables summarise the main features of the Company's executive bonus plan.

| Bonus | Said Darwazah | Mazen Darwazah |
|---|---|---|
| **Company bonus potential** | **100%** | **100%** |
| Upper quartile CG | 125% | 94% |
| Median CG | 100% | 60% |
| **2008 bonus paid as percentage of salary** | 51% | 65% |
| Upper quartile bonus payments in the CG as a percentage of salary | 88% | 60% |

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 2009 will remain the same as those applied for 2008.

The bonuses for 2008 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 2008 and their percentage satisfaction.

| | Percentage of maximum bonus potential subject to target | Percentage satisfaction of bonus target | Percentage of salary payable |
|---|---|---|---|
| **Said Darwazah** | | | |
| Profit after tax | 50% | 30% | 15% |
| Operational milestones | 30% | 66% | 20% |
| Personal business targets | 20% | 80% | 16% |
| **Total** | | | **51%** |
| **Mazen Darwazah** | | | |
| Profit after tax | 50% | 30% | 15% |
| Operational milestones | 30% | 100% | 30% |
| Personal business targets | 20% | 100% | 20% |
| **Total** | | | **65%** |

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. Underlying performance targets for Executive Directors' bonuses were reviewed during 2008 as a part of an overall review of key performance indicators within the Group to ensure that they remained in line with the Group's overall business strategy in 2009. It is the opinion of the Committee that the overall nature of the conditions remains appropriate for the requirements of the Group in 2009.

## Share incentives

*Policy 2008 and 2009 – upper quartile* The Remuneration Committee's policy is to provide annual share grants to senior executives at a maximum of the upper quartile level compared to the Comparator Group. Ongoing share incentives are provided to the Executive Directors solely through the LTIP. 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")[1] 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 Remuneration Committee granted the following awards to Executive Directors during 2008.

| Name | Percentage of salary | UQ in CG percentage of salary |
|---|---|---|
| Said Darwazah | 131.68% | 223% |
| Mazen Darwazah | 118.52% | 150% |

1 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.

The Remuneration Committee granted lower levels of LTIP awards to Executive Directors than indicated in its 2007 report, due to a wider population being granted awards than was originally envisaged and the Company wishing to manage the overall cost of the programme. This resulted in a scaling down of awards including those made to Executive Directors.

In 2009 the Company will introduce a new Management Incentive Plan (detailed later in this report), and will therefore consider LTIP award levels in 2009 in conjunction with the introduction of this new plan, and the consequently smaller population of participants in the LTIP.

The following table summarises the main features of the LTIP in 2008 and its proposed operation during 2009.

**Maximum annual grant face value[2] as percentage of salary and performance condition**

| |
|---|
| **Maximum annual grant 300% (current normal operating maximum set by the Remuneration Committee 200%)**<br>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. |

| | Said Darwazah | Mazen Darwazah |
|---|---|---|
| Maximum grants for 2009 face value as a percentage of salary | 200% | 200% |

2 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.

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 measurements

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. The Committee has appointed PricewaterhouseCoopers LLP to assist in the ongoing calculation of TSR in accordance with the rules of the LTIP. The Committee will approve 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, undertaken in 2005.

The following table summarises the current level of dilution resulting from Company share plans following the IPO:

| Type of plan | Share awards as a percentage of issued share capital as at 1 December 2008 in a rolling ten year period | Share awards as a percentage of issued share capital as at 31 December 2008 granted during the year |
|---|---|---|
| All Employee Share Plans | 0% | 0% |
| Discretionary Share Plans | 1.375% | 0.965% |

The Company has not implemented any all employee share incentive arrangements.

It is the Company's current intention that the awards granted in 2009 will be satisfied by newly issued shares. No awards will be issued to satisfy awards under the MIP (a summary of which is set out below) without prior shareholder approval.

## Post employment benefits

*Policy 2008 and 2009 – 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.

# Remuneration Committee report
continued

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

| | Said Darwazah | Mazen Darwazah |
|---|---|---|
| **Company** | 1.35% | 1.86% |
| Upper quartile | 19% | 20% |
| Median | 18% | 18% |
| Lower quartile | 8% | 10% |

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

## Benefits in kind

*Policy 2008 and 2009 – 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 2008 and 2009 – 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 2008.

| Name | Salary $000s | Paid bonus $000s | Benefits $000s | **Total payments $000s** | FMV LTIP $000s | Total Actual and FMV $000s | Total in 2008 CG at median $000s |
|---|---|---|---|---|---|---|---|
| **Said Darwazah** | 630 | 320 | 63 | **1,013** | 494 | 1,508 | 1,892 |
| **Mazen Darwazah** | 420 | 275 | 70 | **765** | 296 | 1,061 | 940 |

## Other remuneration matters

### Directors' shareholding policy

The Company does not currently have a formal Directors' 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

During 2008, the Company reviewed the overall structure of management and employee share-based incentives, including the potential benefits of operating an All Employee Share plan. The Remuneration Committee assessed the potential cost of implementation of an all employee plan against its anticipated take-up by employees within the Group. Following this review, the Remuneration Committee resolved that, given the geographical diversity of the Group's employees, the costs of implementation would not be justified by the potential benefits that could derive from such a plan. Consequently, implementation will be placed on hold, though the matter will be kept under ongoing review. As part of the review of management and employee incentive structure, the Remuneration Committee resolved to implement a targeted programme to reward the management who are the key value drivers in the business. Details of this plan are set out below.

### Management Incentive Plan ("MIP")

Under the MIP, the Company will make grants of nil cost option awards to executive management across the Group based on the satisfaction of annual performance targets. The key features of the MIP are as follows:

- the MIP is open to management level employees across the Group below senior executive level;
- participation in the LTIP will preclude participation in the MIP;
- participants will be notified of a maximum monetary entitlement, (the maximum award level is currently anticipated to be 50% of salary p.a.) the value of which will be awarded to participants in the form of nil cost options over shares, based on annual performance against individual and Group KPIs;
- nil cost options will vest two years after the date of award (being approximately three years after the commencement of the financial year to which the award relates), subject to the participant remaining in employment with the Group during this period. Once the options have been awarded, the continued employment requirement is the only condition for vesting;
- awards are expected to be satisfied out of shares held for the purpose in the Group's Employment Benefit Trust. no shares will be issued by the Company to satisfy awards without prior shareholder approval in general meeting.

## Executive Directors' contracts

Details of the service contracts of the Executive Directors of the Company in force at the end of the year under review are as follows:

| Name | Company notice period | Contract date | Unexpired term of contract | Potential termination payment |
|---|---|---|---|---|
| Said Darwazah | 12 months | 1 July 2007 | Rolling contract | 12 months salary and benefits |
| Mazen Darwazah | 12 months | 25 May 2006 | Rolling contract | 12 months salary and benefits |

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.

Mazen Darwazah, who has an executive service contract with the Company as detailed above, will be proposed for re-election at the next Annual General Meeting of the Company, to be held on 14 May 2009.

## 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, Said Darwazah and Mazen Darwazah received fees of US$11,850 and US$26,100 respectively, in respect of such appointments.

## Non-Executive Directors' fees

*Policy 2008 – Upper quartile* The remuneration of the non-executive directors is determined by the Board based upon recommendations from the Chief Executive Officer and Executive Vice Chairman and is within the limits set by the Articles of Association.

The nature of the Company's business is international, requiring the Non-Executive Directors to travel to the USA, Middle East and Europe. The Board is therefore made up of 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 it is not considered appropriate to grant options to the Company's Non-Executive Directors. To ensure that the Company remains able to attract the appropriate calibre of candidate and to take account of its inability to grant options, the Board has therefore set its fee policy at the upper quartile.

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

| | **2008** | 2009 | | | |
|---|---|---|---|---|---|
| Name | **Total fee £000s** | Basic fee £000s | Committee fee £000s | Total fee £000s | Upper quartile fees in CG £000s |
| Samih Darwazah | **150** | 157.5 | – | 157.5 | 169 |
| Michael Ashton | **64** | 60 | 7.5 | 67.5 | 90 |
| Ali Al-Husry | **57** | 60 | – | 60 | 69 |
| Breffni Byrne | **71** | 60 | 15 | 75 | 90 |
| Ronald Goode | **57** | 60 | – | 60 | 80 |
| Sir David Rowe-Ham | **64** | 60 | 7.5 | 67.5 | 90 |

# Remuneration Committee report
continued

A review of the level of Non-Executive Director fees was conducted during 2008. As no review was undertaken in 2007, in 2008 NED fees fell below the benchmark set by the Group remuneration policy. The Board therefore commissioned Halliwell Consulting to conduct a study of non-executive remuneration against the Comparator Group, which showed that, in relation to the overall NED fee policy set by the Group, Hikma's NED fees were significantly out of step with those of its peers. The Board has therefore resolved that from 1 January 2009, the fees of Non-Executive Directors should be increased. Given the current economic climate, it was resolved to grant Non-Executive Directors' fees for 2009 in the amounts set out above, which represent an approximately 5% increase in the annual fees for all Non-Executive Directors. The increases move non-executive fees back towards the Group's stated policy, though overall non-executive fees remain below the level set by Group policy. The Board continues to believe that it is important to ensure that the fees paid to non-executives remain competitive, that they reflect the increasingly important role played by non-executives and allow the Nomination Committee to recruit Non-Executive Directors of the appropriate calibre in accordance with the requirements of succession planning.

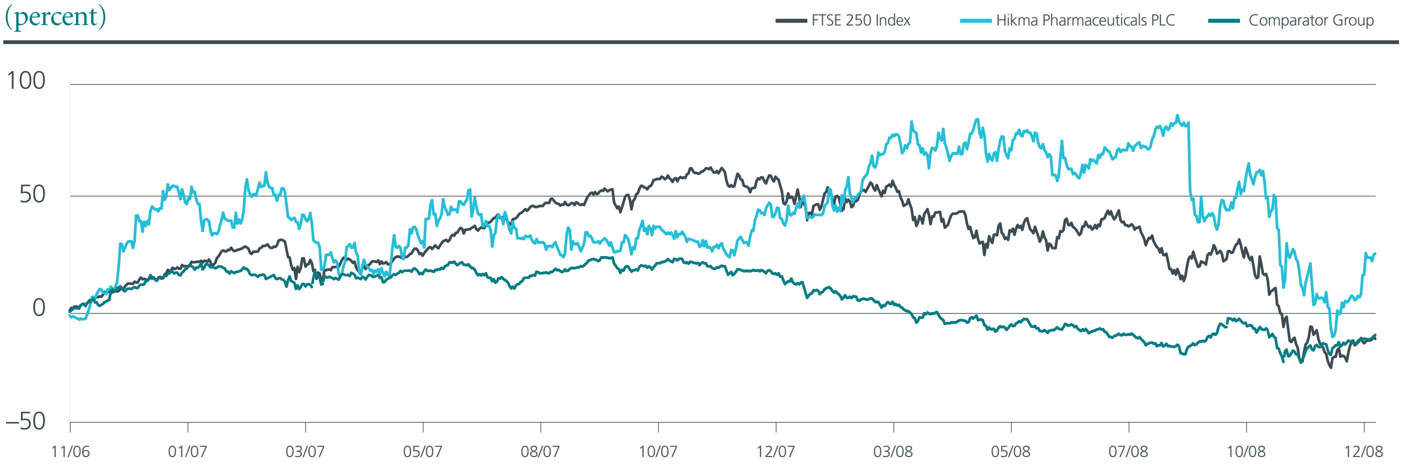
Non-Executive Directors do not participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions or other benefits provided by the Company. The Non-Executive Directors do not have service contracts, but have letters of appointment with the 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 | Date of original appointment | Notice payment |
|---|---|---|
| Samih Darwazah | 17 July 2007 | 1 month |
| Michael Ashton | 14 October 2005 | 1 month |
| Ali Al-Husry | 14 October 2005 | 1 month |
| Breffni Byrne | 14 October 2005 | 1 month |
| Ronald Goode | 12 December 2006 | 1 month |
| Sir David Rowe-Ham | 14 October 2005 | 1 month |

## 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 from 1 November 2005 to 31 December 2008. 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)



## Audited information

### Aggregate Directors' remuneration for 2008 and 2007

The total amounts for Directors' remuneration were as follows:

| | 2008 US$ | 2007 US$ |
|---|---|---|
| Emoluments | **2,637,686** | 3,328,197 |
| Compensation for loss of office | **–** | – |
| Non-discretionary statutory entitlement | **–** | 687,139 |
| Gains on exercise of share options | **4,120,020** | 5,844,823 |
| Amounts receivable under long-term incentive schemes | **–** | – |
| Money purchase pension contributions | **–** | – |
| **Total** | **6,757,706** | 9,860,159 |

### Directors' emoluments and compensation

| Director | Fees/Basic salary US$ | Other benefits* US$ | Annual bonuses US$ | 2008 Total US$ | 2007 Total US$ |
|---|---|---|---|---|---|
| **Executives** | | | | | |
| Said Darwazah** | 630,000 | 63,011 | 320,000 | **1,013,011** | 603,067 |
| Mazen Darwazah | 420,000 | 70,487 | 275,000 | **765,487** | 796,137 |
| **Non-executives** | | | | | |
| Samih Darwazah*** | 278,255 | – | – | **278,255** | 1,294,088 |
| Ali Al-Husry | 105,616 | – | – | **105,616** | 114,461 |
| Michael Ashton | 118,829 | – | – | **118,829** | 128,781 |
| Breffni Byrne | 132,043 | – | – | **132,043** | 143,101 |
| Ronald Goode | 105,616 | | | **105,616** | 119,781 |
| Sir David Rowe-Ham | 118,829 | – | – | **118,829** | 128,781 |
| **Aggregate emoluments** | 1,909,188 | 133,498 | 595,000 | **2,637,686** | 3,328,197 |

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

** Mr Said Darwazah was appointed as CEO on 1 July 2007. Therefore the figures disclosed above for 2007 relate to that six month period.

*** Mr Samih Darwazah was Chief Executive Officer of the Company until 30 June 2007. The figures above for 2007 reflect his executive salary for that six month period and also the one-off compulsory statutory social security payment made on the termination of his executive role.

### 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 | 2008 US$ | 2007 US$ |
|---|---|---|
| Samih Darwazah* | **–** | 3,133 |
| Said Darwazah | **8,505** | 1,417 |
| Mazen Darwazah | **7,818** | 7,693 |

*Mr Samih Darwazah relinquished his post as an Executive Director of the Company on 30 June 2007. Therefore no post employment benefits were paid in 2008.

# Remuneration Committee report
continued

## Directors' interests in shares

The table below details the directors' holdings in the share capital of the Company, including the changes between 31 December 2008 and the date of this document

| | Ordinary shares of 10 pence | | |
|---|---|---|---|
| Director | 1 January 2008 | 31 December 2008 | **16 March 2009** |
| Samih Darwazah | 1,706,506 | 2,195,450 | **2,195,450** |
| Said Darwazah | 612,780 | 413,445* | **413,445** |
| Mazen Darwazah | 561,958 | 777,591 | **777,591** |
| Michael Ashton | 4,566 | 4,566 | **4,566** |
| Ali Al Husry | 1,109,748 | 1,109,748 | **1,109,748** |
| Breffni Byrne | 10,000 | 10,000 | **10,000** |
| Ronald Goode | 6,000 | 9,000 | **9,000** |
| Sir David Rowe-Ham | 10,000 | 10,000 | **10,000** |
| **Total shares:** | 4,021,558 | 4,529,800 | **4,529,800** |

Each of Samih Darwazah, Said Darwazah, and Mazen Darwazah are directors of Darhold Limited, which is therefore a connected person of these individuals for the purposes of the Listing Rules and the Disclosure and Transparency Rules of the Financial Services Authority. Samih Darwazah, Said Darwazah Mazen Darwazah and Ali Al-Husry are also shareholders of Darhold Limited. At the date of this document, Darhold Limited held 57,183,028 Ordinary Shares in the capital of the Company.

