Remuneration policy

Directors' remuneration policy 2020

Non-Executive Directors' fees

Non-Executives	2018 (£000)		**2019 (£000)**		**2020 (£000) (estimate)**
Non-Executive Directors' average total fee[1]	80.9	9%	**88.2**	8%	**95.0**

1. NED fees: The average Non-Executive Director's fee includes basic fee, Committee membership fee, fees for specific additional responsibilities, and Committee Chair fees. A full breakdown of fees on page 99. The average fee changes reflect the handover of Committee responsibilities and retirement and appointment of Non-Executive Directors.

Effective period

The Directors' remuneration policy (the Policy) for Hikma Pharmaceuticals PLC (Hikma) which is detailed on pages 79 to 85 and the relevant points of the Chairs' letter on page 75 will be put to a binding shareholder vote. The Policy will, subject to shareholder approval, become formally effective from the 2020 Annual General Meeting (AGM) on 30 April 2020 and apply to the remuneration of Directors for the 2020 financial year.
It is intended that the Policy will apply for a period of three years from the date of approval.

Core principles

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

- enhances the achievement of Hikma's strategic aims
- takes account of employment conditions both inside and outside Hikma
- aligns the interests of Directors with those of shareholders
- is aligned with Hikma's core values

Rationale

The Policy is designed to:

- Ensure the Group can attract and motivate high-calibre executives from the US-focused generic pharmaceuticals industry who are critical to the Group's commercial success and where the share-based incentive opportunities are significantly higher than the UK
- Reward for financial performance that ensures the delivery of medium-term plans and that the executive continues to be motivated to deliver in the Company's dynamic and, sometimes, volatile markets
- Align the experience of executive and shareholders through strong weighting towards equity-based pay, five year holding requirements for equity received, and extensive equity requirements for executives ensuring that the interests of shareholders and executives are fundamentally aligned for the long-term

Changes

The Policy is broadly unchanged from the previous policy that was approved by shareholders at the 2017. The Committee has proposed a few adjustments which are detailed in the Chair's letter on page 75.

Discretion

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

Legacy arrangements

Payments may be made to satisfy commitments made prior to the approval of this remuneration policy. All outstanding obligations may be honoured and payment will be permitted under this remuneration policy. Existing EIP awards will be honoured in accordance with the existing terms.

Shareholding requirements

The Committee has the following minimum shareholding requirement for Executive Directors in order to ensure a long-term, locked in alignment with shareholders:

- **During employment:** the objective is for Executive Directors to build and maintain a minimum level of shareholding throughout their employment with the Company by retaining shares received from the equity-incentive arrangements. The Committee considers that new executives are likely to be able to achieve the shareholding requirement in circa three years of joining Hikma. The minimum shareholding requirement is 300% of salary
- **Following employment:** the objective is for the interests of former Executive Directors to continue to be aligned with shareholders for at least two years following leaving the Group. For this period, Executive Directors are required to hold the lower of the shares owned on cessation of employment or shares with a value of 300% of their final, annualised salary

The shareholding requirements operate in the following manner:

- shares unconditionally owned by the Executive Directors and shares granted under the EIP that are not subject to further performance conditions count towards the requirement
- the sale restrictions only apply to shares acquired by the Executive Director through the Company's equity-based incentive arrangements