*On 12 November 2008 Said Darwazah transferred 260,000 shares to his spouse.

## 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. Samih Darwazah continues to hold options over shares awarded to him during his period as an executive of the Company, as he remains a qualified holder under the terms of the 2004 Stock Option Plan. During the year, Samih Darwazah exercised options over 320,000 ordinary shares of the Company, and Mazen Darwazah 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

| | Number of options | | | | | | |
|---|---|---|---|---|---|---|---|
| Director | **As at 31 December 2008** | As at 1 January 2008 | No. of options exercised during the year | Exercise price (US$) | Price paid for award | Initial date of vesting** | Date of expiry |
| Samih Darwazah | **320,000** | 640,000 | 320,000 | 0.9075* | – | 1 Nov 2005 | 11 Oct 2014 |
| Said Darwazah | **–** | – | – | – | – | – | – |
| Mazen Darwazah | **320,000** | 640,000 | 320,000 | 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.

The gains/notional gains made by Directors on the exercise of their stock options during the year were as follows:

| Director | Options exercised | Date | Share price (£) | Exchange rate (US$) | Gain (US$) | Held/Sold |
|---|---|---|---|---|---|---|
| Samih Darwazah | 320,000 | 13 Oct 2008 | 3.1878 | 1.71 | 1,453,964 | Held |
| Mazen Darwazah | 160,000 | 4 Jan 2008 | 4.8500 | 1.98 | 1,391,280 | Sold |
| | 160,000 | 15 April 2008 | 4.5050 | 1.97 | 1,274,776 | Held |
| **Total** | | | | | **4,120,020** | |

## Hikma Pharmaceuticals PLC 2006 Long Term Incentive Scheme

| Director | No. of LTIP Shares | Price paid for award | Exercise price | Date of award | Initial date of vesting | Date of expiry |
|---|---|---|---|---|---|---|
| Said Darwazah | 100,000 | – | Nil | 10 Sept 2007 | 10 Sept 2010 | 10 Sept 2017 |
| | 90,000 | – | Nil | 29 April 2008 | 29 April 2011 | 29 April 2018 |
| Mazen Darwazah | 50,000 | – | Nil | 10 Sept 2007 | 10 Sept 2010 | 10 Sept 2017 |
| | 54,000 | – | Nil | 29 April 2008 | 29 April 2011 | 29 April 2018 |

The closing market price for the Ordinary Shares on 31 December 2008 was 348.25 pence. During the period from 1 January 2008 to the year-end the share's closing price ranged from a low of 250.00 pence to a high of 518.00 pence.

## 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 16 March 2009 and signed on its behalf

Michael Ashton *Chairman of the Remuneration Committee*

# Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs) and have also elected to prepare financial statements for the Company in accordance with IFRSs. Company law requires the Directors to prepare such financial statements in accordance with IFRSs, the Companies Act 1985 and Article 4 of the IAS Regulations.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and condition 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 IFRSs. 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 in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the business review, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

Said Darwazah *Chief Executive Officer*
16 March 2009

# 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 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related Notes 1 to 41. These Group 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 parent company financial statements of Hikma Pharmaceuticals PLC for the year ended 31 December 2008.

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 by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group 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 has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is 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 Director's 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 2006 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 statements on internal control cover 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 other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group 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 financial statements and the part of the Directors' remuneration report to be audited.

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

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the Group financial statements.

## Separate opinion in relation to IFRSs

As explained in Note 2 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended.

Deloitte LLP *Chartered Accountants and Registered Auditors, London, United Kingdom*
16 March 2009

# Consolidated income statement
## for the year ended 31 December 2008

| | Notes | 2008 $000's | 2007 $000's |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 4 | **580,656** | 448,796 |
| Cost of sales | 4 | **(324,174)** | (227,263) |
| **Gross profit** | 4 | **256,482** | 221,533 |
| Sales and marketing costs | | **(90,560)** | (61,021) |
| General and administrative expenses | | **(56,853)** | (46,012) |
| Research and development costs | | **(22,172)** | (19,342) |
| Other operating expenses (net) | 8 | **(6,215)** | (2,760) |
| **Total operating expenses** | | **(175,800)** | (129,135) |
| **Adjusted operating profit** | | **94,326** | 95,061 |
| **Exceptional items:** | | | |
| – Revision to estimates for chargebacks, returns and rebates | 5 | **(4,800)** | – |
| – Acquisition integration costs | 5 | **(1,629)** | – |
| **Intangible amortisation*** | 5 | **(7,215)** | (2,663) |
| **Operating profit** | 4 | **80,682** | 92,398 |
| Finance income | 9 | **817** | 2,029 |
| Finance expense | 10 | **(17,545)** | (10,837) |
| Other income | | **80** | 199 |
| **Profit before tax** | | **64,034** | 83,789 |
| Tax | 11 | **(6,915)** | (19,596) |
| **Profit for the year** | 6 | **57,119** | 64,193 |
| Attributable to: | | | |
| Minority interest | 32 | **(6)** | 1,617 |
| **Equity holders of the parent** | | **57,125** | 62,576 |
| | | **57,119** | 64,193 |
| **Earnings per share (cents)** | | | |
| Basic | 13 | **30.4** | 37.0 |
| Diluted | 13 | **29.6** | 35.4 |

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

# Consolidated balance sheet
## at 31 December 2008

| | Notes | 2008 $000's | 2007 (Restated)* $000's |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 14 | **258,228** | 259,841 |
| Property, plant and equipment | 15 | **271,650** | 246,656 |
| Interest in joint venture | 16 | **5,453** | 4,543 |
| Deferred tax assets | 17 | **13,305** | 14,503 |
| Available for sale investments | 18 | **540** | 1,008 |
| Financial and other non-current assets | 19 | **2,077** | 1,290 |
| | | **551,253** | 527,841 |
| **Current assets** | | | |
| Inventories | 20 | **154,756** | 140,409 |
| Income tax recoverable | | **–** | 358 |
| Trade and other receivables | 21 | **195,843** | 188,275 |
| Collateralised cash | 22 | **819** | 5,628 |
| Cash and cash equivalents | 23 | **62,727** | 28,905 |
| Other current assets | | **1,061** | 2,625 |
| | | **415,206** | 366,200 |
| **Total assets** | | **966,459** | 894,041 |
| **Current liabilities** | | | |
| Bank overdrafts and loans | 24 | **117,300** | 276,537 |
| Obligations under finance leases | 28 | **1,221** | 1,455 |
| Trade and other payables | 25 | **82,003** | 84,324 |
| Income tax provision | | **12,016** | 10,583 |
| Other provisions | 26 | **5,392** | 4,475 |
| Other current liabilities | | **10,502** | 16,662 |
| | | **228,434** | 394,036 |
| **Net current assets/(liabilities)** | | **186,772** | (27,836) |
| **Non-current liabilities** | | | |
| Long-term financial debts | 27 | **110,414** | 57,662 |
| Deferred income | | **695** | 279 |
| Obligations under finance leases | 28 | **5,496** | 5,698 |
| Deferred tax liabilities | 17 | **12,425** | 11,709 |
| | | **129,030** | 75,348 |
| **Total liabilities** | | **357,464** | 469,384 |
| **Net assets** | | **608,995** | 424,657 |
| **Equity** | | | |
| Share capital | 31 | **33,857** | 30,229 |
| Share premium | | **269,973** | 114,059 |
| Own shares | 34 | **(1,124)** | – |
| Other reserves | | **300,503** | 274,192 |
| **Equity attributable to equity holders of the parent** | | **603,209** | 418,480 |
| Minority interest | 32 | **5,786** | 6,177 |
| **Total equity** | | **608,995** | 424,657 |

* The 2007 comparatives have been restated due to the finalisation of 2007 acquisition accounting. See note 33.

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

Said Darwazah *Director*
16 March 2009

# Consolidated statement of changes in equity
## for the year ended 31 December 2008

| | Merger reserve $000's | Revaluation reserves $000's | Translation reserves $000's | Retained earnings $000's | Total reserves $000's | Share capital $000's | Share premium $000's | Own shares $000's | Total equity attributable to equity shareholders of the parent $000's | Minority interest $000's | Total equity $000's |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2007** | 33,920 | 4,807 | 3,566 | 161,631 | 203,924 | 29,712 | 111,431 | – | 345,067 | 4,732 | 349,799 |
| Issue of equity shares | – | – | – | – | – | 517 | 2,628 | – | 3,145 | – | 3,145 |
| Cost of equity settled employee share scheme | – | – | – | 1,601 | 1,601 | – | – | – | 1,601 | – | 1,601 |
| Deferred and current tax arising on share-based payments | – | – | – | 2,968 | 2,968 | – | – | – | 2,968 | – | 2,968 |
| Dividends on ordinary shares | – | – | – | (12,696) | (12,696) | – | – | – | (12,696) | – | (12,696) |
| Dividends paid to minority shareholders | – | – | – | – | – | – | – | – | – | (172) | (172) |
| Profit for the year | – | – | – | 62,576 | 62,576 | – | – | – | 62,576 | 1,617 | 64,193 |
| Cumulative effect of change in fair value of available for sale investments | – | – | – | (151) | (151) | – | – | – | (151) | – | (151) |
| Cumulative effect of change in fair value of financial derivatives | – | – | – | (256) | (256) | – | – | – | (256) | – | (256) |
| Realisation of revaluation reserve | – | (180) | – | 180 | – | – | – | – | – | – | – |
| Currency translation gain | – | – | 16,226 | – | 16,226 | – | – | – | 16,226 | – | 16,226 |
| **Balance at 31 December 2007 and 1 January 2008** | **33,920** | **4,627** | **19,792** | **215,853** | **274,192** | **30,229** | **114,059** | **–** | **418,480** | **6,177** | **424,657** |
| Issue of equity shares | – | – | – | – | – | 3,628 | 155,914 | – | 159,542 | – | 159,542 |
| Acquisition of own shares | – | – | – | – | – | – | – | (1,124) | (1,124) | – | (1,124) |
| Cost of equity settled employee share scheme | – | – | – | 3,384 | 3,384 | – | – | – | 3,384 | – | 3,384 |
| Deferred tax arising on share-based payments | – | – | – | (4,299) | (4,299) | – | – | – | (4,299) | – | (4,299) |
| Dividends on ordinary shares | – | – | – | (14,151) | (14,151) | – | – | – | (14,151) | – | (14,151) |
| Dividends paid to minority shareholders | – | – | – | – | – | – | – | – | – | (385) | (385) |
| Profit/(loss) for the year | – | – | – | 57,125 | 57,125 | – | – | – | 57,125 | (6) | 57,119 |
| Cumulative effect of change in fair value of available for sale investments | – | – | – | (216) | (216) | – | – | – | (216) | – | (216) |
| Cumulative effect of change in fair value of financial derivatives | – | – | – | (78) | (78) | – | – | – | (78) | – | (78) |
| Realisation of revaluation reserve | – | (180) | – | 180 | – | – | – | – | – | – | – |
| Currency translation loss | – | – | (15,454) | – | (15,454) | – | – | – | (15,454) | – | (15,454) |
| **Balance at 31 December 2008** | **33,920** | **4,447** | **4,338** | **257,798** | **300,503** | **33,857** | **269,973** | **(1,124)** | **603,209** | **5,786** | **608,995** |

# Consolidated cash flow statement
## for the year ended 31 December 2008

| | Notes | 2008 $000's | 2007 $000's |
|---|---|---|---|
| **Net cash from operating activities** | 35 | **74,969** | 53,283 |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | | **(56,205)** | (50,402) |
| Proceeds from disposal of property, plant and equipment | | **1,003** | 906 |
| Purchase of intangible assets | | **(9,313)** | (4,586) |
| Proceeds from disposal of intangible assets | | **1,257** | – |
| Investment in joint venture | | **(910)** | – |
| Investment in financial and other non current assets | | **(787)** | 329 |
| Proceeds/(investment) in available for sale investments (net) | | **252** | (226) |
| Acquisition of subsidiary undertakings, net of cash acquired | | **–** | (296,903) |
| Subsequent payments relating to prior year acquisitions | | **(2,234)** | – |
| Finance income | | **817** | 2,029 |
| **Net cash used in investing activities** | | **(66,120)** | (348,853) |
| **Financing activities** | | | |
| Decrease/(increase) in collateralised cash | | **4,809** | (291) |
| Increase in long-term financial debts | | **101,685** | 42,464 |
| Repayment of long-term financial debts | | **(48,933)** | (13,546) |
| (Decrease)/increase in short-term borrowings | | **(159,237)** | 229,658 |
| (Decrease)/increase in obligations under finance leases | | **(436)** | 126 |
| Dividends paid | | **(14,151)** | (12,834) |
| Dividends paid to minority shareholders | | **(385)** | (166) |
| Purchase of own shares | | **(1,124)** | – |
| Interest paid | | **(17,097)** | (10,166) |
| Proceeds from issue of new shares | | **162,026** | 3,145 |
| Costs of issue of new shares | | **(2,484)** | – |
| **Net cash from financing activities** | | **24,673** | 238,390 |
| **Net increase/(decrease) in cash and cash equivalents** | | **33,522** | (57,180) |
| **Cash and cash equivalents at beginning of year** | | **28,905** | 86,227 |
| Foreign exchange translation movements | | **300** | (142) |
| **Cash and cash equivalents at end of year** | | **62,727** | 28,905 |

# Notes to the consolidated financial statements

## 1. Adoption of new and revised standards

In the current year, two Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 11 IFRS 2 – Group and Treasury Share Transactions and IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

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

| | |
|---|---|
| IFRS 1 (amended)/IAS 27 (amended) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| IFRS 2 (amended) | Share-based Payment – Vesting Conditions and Cancellations |
| IFRS 3 (revised 2008) | Business Combinations |
| IFRS 8 | Operating Segments |
| IAS 1(revised 2007) | Presentation of Financial Statements |
| IAS 23 (revised 2007) | Borrowing Costs |
| IAS 27 (revised 2008) | Consolidated and Separate Financial Statements |
| IAS 32 (amended)/IAS 1 (amended) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| IFRIC 12 | Service Concession Arrangements |
| IFRIC 15 | Agreements for the Construction of Real Estate |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation |

Improvements to IFRSs (May 2008)

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for the following, which may have impact depending on the future activities of the Group:

| |
|---|
| additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009; and |
| treatment of acquisition of subsidiaries when IFRS 3 comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009. |

# Notes to the consolidated financial statements
continued

## 2. 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.

Comparative figures for 31 December 2007 have been adjusted for revisions to the provisional acquisition balance sheet of the companies acquired by the Group in 2007. Further details are provided in Note 33. In addition, in the consolidated cash flow statement and supporting Notes interest paid has been reclassified to financing activities and finance income has been reclassified to investing activities to better reflect the nature of the flows, following the recent acquisitions.

Going concern risks are discussed in the risk management section of the Business and Financial Review.

The Group's previously published financial statements were also prepared in accordance with International Financial Reporting Standards.

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. Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. 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 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 the income statement.

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.

## 2. Significant accounting policies continued

### Investment 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.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not control or joint control over these policies.

### Investment in joint venture

A joint venture is a contractual arrangement whereby the Group and a third party undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Each venturer contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venturer and recognised in its financial statements as an investment in the jointly controlled entity.

The Group recognises its interest in the joint venture using proportionate consolidation. The application of proportionate consolidation means that the balance sheet of the Group includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible.

### 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 frequent 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.

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) Customer relationships:* represent the value attributed to the long-term relationships held with existing customers at the date of acquisition and are amortised over their useful economic life.

*(d) Product related intangibles:*

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

(ii) under-licence agreements and product dossiers are amortised over their useful lives in the year of acquisition.

*(e) Purchased software:* is amortised over the useful economic lives when the asset is available for use.

*(f) In process research and development recognised on acquisition:* is amortised over the useful life in the year of acquisition.

*(g) Trade name:* some trade names are assigned indefinite useful lives and others have finite useful lives over which they are amortised where applicable, in the period from acquisition.

# Notes to the consolidated financial statements
continued

## 2. Significant accounting policies continued

### 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 at currency of 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Revenue recognition

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.

## 2. 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.

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in 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. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Assets held under 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.

Notes to the consolidated financial statements
continued

## 2. Significant accounting policies continued

### 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.

### 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Share-based payment transactions

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

## 2. Significant accounting policies continued

### Share-based payments

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

The cost of share-based payments' transactions with employees is measured by reference to the fair value at the date at which the share-based payments are granted. The equity settled stock options scheme fair value is determined using a binomial model. The long-term incentive plan fair value is determined using a MonteCarlo valuation model. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations (further details are given in Note 37). In valuing share-based payments, no account is taken of any performance conditions, other than conditions linked to the market price of the shares of Hikma Pharmaceuticals PLC.

The cost of share-based payments is recognised, together with a corresponding increase in equity, on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. No expense is recognised for awards that do not ultimately vest. Where the terms of a share-based payments are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the modification date. Where a share-based payments award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for a cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding share-based payments is reflected as additional share dilution in the computation of diluted earnings per share.

### Property, plant and equipment

Property, plant and equipment have been 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% |
| Fixtures & equipment | 8% to 33% |

Projects under construction are not depreciated until construction has been completed.

Any additional costs that extend the useful life of property, plant and equipment are capitalised.

Property, plant and equipment which are financed by leases giving Hikma Pharmaceuticals PLC substantially all the risks and rewards of ownership are capitalised at the lower of the fair value of the asset and the present value of the minimum lease payments at the inception of the lease, and depreciated in the same manner as other property, plant and equipment over the shorter of the lease term or their useful life.

Whenever the recoverable amount of an asset is impaired, the carrying value is reduced to the recoverable amount and the impairment loss is taken to the 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.

Notes to the consolidated financial statements
continued

## 2. Significant accounting policies continued

### 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, directs labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. In the balance sheet, inventory is primarily valued at standard cost, which approximates to historical cost determined on a moving average basis, and this value is used to determine the cost of sales in the 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 foreign exchange forward and option 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.

## 2. 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 accruals 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.

## 3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The critical accounting policies and key estimates are set above.

# Notes to the consolidated financial statements
continued

## 4. Business and geographical segments

For management purposes, the Group is currently organised into three operating divisions – Generic, 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 2008 | Branded $000's | Injectables $000's | Generic $000's | Others $000's | Group $000's |
|---|---|---|---|---|---|
| Revenue | 320,837 | 149,320 | 105,696 | 4,803 | 580,656 |
| Cost of sales | (148,023) | (85,942) | (86,385) | (3,824) | (324,174) |
| Gross profit | 172,814 | 63,378 | 19,311 | 979 | 256,482 |
| **Result** | | | | | |
| **Adjusted segment result** | 93,591 | 24,688 | (839) | (3,738) | 113,702 |
| **Exceptional items:** | | | | | |
| – Revision to estimates for chargebacks, returns and rebates | – | – | (4,800) | – | (4,800) |
| – Acquisition integration costs | (1,629) | – | – | – | (1,629) |
| **Intangible amortisation*** | (4,478) | (2,587) | (150) | – | (7,215) |
| Segment result | 87,484 | 22,101 | (5,789) | (3,738) | 100,058 |
| Unallocated corporate expenses | | | | | (19,376) |
| Operating profit | | | | | 80,682 |
| Finance income | | | | | 817 |
| Finance expense | | | | | (17,545) |
| Other income | | | | | 80 |
| Profit before tax | | | | | 64,034 |
| Tax | | | | | (6,915) |
| Profit for the year | | | | | 57,119 |
| Attributable to: | | | | | |
| Minority interest | | | | | (6) |
| Equity holders of the parent | | | | | 57,125 |
| | | | | | 57,119 |

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

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

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

| Other information 2008 | Branded $000's | Injectables $000's | Generic $000's | Corporate and Other $000's | Group $000's |
|---|---|---|---|---|---|
| Additions to property, plant and equipment (cost) | 34,226 | 12,981 | 8,037 | 1,427 | 56,671 |
| Additions to intangible assets | 3,801 | 4,781 | 463 | 1,601 | 10,646 |
| Total property, plant and equipment and intangible assets (net book value) | 336,839 | 150,282 | 32,185 | 10,572 | 529,878 |
| Depreciation and amortisation | 18,666 | 8,540 | 4,613 | 1,303 | 33,122 |
| **Balance sheet** | | | | | |
| **Total assets** | | | | | |
| Segment assets | 642,397 | 196,894 | 95,456 | 31,712 | 966,459 |
| **Total liabilities** | | | | | |
| Segment liabilities | 196,924 | 82,804 | 28,191 | 49,545 | 357,464 |

## 4. Business and geographical segments continued

| Year ended 31 December 2007 | Branded $000's | Injectables $000's | Generic $000's | Others $000's | Group $000's |
|---|---|---|---|---|---|
| Revenue | 198,942 | 121,164 | 124,229 | 4,461 | 448,796 |
| Cost of sales | (90,925) | (67,005) | (65,644) | (3,689) | (227,263) |
| Gross profit | 108,017 | 54,159 | 58,585 | 772 | 221,533 |
| **Result** | | | | | |
| **Adjusted segment result** | 62,162 | 22,654 | 31,644 | (3,396) | 113,064 |
| **Intangible amortisation*** | (466) | (2,197) | – | – | (2,663) |
| Segment result | 61,696 | 20,457 | 31,644 | -3,396 | 110,401 |
| Unallocated corporate expenses | | | | | (18,003) |
| Operating profit | | | | | 92,398 |
| Finance income | | | | | 2,029 |
| Finance expense | | | | | (10,837) |
| Other income | | | | | 199 |
| Profit before tax | | | | | 83,789 |
| Tax | | | | | (19,596) |
| Profit for the year | | | | | 64,193 |
| Attributable to: | | | | | |
| Minority interest | | | | | 1,617 |
| Equity holders of the parent | | | | | 62,576 |
| | | | | | 64,193 |

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

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

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

| Other information (Restated)* 2007 | Branded $000's | Injectables $000's | Generic $000's | Corporate and Other $000's | Group $000's |
|---|---|---|---|---|---|
| Additions to property, plant and equipment (cost) | 28,366 | 15,811 | 4,189 | 990 | 49,356 |
| Acquisition of subsidiary's property, plant and equipment (cost)* | 56,380 | 9,213 | – | – | 65,593 |
| Additions to intangible assets | 1,453 | 2,557 | 445 | 131 | 4,586 |
| Intangible assets arising on acquisition* | 164,230 | 62,495 | – | – | 226,725 |
| Total property, plant and equipment and intangible assets (net book value)* | 321,072 | 148,252 | 28,304 | 8,869 | 506,497 |
| Depreciation and amortisation | 9,740 | 7,054 | 5,153 | 1,486 | 23,433 |
| **Balance sheet** | | | | | |
| **Total assets** | | | | | |
| Segment assets | 575,613 | 196,337 | 97,355 | 24,736 | 894,041 |
| **Total liabilities** | | | | | |
| Segment liabilities | 168,575 | 78,723 | 9,781 | 212,305 | 469,384 |

*The 2007 comparatives have been restated due to the finalisation of 2007 acquisitions. See Note 33.

# Notes to the consolidated financial statements continued

## 4. 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 year ended 31 December | |
|---|---|---|
| | **2008 $000's** | 2007 $000's |
| Middle East and North Africa | **365,922** | 229,196 |
| Europe and Rest of the World | **84,128** | 76,090 |
| United States | **130,606** | 143,510 |
| | **580,656** | 448,796 |

The following is an analysis of the additions and 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 in the year | | Total property, plant and equipment and intangibles as at December 31 | | Total assets as at December 31 | |
|---|---|---|---|---|---|---|
| | **2008 $000's** | 2007* (Restated) $000's | **2008 $000's** | 2007* (Restated) $000's | **2008 $000's** | 2007* (Restated) $000's |
| Middle East and North Africa | **40,047** | 251,457 | **345,992** | 329,646 | **657,901** | 589,457 |
| Europe | **18,770** | 90,169 | **151,701** | 148,547 | **213,102** | 208,388 |
| United States | **8,500** | 4,634 | **32,185** | 28,304 | **95,456** | 96,196 |
| | **67,317** | 346,260 | **529,878** | 506,497 | **966,459** | 894,041 |

*The 2007 comparatives have been restated due to the finalisation of 2007 acquisition accounting. See Note 33.

Additions in 2007 include property, plant and equipment and intangibles acquired with and arising on the acquisition of subsidiary undertakings.

## 5. Exceptional items and intangible amortisation

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

| | For the years ended 31 December | |
|---|---|---|
| | **2008 $000's** | 2007 $000's |
| Revision to estimates for chargebacks, returns and rebates | **(4,800)** | – |
| Acquisition integration costs | **(1,629)** | – |
| **Exceptional items** | **(6,429)** | – |
| Intangible amortisation | **(7,215)** | (2,663) |
| **Exceptional items and intangible amortisation*** | **(13,644)** | (2,663) |
| Tax effect | **3,408** | 736 |
| **Impact on profit for the year** | **(10,236)** | (1,927) |

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

Revision to estimates for chargebacks, returns and rebates represents a one off charge taken against revenue during 2008.

Acquisition integration costs represent expenses incurred in integrating APM and Hikma Pharma SAE (Egypt) into the Group. These are included within sales and marketing and general and administrative expenses.

## 6. Profit for the year

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

| | For the years ended 31 December | |
|---|---|---|
| | **2008 $000's** | 2007 $000's |
| Net foreign exchange gains | **(1,012)** | (1,698) |
| Research and development costs | **22,172** | 19,342 |
| Gain on sale of property, plant and equipment | **(6)** | (202) |
| Depreciation of property, plant and equipment | **25,067** | 19,374 |
| Amortisation of intangible assets | **8,055** | 4,059 |
| Bad debt expense | **2,366** | 1,064 |
| Cost of inventories recognised as an expense | **210,514** | 142,541 |
| Staff costs (see Note 7) | **140,259** | 102,639 |
| Auditors' remuneration (see below) | **1,524** | 1,630 |

A more detailed analysis of the Group's auditors' remuneration on a Group basis is provided below.

| | For the years ended 31 December | |
|---|---|---|
| | **2008 $000's** | 2007 $000's |
| Audit of the Company's annual accounts | **397** | 452 |
| Audit of the Company's subsidiaries pursuant to legislation | **661** | 606 |
| Total audit fees | **1,058** | 1,058 |
| Audit related services* | **268** | 188 |
| Total audit and audit related fees | **1,326** | 1,246 |
| – Tax compliance services | **7** | 84 |
| – Tax advisory services | **129** | 170 |
| – Transaction due diligence services | **62** | 130 |
| Total non-audit fees | **198** | 384 |
| Total fees | **1,524** | 1,630 |

*These fees predominantly relate to review procedures in respect of the interim financial information.

A description of the work of the audit committee is set out in the Audit Committee report on page 75 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

## 7. Staff costs

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

| | For the years ended 31 December | |
|---|---|---|
| | **2008 Number** | 2007 Number |
| Production | **2,554** | 1,817 |
| Selling and marketing | **1,254** | 888 |
| Research and development | **176** | 213 |
| General and administrative | **647** | 379 |
| | **4,631** | 3,297 |

# Notes to the consolidated financial statements continued

## 7. Staff costs continued

| | For the years ended 31 December 2008 $000's | 2007 $000's |
|---|---|---|
| Their aggregate remuneration comprised: | | |
| Wages and salaries | **101,498** | 72,448 |
| Social security costs | **8,766** | 6,755 |
| Post employment benefits | **3,032** | 2,477 |
| End of service indemnity | **4,189** | 2,696 |
| Share-based payments | **3,384** | 1,601 |
| Car allowance | **5,734** | 2,385 |
| Housing allowance | **4,240** | 2,880 |
| Medical Expenses and Insurance | **4,829** | 3,664 |
| Other costs* | **4,587** | 7,733 |
| | **140,259** | 102,639 |

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

## 8. Other operating expenses (net)

| | For the years ended 31 December 2008 $000's | 2007 $000's |
|---|---|---|
| Other operating expense | **(9,903)** | (5,316) |
| Other operating income | **3,688** | 2,556 |
| | **(6,215)** | (2,760) |

Other operating expenses consist mainly of the increase in provisions against slow moving inventory items. Other operating income consists mainly of foreign exchange gains on trading activities and gain on sale of intangible assets.

## 9. Finance income

| | For the years ended 31 December 2008 $000's | 2007 $000's |
|---|---|---|
| Interest income | **817** | 2,029 |

## 10. Finance expense

| | For the years ended 31 December 2008 $000's | 2007 $000's |
|---|---|---|
| Interest on bank overdrafts and loans | **13,320** | 7,789 |
| Interest on obligations under finance leases | **340** | 306 |
| Other bank charges | **3,652** | 2,632 |
| Net foreign exchange loss | **233** | 110 |
| | **17,545** | 10,837 |

## 11. Tax

| | For the years ended 31 December 2008 $000's | 2007 $000's |
|---|---|---|
| Current tax: | | |
| UK current tax | **2,280** | 13,664 |
| Double tax relief | **(2,280)** | (13,664) |
| Foreign tax | **9,268** | 20,552 |
| Prior year adjustments | **76** | (1,000) |
| Deferred tax (Note 17) | **(2,429)** | 44 |
| | **6,915** | 19,596 |

UK corporation tax is calculated at 28.5% (2007: 30%) of the estimated assessable profit made in the UK for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdiction.

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

| | 2008 $000's | 2007 $000's |
|---|---|---|
| Profit before tax: | **64,034** | 83,789 |
| Tax at the UK corporation tax rate of 28.5% (2007: 30%) | **18,250** | 25,137 |
| Profits taxed at different rates | **(15,089)** | (7,100) |
| UK tax on dividend income | **2,280** | 13,664 |
| Double tax relief offset | **(2,280)** | (13,664) |
| Permanent differences | **2,886** | 2,314 |
| Losses for which no benefit is recognised | **792** | 713 |
| Other tax adjustments | **–** | (468) |
| Prior year adjustments | **76** | (1,000) |
| Tax expense for the year | **6,915** | 19,596 |

## 12. Dividends

| | 2008 $000's | 2007 $000's |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| Final dividend for the year ended 31 December 2007 of 4.0 cents (2006: 4.0 cents) per share | **7,542** | 6,765 |
| Interim dividend for the year ended 31 December 2008 of 3.5 cents (2007: 3.5 cents) per share | **6,609** | 5,931 |
| | **14,151** | 12,696 |

The proposed final dividend for the year ended 31 December 2008 is 4.0 cents (2007: 4.0 cents) per share, bringing the total dividends for the year to 7.5 cents (2007: 7.5 cents) per share.

## 13. Earnings per share

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

| | For the years ended 31 December 2008 $000's | 2007 $000's |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent | **57,125** | 62,576 |

# Notes to the consolidated financial statements continued

## 13. Earnings per share continued

| Number of shares | Number '000 | Number '000 |
|---|---|---|
| Weighted average number of Ordinary Shares for the purposes of basic earnings per share | **187,876** | 169,216 |
| Effect of dilutive potential Ordinary Shares; | | |
| Share options and LTIP | **5,295** | 7,631 |
| Weighted average number of Ordinary Shares for the purposes of diluted earnings per share | **193,171** | 176,847 |

| | 2008 Earnings per share Cents | 2007 Earnings per share Cents |
|---|---|---|
| Basic | **30.4** | 37.0 |
| Diluted | **29.6** | 35.4 |

## 14. Intangible assets

| | Goodwill $000's | Marketing rights $000's | Customer relationships $000's | Product related intangibles $000's | In process R&D $000's | Trade names $000's | Other acquisition related intangibles $000's | Software $000's | Total $000's |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| **Balance at 1 January 2007** | **8,924** | **2,459** | **4,946** | **6,874** | **–** | **–** | **–** | **4,102** | **27,305** |
| Additions | – | 2,705 | – | 651 | – | – | 131 | 1,099 | 4,586 |
| Acquisition of subsidiaries (Restated)* | 143,200 | – | 58,224 | 12,089 | 4,576 | 5,754 | 2,882 | – | 226,725 |
| Subsequent adjustments | 394 | – | – | – | – | – | – | – | 394 |
| Translation adjustments | 4,674 | 248 | 2,199 | 391 | 33 | 639 | 276 | – | 8,460 |
| **Balance at 1 January 2008 (Restated)*** | **157,192** | **5,412** | **65,369** | **20,005** | **4,609** | **6,393** | **3,289** | **5,201** | **267,470** |
| Additions | – | 2,660 | – | 1,987 | – | 15 | 44 | 5,940 | 10,646 |
| Reclassification | – | (1,114) | – | 990 | – | 124 | – | – | – |
| Disposals | – | – | – | (305) | (129) | – | – | – | (434) |
| Translation adjustments | (1,997) | (209) | (938) | (283) | (10) | (249) | (138) | (185) | (4,009) |
| **Balance at 31 December 2008** | **155,195** | **6,749** | **64,431** | **22,394** | **4,470** | **6,283** | **3,195** | **10,956** | **273,673** |
| **Amortisation** | | | | | | | | | |
| **Balance at 1 January 2007** | **(608)** | **(254)** | **–** | **(125)** | **–** | **–** | **–** | **(2,378)** | **(3,365)** |
| Charge for the year | – | (303) | (1,512) | (477) | – | – | (371) | (1,396) | (4,059) |
| Acquisition of subsidiaries | – | – | – | (72) | – | – | – | – | (72) |
| Translation adjustments | – | (35) | (92) | (12) | – | – | 6 | – | (133) |
| **Balance at 1 January 2008** | **(608)** | **(592)** | **(1,604)** | **(686)** | **–** | **–** | **(365)** | **(3,774)** | **(7,629)** |
| Charge for the year | – | (704) | (4,383) | (1,600) | (304) | (19) | (205) | (840) | (8,055) |
| Reclassification | – | (11) | 253 | (212) | – | – | – | (30) | – |
| Disposals | – | – | – | 10 | – | – | – | – | 10 |
| Translation adjustments | – | 42 | 70 | 78 | 1 | – | 2 | 36 | 229 |
| **Balance at 31 December 2008** | **(608)** | **(1,265)** | **(5,664)** | **(2,410)** | **(303)** | **(19)** | **(568)** | **(4,608)** | **(15,445)** |
| **Carrying amount** | | | | | | | | | |
| **At 31 December 2008** | **154,587** | **5,484** | **58,767** | **19,984** | **4,167** | **6,264** | **2,627** | **6,348** | **258,228** |
| **At 31 December 2007** | 156,584 | 4,820 | 63,765 | 19,319 | 4,609 | 6,393 | 2,924 | 1,427 | 259,841 |

* The 2007 comparatives have been restated due to the finalisation of 2007 acquisitions. See Note 33.

## 14. Intangible assets continued

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

| | 2008 $000's | 2007 (Restated)* $000's |
|---|---|---|
| **Branded** | | |
| Arab Pharmaceuticals Manufacturing Company | **74,399** | 74,399 |
| Al Jazeera Pharmaceutical Industries | **6,752** | 6,752 |
| Hikma Pharma Egypt | **34,680** | 35,002 |
| | **115,831** | 116,153 |
| **Injectables** | | |
| Hikma Pharma (Germany)** | **13,212** | 13,806 |
| Thymoorgan | **23,950** | 25,031 |
| Hikma Italia | **757** | 757 |
| | **37,919** | 39,594 |
| **Others** | | |
| Arab Medical Containers | **742** | 742 |
| IPRC and STD | **95** | 95 |
| | **837** | 837 |
| **Total** | **154,587** | 156,584 |

*The 2007 comparatives have been restated due to the finalisation of 2007 acquisitions. See Note 33.

**Hikma Germany comprises the combined operations of Ribosepharm GmbH and Hikma Pharma GmbH, which were merged during 2008.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill may be impaired.

Each company is considered as a cash generating unit for the purpose of goodwill impairment testing. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and short-term growth rates. Management estimates discount rates using WACC rates that reflect the current market assessments of the time value of money and the risks specific to the CGUs. The discount rates used varied between 8% and 13%. The short-term growth rates are in line with historical performance and/or forecast budget with growth rates of 2% in perpetuity. Short-term growth rates used varied between 13% and 26%.

### Other intangible assets

Amortisation of all intangibles assets with finite useful lives is charged on a straight-line basis.

*Marketing rights* Marketing rights are amortised over their useful lives commencing on the year in which the rights first generate sales.

Notes to the consolidated financial statements
continued

## 14. Intangible assets continued

*Product related intangibles* Product related intangibles include three types:

*a. Product files and under-licenced products:* The product files and under-licence products intangibles are assessed as having indefinite useful life due to the expected longevity of the products with an indefinite useful life. These assets are being reviewed for impairment at least annually. The carrying value of these assets is USD 5,837,000 (2007: USD 5,837,000).

*b. Under-licence agreements:* Under-licence agreements have an average estimated useful life of 11 years (2007: 11 years).

*c. Product dossiers:* Product dossiers have an average estimated useful life of 15 years (2007: 15 years).

*Customer relationships* Customer relationships represent the value attributed to the existing direct customers that the Company acquired on the acquisition of subsidiaries. The customer relationships have an average estimated useful life of 15 years (2007: 15 years).

*In process R&D* In process R&D represents the pipeline of products under development that were recognised on the acquisition of Arab Pharmaceutical Manufacturing Company and Alkan Pharma SAE. The In process R&D has an average estimated useful life of 15 years (2007: 15 years).

*Trade name* Trade names were recognised on the acquisition of Ribosepharm and Arab Pharmaceutical Manufacturing Company.

The trade name recognised on the acquisition of Ribosepharm is expected to have an indefinite economic useful life due to its expected longevity. The carrying value of Ribosepharm's trade name is USD 5,904,000 (2007: USD 6,169,000), the movement has arisen due to retranslation. The trade name recognised on the acquisition of Arab Pharmaceutical Manufacturing Company has an estimated useful life of 12 years (2007: 12 years).

*Software* Software intangibles mainly represent the Enterprise Resource Planning solution that is being implemented in different operations across the Group. The software has an average estimated useful life of five years.

*Other acquisition related intangibles* This mainly represents intangible assets recognised on the acquisition of Thymoorgan which relate to its specialist manufacturing capabilities. The estimated useful lives vary from 10 years to indefinite useful life. The carrying value of assets with indefinite lives is USD 1,057,000 (2007: USD 1,105,000), the movement has arisen due to retranslation.

## 15. 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 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 1 January 2007** | **68,187** | **5,829** | **109,192** | **17,152** | **36,616** | **236,976** |
| Additions | 4,371 | 3,045 | 13,250 | 5,867 | 22,823 | 49,356 |
| Acquisition of subsidiaries (Restated)* | 31,705 | 766 | 24,142 | 4,864 | 4,116 | 65,593 |
| Disposals | – | (792) | (3,202) | (521) | (233) | (4,748) |
| Transfers | 24,584 | 270 | 18,618 | 2,520 | (45,992) | – |
| Translation adjustment | 2,173 | 99 | 4,198 | 615 | 2,957 | 10,042 |
| **Balance at 1 January 2008 (Restated)*** | **131,020** | **9,217** | **166,198** | **30,497** | **20,287** | **357,219** |
| Additions | 4,731 | 1,689 | 9,783 | 6,531 | 33,937 | 56,671 |
| Disposals | (68) | (671) | (4,213) | (2,079) | (991) | (8,022) |
| Transfers | 4,854 | 32 | 2,922 | 113 | (7,921) | – |
| Translation adjustment | (2,040) | (128) | (2,705) | (426) | (776) | (6,075) |
| **Balance at 31 December 2008** | **138,497** | **10,139** | **171,985** | **34,636** | **44,536** | **399,793** |
| **Accumulated depreciation** | | | | | | |
| **Balance at 1 January 2007** | **12,579** | **2,562** | **56,433** | **8,557** | **–** | **80,131** |
| Charge for the year | 2,713 | 1,126 | 12,217 | 3,318 | – | 19,374 |
| Acquisition of subsidiaries | 3,150 | 344 | 6,820 | 2,302 | – | 12,616 |
| Disposals and transfers | (3) | (496) | (3,152) | (393) | – | (4,044) |
| Translation adjustment | 601 | 47 | 1,514 | 324 | – | 2,486 |
| **Balance at 1 January 2008** | **19,040** | **3,583** | **73,832** | **14,108** | **–** | **110,563** |
| Charge for the year | 4,058 | 1,456 | 15,270 | 4,283 | – | 25,067 |
| Disposals and transfers | 485 | (431) | (5,448) | (282) | – | (5,676) |
| Translation adjustment | (438) | (66) | (1,061) | (246) | – | (1,811) |
| **Balance at 31 December 2008** | **23,145** | **4,542** | **82,593** | **17,863** | **–** | **128,143** |
| **Net book value** | | | | | | |
| **31 December 2008** | **115,352** | **5,597** | **89,392** | **16,773** | **44,536** | **271,650** |
| **Net book value** | | | | | | |
| **31 December 2007 (Restated)*** | **111,980** | **5,634** | **92,366** | **16,389** | **20,287** | **246,656** |

*The 2007 comparatives have been restated due to the finalisation of 2007 acquisitions. See Note 33.

The net book value of the Group's machinery and equipment includes an amount of USD 6,028,000 (2007: USD 11,738,000) in respect of assets held under finance lease.

As at 31 December 2008 the Group had pledged property, plant and equipment having a carrying value of USD 87,289,000 (2007: USD 63,207,000) as collateral for various long-term loans. This amount includes both specific items around the Group and the net property, plant and equipment of the Group's businesses in Portugal, Saudi Arabia and US.

# Notes to the consolidated financial statements continued

## 15 Property, plant and equipment continued

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. During 2008, the German Government provided Thymoorgan Pharmazie GmbH a grant of Euro 560,000 (2007: Euro nil) being a contribution towards the acquisition of two freeze dryers and additional equipment. The carrying value of the grants as of 31 December 2008 were USD 153,000 (2007: USD 279,000) for Hikma Farmaceutica and USD 542,000 (2007: USD nil) for Thymoorgan Pharmazie GmbH.

During the year 2008, the Group entered into contractual commitments for the acquisition of property, plant and equipment amounting to USD 7,412,000 (2007: USD 7,020,000).

The amount of borrowing costs that have been capitalised in the year within the projects under construction is USD 426,000 (2007: USD 541,000). The capitalisation rate used ranges between 2.0%–3.9%. (2007: 5.5%–6.0%).

## 16. Interest in joint venture

APM was acquired by the Group on 27 December 2007. During 2005, APM entered in a 50% joint venture agreement with another Jordanian company to establish a new manufacturing plant in Algeria (Al Dar Al Arabia Pharmaceutical Manufacturing Company). APM's share of the joint venture as at 31 December 2008 is USD 5,453,000 (2007: USD 4,543,000), being the amount paid at the balance sheet date to finance the construction of the plant.

## 17. Deferred tax

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

| | Tax losses $000's | Deferred R&D costs $000's | Other short-term temporary differences $000's | Amortisable assets $000's | Fixed assets $000's | Stock options $000's | Total $000's |
|---|---|---|---|---|---|---|---|
| At 1 January 2007 | (1,436) | (283) | (2,857) | 962 | 2,833 | (3,243) | (4,024) |
| Credit/(charge) to income | (83) | 8 | (1,286) | 1,576 | 200 | (371) | 44 |
| Credit to equity | – | – | – | – | – | (2,956) | (2,956) |
| Acquisition of subsidiaries (Restated)* | – | – | (130) | 4,329 | (16) | – | 4,183 |
| Adjustments | – | – | – | 364 | – | – | 364 |
| Exchange differences | (164) | – | – | (234) | (7) | – | (405) |
| **At 1 January 2008** | (1,683) | (275) | (4,273) | 6,997 | 3,010 | (6,570) | (2,794) |
| Charge to income | 1,457 | – | (4,658) | 407 | 365 | – | (2,429) |
| Charge to equity | – | – | – | – | – | 4,299 | 4,299 |
| Adjustments and reclassifications | 112 | (33) | (365) | 38 | 571 | (244) | 79 |
| Exchange differences | 2 | 13 | 1 | 38 | (89) | – | (35) |
| **At 31 December 2008** | **(112)** | **(295)** | **(9,295)** | **7,480** | **3,857** | **(2,515)** | **(880)** |

*The 2007 comparatives have been restated due to the finalisation of 2007 acquisitions. See Note 33.

## 17. 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:

| | 2008 $000's | 2007 $000's |
|---|---|---|
| Deferred tax liabilities | **12,425** | 11,709 |
| Deferred tax assets | **(13,305)** | (14,503) |
| | **(880)** | (2,794) |

Tax losses for which no deferred tax asset is recognised total USD 6,647,000 (2007: USD 4,506,000) due to the unpredictability of the related future profit streams. These losses may be carried forward for five years before expiry. In addition, there are unused foreign tax credits of USD 10.4 million (2007: USD 5.0 million) for which no deferred tax asset is recognised due to the unpredictability of the related future dividend streams.

As at 31 December 2008, the undistributed earnings of foreign subsidiaries amounted to USD 246 million (2007: USD 195 million). No income taxes have been provided on the Company's share of these undistributed earnings due to management's ability and intent to reinvest such amounts indefinitely. A determination of the amount of the unrecognised deferred tax liability has not been made because it is not practical to do so. A portion of these earnings can be distributed without incurring additional taxes.

## 18. Available for sale investments

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

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Listed $000's | Non Listed* $000's | Total $000's | Listed $000's | Non Listed* $000's | Total $000's |
| **1 January** | **866** | **142** | **1,008** | 606 | 170 | 776 |
| Additions | **–** | **158** | **158** | – | – | – |
| Disposals | **(410)** | **–** | **(410)** | – | – | – |
| Provision charged to income statement | **–** | **–** | **–** | – | (28) | (28) |
| Fair value adjustments recognised in equity | **(206)** | **(10)** | **(216)** | (151) | – | (151) |
| Acquisition of subsidiary | **–** | **–** | **–** | 411 | – | 411 |
| **31 December** | **250** | **290** | **540** | 866 | 142 | 1,008 |

*Included in this amount is an investment in a non-listed US company (MENA Innovative Technologies Inc.) of USD 62,000 (2007: USD 62,000) that represents 32.5% (2007: 32.5%) of its common share capital (see Note 39). The Group does not exert significant influence over this entity.

# Notes to the consolidated financial statements
continued

## 19. Financial and other non-current assets

| | As at 31 December 2008 $000's | 2007 $000's |
|---|---|---|
| Investments recorded at cost | **485** | 485 |
| Amounts due from investments recorded at cost | **490** | 602 |
| Amounts due from related parties | **474** | – |
| Other financial assets | **628** | 203 |
| | **2,077** | 1,290 |

Investments recorded at cost represent the Group's share of 32% (2007: 32%) in Societe D'Industries Pharmaceutiques Ibn Al Baytar S.A. – Tunisia over which the Company does not exert significant influence.

This company owns another Tunisian company (Societe Hikma Medicef Limited – Tunisia), which is therefore a related party.

Amounts due from investments recorded at cost consist of amounts due from the same Tunisian investment.

## 20. Inventories

| | As at 31 December 2008 $000's | 2007 (Restated)* $000's |
|---|---|---|
| Finished goods | **45,585** | 36,029 |
| Work-in-progress | **23,609** | 31,673 |
| Raw and packing materials | **71,733** | 62,327 |
| Goods in transit** | **13,829** | 10,380 |
| | **154,756** | 140,409 |

*The 2007 comparatives have been restated due to the finalisation of 2007 acquisitions. See Note 33.

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

| | As at 31 December 2007 $000's | Additions $000's | Utilisation $000's | Translation adjustments $000's | **At at 31 December 2008 $000's** |
|---|---|---|---|---|---|
| Provision for slow moving inventory | 8,309 | 7,756 | (7,399) | (113) | **8,553** |

The total expense in the income statement for the write-off of inventory including provision for such write offs was USD 8,589,000 (2007: USD 4,646,000).

## 21. Trade and other receivables

| | As at 31 December 2008 $000's | 2007 (Restated)* $000's |
|---|---|---|
| Trade receivables | **173,958** | 171,393 |
| Prepayments | **14,345** | 12,629 |
| Value added tax recoverable | **5,306** | 3,647 |
| Interest receivable | **108** | 302 |
| Employee advances | **2,126** | 304 |
| | **195,843** | 188,275 |

*The 2007 comparatives have been restated due to the finalisation of 2007 acquisitions. See Note 33.

## 21. Trade and other receivables continued

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

| | As at 31 December 2007 $000's | Additions $000's | Utilisation $000's | Translation adjustments $000's | **As at 31 December 2008 $000's** |
|---|---|---|---|---|---|
| Chargebacks and returns | 21,247 | 103,348 | (99,692) | – | **24,903** |
| Doubtful debts | 13,315 | 2,366 | (342) | (188) | **15,151** |
| Expired goods | 5,261 | 3,992 | (2,610) | (15) | **6,628** |
| | 39,823 | 109,706 | (102,644) | (203) | **46,682** |

The following table sets forth a summary of the age of trade receivables:

| | | Past due | | | | | |
|---|---|---|---|---|---|---|---|
| | **Not past due on the reporting date $000's** | **less than 90 days $000's** | **between 91 and 180 days $000's** | **between 181 and 360 days $000's** | **Over one year $000's** | **Impaired $000's** | **Total $000's** |
| **At 31 December 2008** | | | | | | | |
| Total trade receivables as of 31 December 2008 | **155,818** | **31,272** | **11,396** | **5,744** | **1,260** | **15,151** | **220,641** |
| Related allowance for doubtful debts | **–** | **–** | **–** | **–** | **–** | **(15,151)** | **(15,151)** |
| | **155,818** | **31,272** | **11,396** | **5,744** | **1,260** | **–** | **205,490** |
| Chargebacks provision | | | | | | | **(24,903)** |
| Expired goods provision | | | | | | | **(6,629)** |
| Net receivables | | | | | | | **173,958** |

| | | Past due | | | | | |
|---|---|---|---|---|---|---|---|
| | Not past due on the reporting date $000's | less than 90 days $000's | between 91 and 180 days $000's | between 181 and 360 days $000's | Over one year $000's | Impaired $000's | Total $000's |
| **At 31 December 2007** | | | | | | | |
| Total trade receivables as of 31 December 2007 | 140,127 | 34,037 | 8,718 | 10,680 | 4,339 | 13,315 | 211,216 |
| Related allowance for doubtful debts | – | – | – | – | – | (13,315) | (13,315) |
| | 140,127 | 34,037 | 8,718 | 10,680 | 4,339 | – | 197,901 |
| Chargebacks provision | | | | | | | (21,247) |
| Expired goods provision | | | | | | | (5,261) |
| Net receivables | | | | | | | 171,393 |

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of specific trade and other receivables where it is deemed that a receivable may not be recoverable. When the debt is deemed irrecoverable, the allowance account is written off against the underlying receivable.

## 22. Collateralised cash

Collateralised cash represents an amount equal to 100% of a portion of bank facilities granted to the Group's Egyptian and Jordanian operations (2007: Algerian operations).

# Notes to the consolidated financial statements continued

## 23. Cash and cash equivalents

| | As at 31 December | |
|---|---|---|
| | 2008 $000's | 2007 $000's |
| Cash at banks and on hand | **21,374** | 24,209 |
| Time deposits | **41,251** | 3,380 |
| Money market deposits | **102** | 1,316 |
| | **62,727** | 28,905 |

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

## 24. Bank overdrafts and loans

| | As at 31 December | |
|---|---|---|
| | 2008 $000's | 2007 $000's |
| Bank overdrafts | **20,244** | 22,419 |
| Import and export financing | **29,398** | 22,276 |
| Short-term loans | **42,272** | 216,096 |
| Current portion of long-term loans (Note 27) | **25,386** | 15,746 |
| | **117,300** | 276,537 |

| | 2008 % | 2007 % |
|---|---|---|
| The weighted average interest rates paid were as follows: | | |
| Bank overdrafts | **6.00** | 6.85 |
| Bank loans (including the non-current bank loans) | **3.85** | 5.76 |

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

As at 31 December 2007, the Group was in a net current liabilities position and as a result it was in breach of certain financial covenants related to its short-term debt. The breach arose as a result of short-term debt taken out to fund the acquisition of APM on 27 December 2007.

The relevant financial institution was made aware of this fact prior to the breach and gave its consent. The proceeds of the equity placing on 17 January 2008 were applied to repay short-term debt and as such the breach was remedied as at the 31 December 2008, the Group is not in breach of any of its covenants.

More details of the equity placing are provided in Note 31.

## 25. Trade and other payables

| | As at 31 December | |
|---|---|---|
| | 2008 $000's | 2007 $000's |
| Trade payables | **42,632** | 49,143 |
| Accrued expenses | **29,823** | 25,392 |
| Employees' provident fund* | **2,753** | 3,158 |
| VAT and sales tax payables | **1,408** | 543 |
| Dividends payable** | **2,495** | 3,490 |
| Social security withholdings | **745** | 1,026 |
| Income tax withholdings | **1,037** | 588 |
| Other payables | **1,110** | 984 |
| | **82,003** | 84,324 |

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

**Dividends payable includes USD 2,303,000 (2007: USD 3,261,000) due to the previous shareholders of APM.

## 26. Other provisions

Other provisions represent end of service indemnity provisions of Hikma Pharmaceuticals Limited – Jordan, Hikma Italia, JPI, AMC, APM, Hikma Pharma Co. (Tunisia) and Pharma Ixir Co. Ltd (Sudan). This end of service indemnity comprises one months' salary payable for each year employed for each employee in all the above companies except Hikma Italia.

The provision for end of service indemnity for Hikma Italia 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:

| | **2008 $000's** | 2007 $000's |
|---|---|---|
| **1 January** | **4,475** | 2,577 |
| Additions | **1,592** | 1,200 |
| Acquisition of subsidiaries | **–** | 820 |
| Utilisation | **(625)** | (178) |
| Translation adjustments | **(50)** | 56 |
| **31 December** | **5,392** | 4,475 |

## 27. Long-term financial debts

| | As at 31 December | |
|---|---|---|
| | **2008 $000's** | 2007 $000's |
| Total loans | **135,800** | 73,408 |
| Less: current portion of loans (Note 24) | **(25,386)** | (15,746) |
| Long-term financial loans | **110,414** | 57,662 |

| | As at 31 December | |
|---|---|---|
| | **2008 $000's** | 2007 $000's |
| Breakdown by maturity: | | |
| Within one year | **25,386** | 15,746 |
| In the second year | **41,023** | 16,149 |
| In third year | **22,705** | 11,019 |
| In the fourth year | **20,896** | 21,950 |
| In the fifth year | **15,261** | 4,317 |
| Thereafter | **10,529** | 4,227 |
| | **135,800** | 73,408 |
| Breakdown by currency: | | |
| USD | **81,287** | 30,750 |
| Euro | **32,345** | 30,622 |
| Jordanian Dinar | **2,666** | 5,259 |
| Algerian Dinar | **11,960** | – |
| Saudi Riyal | **6,242** | 5,611 |
| Egyptian Pound | **1,300** | 1,166 |
| | **135,800** | 73,408 |

The loans are shown on an undiscounted basis.

At 31 December 2008, import and export financing, short-term loans and the current and long-term portion of long-term loans total USD 207,470,000 (2007: USD 311,780,000).

Loans amounting to USD 42,872,000 (2007: USD 32,594,000) are secured on property, plant and equipment.

# Notes to the consolidated financial statements
continued

## 28. Obligations under finance leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2008 $000's** | 2007 $000's | **2008 $000's** | 2007 $000's |
| **Amounts payable under finance leases:** | | | | |
| Within one year | **1,512** | 1,775 | **1,221** | 1,455 |
| In the second to fifth years inclusive | **6,173** | 6,306 | **5,496** | 5,698 |
| | **7,685** | 8,081 | **6,717** | 7,153 |
| Less: Interest lease charges | **(968)** | (928) | | |
| Present value of minimum lease payments payable | **6,717** | 7,153 | | |

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is five years (2007: five years). For the year ended 31 December 2008, the average effective borrowings rate was between 3.9% and 7.0% (2007: between 3.9% and 7.5%).

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

### Credit and concentration of risk
The Group's principal financial assets are cash and cash equivalents, trade and other receivables, and investments.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts, chargebacks 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.

In line with local market practice, clients in the MENA region are offered relatively longer payment terms compared to clients in Europe and the US. As at 31 December 2008, the Group's largest three clients in the MENA region represented respectively 15% of Group turnover (located in Saudi Arabia); 3% of Group turnover (located in Algeria) and 2% of Group turnover (located in Algeria). The amount of receivables due from customers based in Algerian market at 31 December 2008 is USD 32,784,000 (2007: USD 34,979,000) and Saudi Arabia is USD 18,453,000 (2007: USD 13,719,000). The Group manages this risk through the implementation of stringent credit policies and procedures and certain credit insurance agreements.

Trade receivable exposures are managed locally in the operating units where they arise. Credit limits are set as deemed appropriate for the customer, based on a number of qualitative and quantitative factors related to the credit worthiness of a particular customer. The Group is exposed to a variety of customers ranging from government backed agencies and large private wholesalers to privately owned pharmacies, and the underlying local economic risks vary across the Group. Typical credit terms in the US range from 30– 60 days, in Europe 60–120 days, and MENA 180–360 days. Where appropriate, the Group endeavours to minimise risks by the use of trade finance instruments such as letters of credit and insurance.

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

### Foreign exchange risk
The Group uses the USD as its functional currency and is therefore exposed to foreign exchange movements primarily in Euro and Algerian Dinar. Consequently, where possible the Group enters into various contracts, which change in value as foreign exchange rates change to hedge against the risk of movement in foreign denominated assets and liabilities.

## 29. Financial policies for risk management and their objectives continued

### 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 2008 or the Group's results of operations for the year then ended.

The table below shows the split of fixed and floating rate financial assets and liabilities, including finance leases:

| | As at 31 December 2008 | | | As at 31 December 2007 | | |
|---|---|---|---|---|---|---|
| | **Fixed rate $000's** | **Floating rate $000's** | **Total $000's** | Fixed rate $000's | Floating rate $000's | Total $000's |
| **Financial liabilities** | | | | | | |
| Interest bearing loans and borrowings | **31,670** | **202,761** | **234,431** | 51,625 | 289,727 | 341,352 |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | **–** | **62,727** | **62,727** | – | 28,905 | 28,905 |

An interest rate sensitivity analysis assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2008, with all other variables held constant. Based on the composition of our debt portfolio as at 31 December 2008, a 1% increase/decrease in interest rates would result in an additional USD 2.0 million in interest expense/income being incurred per year.

### 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; and
- receivables and payables – approximates to the carrying amount; and lease obligations – approximates to the carrying value.

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

### Currency risk

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is other than the functional currency of the booking entity and being of a monetary nature.

The currencies that have a significant impact on the Group accounts and the exchange rates used are as follows:

| | Period end rates | | Average rates | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| USD/EUR | **1.4097** | 1.4729 | **1.4713** | 1.3707 |
| USD/Sudanese Pound | **0.4579** | 0.4872 | **0.4779** | 0.4961 |
| USD/Algerian Dinar | **0.0141** | 0.0150 | **0.0155** | 0.0144 |
| USD/Saudi Riyal | **0.2667** | 0.2667 | **0.2667** | 0.2667 |
| USD/British Pound | **1.4479** | 1.9973 | **1.8552** | 2.0018 |
| USD/Jordanian Dinar | **1.4104** | 1.4104 | **1.4104** | 1.4104 |
| USD/Egyptian Pound | **0.1806** | 0.1823 | **0.1833** | 0.1821 |

The Jordanian Dinar and Saudi Riyal have no impact on the income statement as those currencies are pegged against the US Dollar.

# Notes to the consolidated financial statements
continued

## 29. Financial policies for risk management and their objectives continued

The following table illustrates financial assets and liabilities for the Group demonstrated in different currencies:

| | Net foreign currency financial assets/(liabilities) | | | | | |
|---|---|---|---|---|---|---|
| **2008** | **US Dollar $000's** | **Euro $000's** | **Sterling $000's** | **Algerian Dinar $000's** | **Japanese Yen $000's** | **Others $000's** |
| Functional currency of entity: | | | | | | |
| – Jordanian Dinar | **33,112** | **(7,068)** | **509** | **–** | **(701)** | **(24)** |
| – Euro | **(1,143)** | **–** | **–** | **–** | **–** | **–** |
| – Algerian Dinar | **(31,718)** | **(43)** | **(2)** | **–** | **–** | **–** |
| – Saudi Riyal | **(2,085)** | **813** | **(15)** | **543** | **(70)** | **–** |
| – Sudanese Pound | **(13,697)** | **–** | **–** | **–** | **–** | **–** |
| – Egyptian Pound | **374** | **435** | **–** | **–** | **–** | **(29)** |
| | **(15,157)** | **(5,863)** | **492** | **543** | **(771)** | **(53)** |

Sensitivity analysis:

| | Income statement impact assuming 1% appreciation of column currency against the functional currency of the entity as at year end | | | | | |
|---|---|---|---|---|---|---|
| **2008** | **US Dollar $000's** | **Euro $000's** | **Sterling $000's** | **Algerian Dinar $000's** | **Japanese Yen $000's** | **Others $000's** |
| Functional currency of entity: | | | | | | |
| – Jordanian Dinar | **331** | **(71)** | **5** | **–** | **(7)** | **–** |
| – Euro | **(11)** | **–** | **–** | **–** | **–** | **–** |
| – Algerian Dinar | **(317)** | **–** | **–** | **–** | **–** | **–** |
| – Saudi Riyal | **(21)** | **8** | **–** | **5** | **(1)** | **–** |
| – Sudanese Pound | **(137)** | **–** | **–** | **–** | **–** | **–** |
| – Egyptian Pound | **4** | **4** | **–** | **–** | **–** | **–** |
| | **(151)** | **(59)** | **5** | **5** | **(8)** | **–** |

| | Net foreign currency financial assets/(liabilities) | | | | | |
|---|---|---|---|---|---|---|
| 2007 | US Dollar $000's | Euro $000's | Sterling $000's | Algerian Dinar $000's | Japanese Yen $000's | Others $000's |
| Functional currency of entity: | | | | | | |
| – Jordanian Dinar | 19,254 | (9,191) | 64 | – | (1,305) | (64) |
| – Euro | (6,561) | – | – | – | – | – |
| – Algerian Dinar | (29,797) | (20) | – | – | – | – |
| – Saudi Riyal | (1,437) | 596 | – | 1,148 | – | (839) |
| – Sudanese Pound | (4,640) | – | – | – | – | – |
| – Egyptian Pound | 1,049 | (358) | 5 | – | – | (950) |
| | (22,132) | (8,973) | 69 | 1,148 | (1,305) | (1,853) |

## 29. Financial policies for risk management and their objectives continued

### Sensitivity analysis:

| 2007 | Income statement impact assuming 1% appreciation of column currency against the functional currency of the entity as at year end US Dollar $000's | Euro $000's | Sterling $000's | Algerian Dinar $000's | Japanese Yen $000's | Others $000's |
|---|---|---|---|---|---|---|
| Functional currency of entity: | | | | | | |
| – Jordanian Dinar | 193 | (92) | 1 | – | (13) | (1) |
| – Euro | (66) | – | – | – | – | – |
| – Algerian Dinar | (298) | – | – | – | – | – |
| – Saudi Riyal | (14) | 6 | – | 11 | – | (8) |
| – Sudanese Pound | (46) | – | – | – | – | – |
| – Egyptian Pound | 10 | (4) | – | – | – | (10) |
| | (221) | (90) | 1 | 11 | (13) | (19) |

### Liquidity risk of assets /(liabilities)

| **2008** | **Less than one year $000's** | **Greater than one year $000's** | **Total $000's** |
|---|---|---|---|
| Cash and cash equivalents | **62,727** | **–** | **62,727** |
| Trade receivables | **173,958** | **–** | **173,958** |
| Interest-bearing loans and borrowings | **(97,056)** | **(110,414)** | **(207,470)** |
| Interest-bearing overdrafts | **(20,244)** | **–** | **(20,244)** |
| Interest-bearing finance lease | **(1,512)** | **(6,173)** | **(7,685)** |
| Trade payables | **(42,632)** | **–** | **(42,632)** |
| | **75,241** | **(116,587)** | **(41,346)** |

| 2007 | Less than one year $000's | Greater than one year $000's | Total $000's |
|---|---|---|---|
| Cash and cash equivalents | 28,905 | – | 28,905 |
| Trade receivables | 171,393 | – | 171,393 |
| Interest-bearing loans and borrowings | (248,304) | (81,256) | (329,560) |
| Interest-bearing overdrafts | (22,869) | – | (22,869) |
| Interest-bearing finance lease | (1,775) | (6,306) | (8,081) |
| Trade payables | (49,018) | (125) | (49,143) |
| | 121,668 | (87,687) | 209,355 |

For liquid assets and liabilities maturing in less than one year, the Group moved from a net liabilities position of USD 119,229,000 as at 31 December 2007 to a net assets position of USD 75,241,000 as at 31 December 2008. This was primarily as a result of repayment of short-term debts during 2008 subsequent to the funds raised.

As at 31 December 2008 the Group had undrawn facilities of USD 120,800,000 of this USD 33,000,000 was committed and the remainder uncommitted.

# Notes to the consolidated financial statements
continued

## 30. 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 translated at December 31 exchange rates as below.

| | **2008 $000's** | 2007 $000's |
|---|---|---|
| Foreign exchange forward contracts and options (Euro) | **3,552** | 1,471 |
| Foreign exchange forward contracts (Yen) | **443** | 578 |

These arrangements are designed to address significant exchange exposures.

At 31 December 2008 the fair value of the Group's currency derivatives all of which are designated as effective cash flow hedges was an asset of USD 382,000 (2007 liability of: USD 25,000). The movement in fair value resulted in a gain of USD 407,000 (2007: USD 25,000 net loss) has been reflected in equity. These amounts are based on market values of equivalent instruments at the balance sheet date.

The Group believes that the effect on the value of cash flow hedges of currency and interest rate fluctuations is not significant and will not materially affect the financial position of the Group.

### Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. These contracts have nominal values of USD 22.8 million (2007: USD 23.8 million) and have fixed interest payments at rates ranging from 3.9% to 4.75% for periods up until 2017 and have floating interest receipts at LIBOR or EURIBOR.

The fair value of swaps entered into by the Group is estimated as a liability of USD 896,000 (2007: liability of USD 82,000). 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 movement in fair value totalling a loss of USD 485,000 (2007: USD loss of 231,000) has been reflected in equity. The ineffective element of the cash flow hedges are taken to the income statement. A loss of USD 329,000 has been recognised in the income statement for the year ended 31 December 2008 (2007: USD nil).

The Group believes that the effect on the value of interest rate swaps by interest rate fluctuations will not materially affect the financial position of the Group.

## 31. Share capital

| | 2008 $000's | 2007 $000's |
|---|---|---|
| **Authorised:** | | |
| 500,000,000 Ordinary Shares of 10p each | **88,700** | 88,700 |

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Number '000 | '000 | Number '000 | '000 |
| **Issued and fully paid – included in shareholders' equity** | | | | |
| **At 1 January** | **170,734** | **30,229** | 168,164 | 29,712 |
| Issued during the year | **18,504** | **3,628** | 2,570 | 517 |
| **At 31 December** | **189,238** | **33,857** | 170,734 | 30,229 |

On 17 January 2008, a total of 17,000,000 new ordinary shares of 10 pence each in the Group were placed at a price of 480 pence per share, raising gross proceeds of approximately GBP 81.6 million (USD 160.3 million). As part of the Placing 5.23 million shares were placed with Darhold Limited at the Placing Price and 333,000 shares were placed with the Darwazah family and other connected individuals at the Placing Price. The total number of shares issued represents 9.96% of Hikma's issued ordinary share capital prior to the placing.

The Group used the proceeds from the placing to reduce borrowings incurred in connection with its JOD 116.0 million (USD 163.8 million) acquisition of Arab Pharmaceutical Manufacturing Company thereby providing the Group with increased flexibility to finance future growth.

The costs of the placing of USD 2,484,000 were offset against share premium.

## 32. Minority interest

| | 2008 $000's | 2007 $000's |
|---|---|---|
| **At 1 January** | **6,177** | 4,732 |
| Minority interest share of (loss)/profit | **(6)** | 1,617 |
| Other movements including dividends paid | **(385)** | (172) |
| **At 31 December** | **5,786** | 6,177 |

# Notes to the consolidated financial statements continued

## 33. Acquisitions of subsidiaries

In accordance with IFRS 3 the Group balance sheet as at 31 December 2007 has been restated to reflect the final fair value adjustments in relation to the acquisitions made during 2007:

| | 2007 (as previously reported) $000's | Final fair value adjustments $000's | 2007 (Restated) $000's |
|---|---|---|---|
| Non-current assets | | | |
| Intangible assets | 251,340 | 8,501 | 259,841 |
| Property, plant and equipment | 243,901 | 2,755 | 246,656 |
| Interest in joint venture | 4,543 | – | 4,543 |
| Deferred tax assets | 14,503 | – | 14,503 |
| Available for sale investments | 1,008 | – | 1,008 |
| Financial and other non-current assets | 1,290 | – | 1,290 |
| | 516,585 | 11,256 | 527,841 |
| Current assets | | | |
| Inventories | 147,670 | (7,261) | 140,409 |
| Income tax recoverable | 358 | – | 358 |
| Trade and other receivables | 190,714 | (2,439) | 188,275 |
| Collateralised cash | 5,628 | – | 5,628 |
| Cash and cash equivalents | 28,905 | – | 28,905 |
| Other current assets | 2,625 | – | 2,625 |
| | 375,900 | (9,700) | 366,200 |
| **Total assets** | 892,485 | 1,556 | 894,041 |
| Current liabilities | | | |
| Bank overdrafts and loans | 276,537 | – | 276,537 |
| Obligations under finance leases | 1,455 | – | 1,455 |
| Trade and other payables | 84,324 | – | 84,324 |
| Income tax provision | 10,583 | – | 10,583 |
| Other provisions | 4,475 | – | 4,475 |
| Other current liabilities | 14,542 | 2,120 | 16,662 |
| | 391,916 | 2,120 | 394,036 |
| **Net current (liabilities)** | (16,016) | (11,820) | (27,836) |
| Non-current liabilities | | | |
| Long-term financial debts | 57,662 | – | 57,662 |
| Deferred income | 279 | – | 279 |
| Obligations under finance leases | 5,698 | – | 5,698 |
| Deferred tax liabilities | 12,273 | (564) | 11,709 |
| | 75,912 | (564) | 75,348 |
| **Total liabilities** | 467,828 | 1,556 | 469,384 |
| **Net assets** | **424,657** | – | **424,657** |

## 33. Acquisitions of subsidiaries continued

In the year, the Group has finalised the acquisitions accounting for the acquisitions made in 2007. The tables below show the amendments made:

### Thymoorgan Pharmazie GmbH acquired on 31 May 2007

| | Provisional fair value $000's | Adjustment $000's | Final fair value $000's |
|---|---|---|---|
| Net assets acquired: | | | |
| Other related intangibles | 2,882 | – | 2,882 |
| Cash and cash equivalent | 47 | – | 47 |
| Accounts receivable, net | 743 | – | 743 |
| Other current assets | 566 | – | 566 |
| Inventories | 1,124 | 147 | 1,271 |
| Property, plant and equipment | 7,781 | – | 7,781 |
| Financial debts | (46) | – | (46) |
| Capital lease obligations – current portion | (276) | – | (276) |
| Trade accounts payable | (621) | – | (621) |
| Other current liabilities | (395) | – | (395) |
| Income tax provision | (62) | – | (62) |
| Long-term financial debts | (2,426) | – | (2,426) |
| Capital lease obligations – long term | (974) | – | (974) |
| Net deferred tax liabilities | (363) | – | (363) |
| Net assets acquired (100%) | 7,980 | 147 | 8,127 |
| Goodwill | 22,614 | (147) | 22,467 |
| Total consideration | 30,594 | – | 30,594 |

The increase in inventory arises from the release of an excess provision for slow moving items. Management considers that this provision is no longer needed.

# Notes to the consolidated financial statements continued

## 33. Acquisitions of subsidiaries continued

### APM acquired on 27 December 2007

| | | Provisional fair value $000's | Adjustment $000's | Final fair value $000's |
|---|---|---|---|---|
| Net assets acquired: | | | | |
| Trade name | | 225 | – | 225 |
| Customer relationships | | 24,314 | – | 24,314 |
| Product related intangibles | | 9,152 | – | 9,152 |
| In-process research and development | | 3,521 | – | 3,521 |
| Cash and cash equivalents | | 470 | – | 470 |
| Accounts receivable, net | a | 25,511 | (1,630) | 23,881 |
| Other current assets | | 256 | – | 256 |
| Inventories | b | 24,806 | (7,408) | 17,398 |
| Financial and other non current assets | | 411 | – | 411 |
| Investment in associated companies | | 4,542 | – | 4,542 |
| Property, plant and equipment | c | 33,707 | 2,755 | 36,462 |
| Financial debts | | (7,401) | – | (7,401) |
| Trade accounts payable | | (3,568) | – | (3,568) |
| Other current liabilities | d | (7,449) | (2,120) | (9,569) |
| Income tax provision | | (28) | – | (28) |
| Provisions | | (2,577) | – | (2,577) |
| Deferred tax liabilities | e | (4,962) | 483 | (4,479) |
| Net assets acquired (100%) | | 100,930 | (7,920) | 93,010 |
| Goodwill | | 66,480 | 7,920 | 74,400 |
| Total consideration | | 167,410 | – | 167,410 |

The adjustments to the fair values of APM are from:

a. Certain receivables arising from a cut-off error in 2007 have been reversed.

b. An incorrect classification of certain items of inventory has been reclassified as property, plant and equipment, in addition to certain inventory write downs.

c. Property, plant and equipment has been adjusted to write down certain assets to fair value and other assets were reclassified from inventory.

d. Additional liabilities arising from onerous provision has been taken for above items.

e. The deferred tax adjustment on the items noted above.

## 33. Acquisitions of subsidiaries continued

### Alkan acquired on 6 September 2007

| | | Provisional fair value $000's | Adjustment $000's | Final fair value $000's |
|---|---|---|---|---|
| Net assets acquired: | | | | |
| Customer relationships | | 16,121 | – | 16,121 |
| Product related intangibles | | 1,476 | – | 1,476 |
| In-process research and development | | 1,055 | – | 1,055 |
| Cash and cash equivalents | | 1,856 | – | 1,856 |
| Accounts receivable, net | a | 7,088 | (809) | 6,279 |
| Other current assets | | 255 | – | 255 |
| Inventories | | 3,559 | – | 3,559 |
| Deferred taxes asset | | 220 | – | 220 |
| Property, plant and equipment | | 8,235 | – | 8,235 |
| Financial debts | | (3,539) | – | (3,539) |
| Trade accounts payable | | (1,324) | – | (1,324) |
| Other current liabilities | | (1,521) | – | (1,521) |
| Income tax provision | | (328) | – | (328) |
| Provisions | | (75) | – | (75) |
| Long-term financial debts | | (883) | – | (883) |
| Deferred tax liabilities | b | (4,361) | 81 | (4,280) |
| Net assets acquired (100%) | | 27,834 | (728) | 27,106 |
| Goodwill | | 33,232 | 728 | 33,960 |
| Total consideration | | 61,066 | – | 61,066 |

The adjustments to the fair values of Alkan are from:

a. Provision for returns of good sold pre-acquisition.

b. Resulting decrease in deferred tax liabilities.

## 34. Own shares

Own shares represent 250,000 (2007: Nil) ordinary shares in the Company held by Lloyds TSB Offshore trust, an independent trustee, having market value at 31 December 2008 of GBP 875,000 (2007: Nil). The consideration paid to acquire those shares was USD 1,124,000. The trust holds these shares to meet long-term commitments in relation to employee share plans.

# Notes to the consolidated financial statements continued

## 35. Net cash from operating activities

| | 2008 $000's | 2007 $000's |
|---|---|---|
| **Profit before tax** | **64,034** | 83,789 |
| Adjustments for: | | |
| Depreciation, amortisation and impairment of: | | |
| Property, plant and equipment | **25,067** | 19,374 |
| Intangible assets | **8,055** | 4,059 |
| Gains on disposal of property, plant and equipment | **(6)** | (202) |
| Gains on disposal of intangible assets | **(832)** | – |
| Movement on provisions | **917** | 1,078 |
| Movement on deferred income | **416** | (78) |
| Cumulative effect of change in fair value of derivatives | **(78)** | (256) |
| Cost of equity settled employee share scheme | **3,384** | 1,601 |
| Finance income | **(817)** | (2,029) |
| Interest and bank charges | **17,545** | 10,837 |
| **Cash flow before working capital** | **117,685** | 118,173 |
| Change in trade and other receivables | **(10,903)** | (29,453) |
| Change in other current assets | **1,564** | (47) |
| Change in inventories | **(19,327)** | (29,065) |
| Change in trade and other payables | **(615)** | 17,774 |
| Change in other current liabilities | **(5,751)** | (6,112) |
| **Cash generated by operations** | **82,653** | 71,270 |
| Income tax paid | **(7,684)** | (17,987) |
| **Net cash generated from operating activities** | **74,969** | 53,283 |

## 36. Contingent liabilities

The Group was contingently liable for letters of guarantee and letters of credit totalling USD 23.6 million (2007: USD 17.8 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.

## 37. Share-based payments

### Equity settled share option scheme

During the year ended 31 December 2008 and 2007, the Company had two stock option compensation schemes settled by equity instruments with three separate grant dates. The options over these instruments are settled in equity once exercised.

Details of the grants under the scheme are shown below:

**2008**

| | |
|---|---|
| Type of arrangement | General employee share option plan |
| Date of grant | 29 April, 2008 |
| Number granted | 1,041,500 |
| Contractual life | Ten 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 $2.61. This was calculated by applying a binomial option pricing model. The model inputs were the share price at grant date of $9.19, exercise price of $9.19, expected volatility of 31.5%, expected dividend yield of 0.08%, expected average contractual life of 3.8 years, and a risk-free interest rate of 4.54%. It was assumed that each Option tranche will be exercised within one year of the date of vesting apart from the final Option tranche which will be exercised immediately on vesting given the five-year time scale.

**2005**

| | |
|---|---|
| Type of arrangement | General employee share option plan |
| Date of grant | 13 October 2005 |
| Number granted | 1,600,000 |
| Contractual life | Ten 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 | Ten 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.

# Notes to the consolidated financial statements
continued

## 37. Share-based payments continued

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

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Number of shares options** | **Weighted average exercise price (in $)** | Number of shares options | Weighted average exercise price (in $) |
| Outstanding at 1 January | **6,859,400** | **1.43** | 9,598,200 | 1.44 |
| Granted during the year | **1,041,500** | **9.19** | – | – |
| Exercised during the year | **(1,503,800)** | **1.12** | (2,569,600) | 1.21 |
| Expired during the year | **(195,300)** | **4.47** | (169,200) | 4.25 |
| Outstanding at 31 December | **6,201,800** | **2.73** | 6,859,400 | 1.43 |
| Exercisable at 31 December | **2,830,400** | **1.39** | 2,046,733 | 1.00 |

The cost of the equity settled share option scheme of USD 1,487,000 (2007: USD 865,000) 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 year was USD 8.18. The options outstanding at 31 December 2008 had a weighted average remaining contractual life of one to two years.

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

### Long-Term Incentive Plan

During 2008 and 2007 year, the Company granted awards under Hikma Long-Term Incentive Plan ("LTIP") to certain employees. Under the LTIP, conditional awards of nominal cost share options are made which vest after three years subject to a total shareholder return ("TSR") performance condition. This condition measures the Group's TSR relative to a comparator group of other pharmaceutical companies. In this case, the vesting schedule dictates that 20% of awards vest for median performance and 100% for upper quartile performance, with pro-rata vesting in between these points. No awards vest for performance which is below the median.

Details of the grants under the plan are shown below:

**29 April 2008**

| | |
|---|---|
| Type of arrangement | Long-Term Incentive Plan |
| Date of grant | 29 April 2008 |
| Number granted | 700,000 |
| Contractual life | Ten years |
| Vesting conditions | After three years subject to a TSR performance condition |

The estimated fair value of each share option granted in the LTIP is $5.46. This was calculated by applying the Monte Carlo Simulation methodology for estimation of the fair value. The model inputs were as follows:

(a) the exercise price of the share award of nil;

(b) the life of the share award of three years;

(c) the current price of the underlying shares on the date of grant of $9.22;

(d) the volatility of the Company's share returns of 31.47%;

(e) expected dividend yield of 0.08%; and

(f) the risk-free interest rate for the life of the share award of 4.5%.

## 37. Share based payments continued

**10 September 2007**

| | |
|---|---|
| Type of arrangement | Long-Term Incentive Plan |
| Date of grant | 10 September 2007 |
| Number granted | 150,000 |
| Contractual life | Ten years |
| Vesting conditions | After three years subject to a TSR performance condition |

The estimated fair value of each share option granted in the LTIP is $4.70. This was calculated by applying the Monte Carlo Simulation methodology for estimation of the fair value. The model inputs were as follows:

(a) the exercise price of the share award of nil;

(b) the life of the share award of three years;

(c) the current price of the underlying shares on the date of grant of $8.28;

(d) the volatility of the Company's share returns of 34.64%;

(e) expected dividend yield of 0.075%; and

(f) the risk-free interest rate for the life of the share award of 4.998%.

**23 April 2007**

| | |
|---|---|
| Type of arrangement | Long-Term Incentive Plan |
| Date of grant | 23 April 2007 |
| Number granted | 466,000 |
| Contractual life | Ten years |
| Vesting conditions | After three years subject to a TSR performance condition |

The estimated fair value of each share option granted in the LTIP is $4.47. This was calculated by applying the Monte Carlo Simulation methodology for estimation of the fair value. The model inputs were as follows:

(a) the exercise price of the share award of nil;

(b) the life of the share award of three years;

(c) the current price of the underlying shares on the date of grant of $7.69;

(d) the volatility of the Company's share returns of 34.64%;

(e) expected dividend yield of 0.075%; and

(f) the risk-free interest rate for the life of the share award of 5.45%.

**2 April 2007**

| | |
|---|---|
| Type of arrangement | Long-Term Incentive Plan |
| Date of grant | 2 April 2007 |
| Number granted | 160,000 |
| Contractual life | Ten years |
| Vesting conditions | After three years subject to a TSR performance condition |

The estimated fair value of each share option granted in the LTIP is $4.33. This was calculated by applying the Monte Carlo Simulation methodology for estimation of the fair value. The model inputs were as follows:

(a) the exercise price of the share award of nil;

(b) the life of the share award of three years;

(c) the current price of the underlying shares on the date of grant of $7.46;

(d) the volatility of the Company's share returns of 34.64%;

(e) expected dividend yield of 0.075%; and

(f) the risk-free interest rate for the life of the share award of 5.40%.

Governance and financial results

# Notes to the consolidated financial statements
continued

## 37. Share-based payments continued

Further details on the number of shares granted are as follows:

| Year 2008 | 2008 grant<br>29 April<br>Number | 2007 grants<br>2 April<br>Number | 23 April<br>Number | 10 September<br>Number | Total<br>Number |
|---|---|---|---|---|---|
| Outstanding at 1 January | – | 160,000 | 453,000 | 150,000 | 763,000 |
| Granted during the year | **700,000** | – | – | – | 700,000 |
| Expired during the year | **(15,000)** | – | (44,000) | – | (59,000) |
| Outstanding at 31 December 2008 | **685,000** | **160,000** | **409,000** | **150,000** | **1,404,000** |

| Year 2007 | 2007 grants<br>2 April<br>Number | 23 April<br>Number | 10 September<br>Number | Total<br>Number |
|---|---|---|---|---|
| Granted during the year | 160,000 | 466,000 | 150,000 | 776,000 |
| Expired during the year | – | (13,000) | – | (13,000) |
| Outstanding at 31 December 2007 | 160,000 | 453,000 | 150,000 | 763,000 |

The cost of the Long-Term Incentive Plan of USD 1,897,000 (2007: USD 735,000) has been recorded in the income statement as part of general and administrative expenses.

## 38. Operating lease arrangements

| | **2008<br>$000's** | 2007<br>$000's |
|---|---|---|
| Minimum lease payments under operating leases recognised in the income statement for the year | **2,334** | 2,005 |

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:

| | **2008<br>$000's** | 2007<br>$000's |
|---|---|---|
| Within one year | **1,742** | 1,348 |
| In the second to fifth years inclusive | **5,340** | 4,482 |
| After five years | **1,918** | 2,877 |
| | **9,000** | 8,707 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a term of 1 to 7.5 years.

## 39. 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 joint venture and other related parties are disclosed below.

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

*Darhold Limited:* is a related party of the Group because it is considered one of the major shareholders of Hikma Pharmaceuticals PLC with ownership percentage of 30.2% at the end of 2008 (2007: 30.8%). Further details on the relationship between Mr. Samih Darwazah and Darhold Limited are given in the Remuneration Report.

Other than dividends (as paid to all shareholders), there were no transactions between the Group and Darhold Limited in the year.

## 39. Related party balances

*Capital Bank – Jordan:* is a related party of the Group because during the year two board members of the Bank were also Board members at Hikma Pharmaceuticals PLC. As at 31 December 2008, those two Board members were no longer board members of the Capital Bank. Total cash balances at Capital Bank – Jordan were USD 217,000 (2007: USD 155,000). Loans and overdrafts granted by Capital Bank to the Group amounted to USD 207,000 (2007: USD 389,000) with interest rates ranging between 8.75% and LIBOR + 1. Total interest expense and bank charges incurred against Group facilities was USD 86,000 (2007: USD 47,000). Total interest income received was USD 1,500 (2007: USD 10,000) and total commission paid in the year was USD 11,300 (2007: USD 9,000).

*Jordan International Insurance Company:* 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 Company during the year were USD 1,351,000 (2007: USD 1,107,000). The Group's insurance expense for Jordan International Insurance Company contracts in the year 2008 was USD 1,490,000 (2007: USD 1,360,000). The amounts due to Jordan International Insurance Company at the year end were USD 93,000 (2007: USD 143,000).

*Mena Innovative Technology:* is a related party because the Group holds a minority stake in this company (see Note 18) and because the majority shareholder is the wife of Mr. Nabil Rizk – the Chairman of West-ward Pharmaceuticals. Total purchases during the year were USD 1,000 (2007: USD 76,000). Purchases were made at market price discounted to reflect the quantity of goods purchased. At 31 December 2008, the Group had no outstanding balance with Mena Innovation Technology (2007: USD nil).

*Tunisian Companies:* Amounts due from the two Tunisian companies the Group has invested in net of provisions are USD 474,000 (2007: USD 270,000) and USD 793,000 (2007: USD 486,000) due from Societe Hikma Medicef Limited – Tunisia and Societe D'Industries Pharmaceutiques Ibn Al Baytar S.A. – Tunisia, respectively. The provision for doubtful debts related to balances above was USD 303,000 (2007: USD 154,000).

*West-ward Pharmaceuticals Corp:* In prior years, certain expenses of the Chairman were paid in the USA by West-ward Pharmaceuticals Corp and reimbursed by the Chairman. This practice has now ceased, and at 31 December 2008, the Group has no outstanding balance with the Chairman (2007: USD 11,000).

*Mr. Yousef Abd Ali:* Mr. Yousef Abd Ali is a related party of the Group because he holds a minority interest in Hikma Lebanon of 33%. The amount owed to Mr. Yousef by the Group as at 31 December 2008 was USD 161,000 (2007: nil).

*Labatec Pharma SA:* is a related party of the Group because it is owned by Mr. Samih Darwazah. During 2008 the Group total sales to Labatec Pharma amounted to USD 30,000 (2007: USD nil). At 31 December 2008 the Group had no outstanding balance with Labatec Pharma (2007: Nil).

### Remuneration of key management personnel

The remuneration of the key management personnel (comprising the Executive and Non-Executive Directors and the members of senior management as set out in the Directors' report) of the Group is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of the individual directors is provided in the audited part of the Directors' Remuneration Report on pages 89 to 91.

| | **2008 $000's** | 2007 $000's |
|---|---|---|
| Short-term employee benefits | **5,363** | 5,615 |
| Share-based payments | **1,312** | 638 |
| Post-employment benefits | **61** | 731 |
| | **6,736** | 6,984 |

# Notes to the consolidated financial statements continued

## 40. Hikma Pharmaceuticals PLC main subsidiaries

The main subsidiaries of Hikma Pharmaceuticals PLC are as follows:

| Company's name | Established in | Ownership% Ordinary Shares 2008 | Ownership% Ordinary Shares 2007 |
|---|---|---|---|
| Hikma Pharmaceuticals Limited | Jordan | **100** | 100 |
| Arab Pharmaceutical Manufacturing Co. ("APM") | Jordan | **100** | 100 |
| SARL Hikma Pharma Algeria | Algeria | **100** | 100 |
| Hikma Farmaceutica S.A. | Portugal | **100** | 100 |
| West-ward Pharmaceuticals Corp. | U.S.A. | **100** | 100 |
| Pharma Ixir Co. Ltd | Sudan | **51** | 51 |
| Hikma Pharma SAE | Egypt | **100** | 100 |
| Thymoorgan Pharmazie GmbH | Germany | **100** | 100 |
| Hikma Pharma GmbH | Germany | **100** | 100 |
| Hikma Italia S.p.A | Italy | **100** | 100 |
| Al Jazeera Pharmaceutical Industries Ltd ("JPI") | K.S.A | **100** | 100 |

## 41. 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 2008 were USD 613,000 (2007: USD 618,000).

### 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 USD 15,500 and USD 15,500 for 2008 and 2007, 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 2008 were USD 365,000 (2007: USD 315,000).

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.

# Directors' responsibility statement

The Directors are responsible for preparing the Annual report and the financial statements. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs) and have also elected to prepare financial statements for the Company in accordance with IFRSs. Company law requires the Directors to prepare such financial statements in accordance with IFRSs, the Companies Act 1985 and Article 4 of the IAS Regulations.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and condition 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 IFRSs. 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 in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

We confirm to the best of our knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- The Business review, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

Said Darwazah *Chief Executive Officer*
16 March 2009

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

We have audited the parent company financial statements of Hikma Pharmaceuticals PLC for the year ended 31 December 2008 which comprise the balance sheet, the cash flow statement, the statement of changes in shareholders' equity and the related notes 1 to 15. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Hikma Pharmaceuticals PLC for the year ended 31 December 2008 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 parent 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 parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the parent 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 parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent 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 parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent 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 parent 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 parent company financial statements.

## Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

Deloitte LLP *Chartered Accountants and Registered Auditors, London, United Kingdom*
16 March 2009

# Company balance sheet
## at 31 December 2008

| | Notes | 2008 $000's | 2007 $000's |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in subsidiaries | 3 | **1,523,127** | 1,353,367 |
| Due from subsidiaries | 4 | **70,158** | 60,443 |
| Intangible assets | | **246** | – |
| Property, plant and equipment | | **321** | 458 |
| | | **1,593,852** | 1,414,268 |
| **Current assets** | | | |
| Other current assets | | **161** | 877 |
| Cash and cash equivalents | 5 | **13,176** | 2,404 |
| Due from subsidiaries | 4 | **108,383** | 306,886 |
| Account receivables | | **42** | 15 |
| | | **121,762** | 310,182 |
| **Total assets** | | **1,715,614** | 1,724,450 |
| **Current liabilities** | | | |
| Other payables | 6 | **201** | 976 |
| Other current liabilities | | **1,588** | 2,146 |
| Short-term debt | 7 | **40,000** | 198,000 |
| Due to subsidiaries | 8 | **592,801** | 592,083 |
| | | **634,590** | 793,205 |
| **Net current liabilities** | | **512,828** | 483,023 |
| **Total liabilities** | | **634,590** | 793,205 |
| **Net assets** | | **1,081,024** | 931,245 |
| **Equity** | | | |
| Share capital | 13 | **33,857** | 30,229 |
| Share premium | 14 | **977,342** | 821,428 |
| Own shares | | **(1,124)** | – |
| Retained earnings | 15 | **70,949** | 79,588 |
| **Equity attributable to equity holders to the parent** | | **1,081,024** | 931,245 |

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

Said Darwazah *Director*
16 March 2009

# Company statement of changes in equity
## for the year ended 31 December 2008

| | Paid up capital $000's | Share premium $000's | Retained earnings $000's | Own shares $000's | Total $000's |
|---|---|---|---|---|---|
| **At 1 January 2007** | 29,712 | 818,800 | 49,654 | – | 898,166 |
| Issue of share capital | 517 | 2,628 | – | – | 3,145 |
| Cost of equity settled employee share scheme | – | – | 1,601 | – | 1,601 |
| Net income for the year | – | – | 41,029 | – | 41,029 |
| Dividends paid | – | – | (12,696) | – | (12,696) |
| **At 31 December 2007/1 January 2008** | 30,229 | 821,428 | 79,588 | – | 931,245 |
| Issue of share capital | 3,628 | 155,914 | – | – | 159,542 |
| Own shares | – | – | – | (1,124) | (1,124) |
| Cost of equity settled employee share scheme | – | – | 3,384 | – | 3,384 |
| Net income for the year | – | – | 2,128 | – | 2,128 |
| Dividends paid | – | – | (14,151) | – | (14,151) |
| **At 31 December 2008** | **33,857** | **977,342** | **70,949** | **(1,124)** | **1,081,024** |

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 ended 31 December 2008

| | 2008 $000's | 2007 $000's |
|---|---|---|
| **Profit before tax** | **2,128** | 41,029 |
| Cost of equity settled employee share scheme | **709** | 327 |
| Interest income | **(2,864)** | (3,793) |
| Interest expense | **1,410** | 1,012 |
| Change in other current assets | **716** | 109 |
| Change in other payables | **(775)** | 522 |
| Depreciation of property, plant and equipment | **168** | 149 |
| Amortisation of intangible assets | **1** | – |
| Losses on disposal of property, plant and equipment | **5** | – |
| Change in accounts receivable | **(27)** | 3 |
| Change in amounts due from/to subsidiaries | **201,896** | (306,093) |
| Change in other current liabilities | **(444)** | 409 |
| **Net cash from/(used in) operating activities** | **202,923** | (266,326) |
| **Investing activities** | | |
| Change in amounts due (from)/to subsidiaries | **(179,475)** | 11,596 |
| Purchase of property, plant and equipment | **(40)** | (10) |
| Proceeds from disposal of property, plant and equipment | **4** | – |
| Purchase of intangible assets | **(247)** | – |
| Investment in subsidiary | – | (25) |
| Interest income | **2,864** | 3,793 |
| **Net cash (used in)/from investing activities** | **(176,894)** | 15,354 |
| **Financing activities** | | |
| Proceeds from share issuance | **162,026** | 3,145 |
| Costs of share issue | **(2,484)** | – |
| (Decrease)/increase in short-term debts | **(158,000)** | 198,000 |
| Interest paid | **(1,524)** | (515) |
| Purchase of own shares | **(1,124)** | – |
| Dividends paid | **(14,151)** | (12,696) |
| **Net cash (used in)/from financing activities** | **(15,257)** | 187,934 |
| **Net increase/(decrease in) cash and cash equivalents** | **10,772** | (63,038) |
| **Cash and cash equivalents at beginning of the year** | **2,404** | 65,442 |
| **Cash and cash equivalents at end of the year** | **13,176** | 2,404 |

# Notes to the Company financial statements

## 1. Adoption of new and revised Standards

The impact on the company of new and revised standards is the same as for the Group. Details are given in Note 1 to the Group accounts.

## 2. 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.

In the consolidated cash flow statement interest paid has been reclassified to financing activities and finance income has been reclassified to investing activities to better reflect the nature of the flows, following the recent acquisitions.

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.

## 3. Investment in subsidiaries

Investment in subsidiaries represents the following:

| Company's name | Established in | **Ownership% Ordinary Shares 2008** | Ownership% Ordinary Shares 2007 |
|---|---|---|---|
| Hikma Pharma Limited – Jersey | UK | **100** | 100 |
| Hikma Holdings (UK) Limited | UK | **100** | 100 |
| Al Jazeera Pharmaceutical Industries Limited ("JPI") | K.S.A | **52.5*** | 52.5* |
| Hikma Pharmaceuticals Limited | Jordan | **22.8*** | – |

On 23 July 2008 a loan of USD 169,760,000 from the Company to Hikma Pharmacuticals Limited – Jordan was converted to equity, giving the Company a 22.8% share.

*The remaining share is held by other Group companies.

## 4. Due from subsidiaries

### Non-current assets

| | As at 31 December | |
|---|---|---|
| | **2008 $000's** | 2007 $000's |
| Hikma UK Limited | **–** | 200 |
| Hikma Investments | **55,459** | 55,075 |
| West-ward Pharmaceuticals Corp | **8,000** | – |
| Hikma Italia S.p.A. | **4,234** | 4,063 |
| Hikma Pharma Limited – Jersey | **2,465** | – |
| Thymoorgan Phomaze GmbH | **–** | 1,105 |
| | **70,158** | 60,443 |

### Current assets

| | As at 31 December | |
|---|---|---|
| | **2008 $000's** | 2007 $000's |
| Hikma Pharma Limited – Jersey | **2,736** | 630 |
| Hikma Pharmaceuticals – Jordan | **97** | 170,346 |
| Hikma Pharma Germany | **587** | 68 |
| Hikma Pharma Portugal | **208** | – |
| Hikma UK Limited | **103,544** | 135,200 |
| Hikma Limited | **429** | 497 |
| Others | **782** | 145 |
| | **108,383** | 306,886 |

## 5. Financial assets

### Cash and cash equivalents

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

## 6. Financial liabilities

### Other payables

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

## 7. Short-term debt

Short-term debt at 31 December 2008 represents the drawdown of USD 40 million under a USD 60 million credit line.

Short-term debt at 31 December 2007 represents the drawdown of USD 170 million of a bridge loan to finance the acquisition of APM and drawdown of USD 28 million under the USD 40 million credit line. As a result the Company was in a net current liabilities position and as a result it was in breach of certain financial covenants related to its short-term debt. See Note 24 in the Group accounts for further details.

## 8. Due to subsidiaries

Due to subsidiaries represents a short-term loan due to Hikma Holdings (UK) Ltd, which is a non-interest bearing loan repayable on-demand.

# Notes to the Company financial statements continued

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

Currency risk: Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature. The following table illustrates financial assets and liabilities for the Company in different currencies:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2008 $000's** | 2007 $000's | **2008 $000's** | 2007 $000's |
| Euro | **88** | – | **162** | 31 |
| GBP | **1,042** | 926 | **193** | 57 |

Further details on how the company manages the currency risk are given in Note 29 to the Group accounts.

### Liquidity risk:

| **2008** | **Less than one year $000's** | **More than one year $000's** | **Total $000's** |
|---|---|---|---|
| Cash and cash equivalents | **13,176** | **–** | **13,176** |
| Trade receivables | **42** | **–** | **42** |
| Interest bearing loans and borrowings | **(40,000)** | **–** | **(40,000)** |
| Trade payables | **(201)** | **–** | **(201)** |
| | **(26,983)** | **–** | **(26,983)** |

| 2007 | Weighted average effective interest rate % | Less than one year $000's | More than one year $000's | Total $000's |
|---|---|---|---|---|
| Cash and cash equivalents | | 2,404 | – | 2,404 |
| Interest bearing loans and borrowings | | (198,000) | – | (198,000) |
| Trade payables | | (976) | – | (976) |
| | | (196,572) | – | (196,572) |

The Company believes that given the Group's forecast operating cash flow during 2009, it has the ability to satisfy its liability commitments.

### Interest rate risk

An interest rate sensitivity analysis assumes an instantaneous 100 basis point change in interest rates in all currencies from their levels at 31 December 2008, with all other variables held constant. Based on the composition of our debt portfolio as at 31 December 2008, a 1% increase in interest rates would result in an additional USD 400,000 in interest expense being incurred per year.

Further details on how the Company manages the currency risk are given in Note 29 to the Group accounts.

## 10. Staff costs

Hikma Pharmaceuticals PLC currently has seven employees (2007: five) (excluding Executive Directors); total compensation paid to them amounted to USD 1,361,000 (2007: USD 1,279,000) of which salaries and wages comprise an amount of USD 1,014,000 (2007: USD 763,000) the remaining balance of USD 347,000 (2007: USD 515,000) represent social security and other benefits.

## 11. Stock options

The details of the stock compensation scheme are provided in Note 37 to the Group accounts. The number of options granted to the employees of the Company (including Directors) was 2,600,000 (2007: 2,600,000) and the total amount of the compensation expenses charged to income statement is USD 196,400 (2007: USD 196,400).

## 12. Long-Term Incentive Plans (LTIPs)

The details of the LTIP scheme were provided in note 37 to the Group accounts. The number of awards granted to the employees of the Company (including Directors) was 391,000 shares (2007: 205,000) and the total amount of the compensation expenses charged to income statement is USD 513,037 (2007: USD 130,800).

## 13. Share capital

| | 2008 $000's | 2007 $000's |
|---|---|---|
| **Authorised:** | | |
| 500,000,000 ordinary shares of 10p each | **88,700** | 88,700 |
| Issued and fully paid – included in ordinary shareholders' equity 189,237,607 (2007: 170,733,807) ordinary shares of 10p each | **33,857** | 30,229 |

The details of the issue of the share capital in the year are given in Note 31 to the Group accounts.

## 14. Share premium

| | Share premium $000's |
|---|---|
| **At 1 January 2008** | **821,428** |
| Premium arising on share placing | 154,503 |
| Premium arising on exercise of stock options | 1,411 |
| **Balance at 31 December 2008** | **977,342** |

## 15. Net income for the year

Included in the net income for the year is an amount of USD 8,000,000 (2007: USD 45,545,000) representing dividends received and USD 709,000 (2007: USD 327,000) representing the current year charge of stock option and LTIPs expenses relating to the Company's employees. The remaining USD 2,675,000 (2007: USD 1,274,000) of the Group's stock option and LTIPs charge is recharged to subsidiary companies.

# Shareholder information

## 2009 financial calendar

| | |
|---|---|
| 17 March | 2008 preliminary results and final dividend announced |
| 29 April | 2008 final dividend ex-dividend date |
| 1 May | 2008 final dividend record date |
| 14 May | Annual General Meeting |
| 2 June | 2008 final dividend paid to shareholders |
| 26 August* | 2009 interim results and interim dividend announced |
| 16 September* | 2009 interim dividend ex-dividend date |
| 18 September* | 2009 interim dividend record date |
| 16 October* | 2009 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 +44 208 639 2157; or |
| through the website www.capitaregistrars.co.uk. |

In addition to general enquiries for example changes of address, change of name, loss of a share certificate the Registrar can also assist with the following:

## Mandating the dividend payments

Shareholders who currently receive their dividend by cheque can request a dividend mandate form from the registrar and have their dividend paid direct into their bank account on the same day as the dividend is paid. The tax voucher is sent direct to the shareholders registered address.

## International Payment System

If you are an overseas shareholder the registrar is now able to pay dividends in several foreign currencies for an administrative charge of £5.00., which is deducted from the payment. Contact the registrar for further information.

## Dividend Payments – Currency elections

The Company declares dividends in US Dollars. Shareholders can opt to receive the dividend in sterling by completing the Currency Election Form that is sent to them following the announcement of the interim and final dividend.

## Website

Press releases, the share price and other information on the Group are available on the Company's website www.hikma.com.

## Share listings

### London
The Company's Ordinary Shares are listed on the London Stock Exchange. They are listed under EPIC – HIK, SEDOL – B0LCW08 GB and ISIN – GB00B0LCW083.

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

### Global Depository Receipts
The Company also has listed Global Depository Receipts ("GDRs") on NasdaqDubai. They are listed under EPIC – HIK and ISIN – US4312882081.

Further information on NasdaqDubai, its trading systems and current trading in Hikma Pharmaceuticals PLC GDRs can be found on the website www.nasdaqdubai.com.

### Boiler room scams
The Financial Services Authority has issued a number of warnings to shareholders regarding boiler room scams. Over the last year many companies have become aware that shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based "brokers" who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as boiler rooms. These brokers can be very persistent and extremely persuasive. Shareholders are advised to be very cautious of unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

| |
|---|
| Obtain the correct name of the person and organisations. |
| Check they are authorised by the FSA by looking the firm up on www.fsa.gov.uk/register. |
| Report the matter to the FSA either by calling 0845 606 1234 or visit www.moneymadeclear.fsa.gov.uk. |
| If the caller persists, hang up. |

Details of the share dealing facilities sponsored by the Company are included in Company mailings and are on the Company website.

# Principal Group companies

**Hikma Pharmaceuticals PLC**
Registered in England and Wales number 5557934
Registered office:
13 Hanover Square
W1S 1HW London

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Facsimile: +44 (0)20 7399 2761
E-mail: susan.ringdal@hikma.uk.com
Website: www.hikma.com

*Principal Group companies*
**Hikma Pharmaceuticals Limited**
P.O. Box 182400
11118 Amman
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**West-ward Pharmaceutical Corporation**
465 Industrial Way West
Eatontown, New Jersey 07724
USA
Telephone: +1 732 542 1191
Facsimile: +1 732 542 6150

**Hikma Farmacêutica S.A.**
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Printed at St Ives Westerham Press Ltd, ISO14001, FSC certified and CarbonNeutral®

QUALITY

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