Remuneration policy table

Fixed elements

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Change to policy
Salary Provides a base level of remuneration to support recruitment and retention of Directors with the necessary experience and expertise to deliver the Group's strategy.	Base salaries for Executive Directors are reviewed annually by the Committee, and changes, if any, normally take effect from 1 January. Salaries are set with reference to: — pay increases for the general workforce acting as an upper limit unless exceptional circumstances exist — salaries in peer companies from the pharmaceutical sector and UK listed companies — company performance and affordability Salaries for individuals who are recruited or promoted to the Board may be set below market levels at the time of appointment, with the intention of bringing the base salary levels in line with the market as the individual becomes established in their role.	Whilst there is no maximum salary, any increase will generally be no higher than the average increase for the wider workforce. A higher increase may be made in the event of a role change, promotion, or in exceptional circumstances, but the rationale will be clearly explained in the next report to shareholders.	Not applicable.	No change to policy.
Benefits An appropriate package of market competitive benefits to ensure executives are rewarded and focused.	Benefits may include, but are not limited to: — healthcare — school fees — company cars/transport — life insurance — relocation: when relocation is required by the Company — tax equalisation: where the director becomes tax resident in a jurisdiction as a result of the role and to the extent that additional taxes are paid As the Company operates internationally it may be necessary for the Committee to provide special benefits or allowances. These would be disclosed to shareholders in the annual report on remuneration for the year in which the benefit or allowances were paid.	The value of benefit is based on the cost to the Company and there is no predetermined maximum limit. The range and value of the benefits offered are reviewed periodically.	Not applicable.	No change to policy.

Remuneration policy table

Fixed elements

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Change to policy
Pension An appropriate level of pension contribution to ensure executives are provided with a retirement standard commensurate with their role, whilst being in line with the wider workforce.	The Company operates defined contribution arrangements in its main operational jurisdictions and executives participate in these arrangements. A cash supplement in lieu of pension may be paid provided the total pension payment does not exceed the maximum opportunity.	The pre-dominant pension contribution made for the wider global workforce, other than for the current Chief Executive Officer only, which is limited to $165,000 (see page 75 for further details).	Not applicable.	The maximum pension contribution for executives is being aligned with the wider workforce as detailed in the Chair's letter on page 75.
Executive Incentive Plan (EIP) Performance awards that incentivise Directors to deliver annual financial performance targets and certain key strategic deliverables, with the majority of awards made in shares to ensure that medium-term performance is delivered.	The Remuneration Committee sets annual performance targets for awards under the EIP, in accordance with the rules of the EIP. At the end of each year the Committee determines the level of performance for the prior year. Based on the performance, the Committee makes the following awards: — **Element A:** cash bonus paid immediately — **Element B:** shares usually vesting in two years that are subject to forfeiture conditions. The forfeiture conditions operate as part of the performance metrics. See page 91 for an example — **Element C:** shares usually vesting in three years and subject to continued employment A holding requirement applies to elements B and C ensuring that shares may not be sold until five years from the point of grant. In relation to disclosure of performance targets: — **Prior years:** full details of the previous year's performance targets, their level of satisfaction and the resulting performance remuneration are disclosed on pages 90 to 95 — **Future years:** the nature and weighting of future performance targets are disclosed on page 87 Malus and clawback provisions apply.	The maximum opportunity is 400% of salary per annum, which is attributed to the elements as follows: — **Elements A and B:** each element has a 150% maximum, 100% at target and 25% at threshold — **Element C**: 100% maximum, 50% at target and 25% at threshold The EIP operates for Executive Directors and the top ten management tiers. For the first tier, all elements are available, with a lower maximum opportunity. For the second layer, only elements A and B are available with a lower maximum.	Annual performance metrics are based on: — **Financial metrics:** at least 80% of the performance award, with specific targets based on the budget that is approved prior to the performance period. The precise targets will be determined by the Committee on an annual basis — **Strategic deliverables:** up to 20% of the performance award is based on the delivery of specific, subjective targets that are set by the Committee in order to ensure that key milestones in the Company's strategy are delivered The rationale for including these criteria is detailed in the Chair's letter on page 75. The Committee retains discretion in exceptional circumstances to change the performance measures, targets and respective weightings if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate or the Committee believes that the vesting outcome is not a fair and accurate reflection of business performance.	The weighting for the financial performance metrics has been increased and the strategic objectives' weighting decreased, as detailed in the Chair's letter on page 75.

Remuneration policy continued

Malus and clawback

The malus and clawback provisions protect the Company and shareholders. Under these provisions, the Committee can reduce or cancel awards under the EIP that have not yet vested (malus) and require the repayment of an award that has vested or been paid (clawback).

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

- Hikma's financial statements or results being negatively restated significantly
- participant having deliberately misled management, the Board or the investor community
- participant causing significant damage amounting to corporate failure to Hikma
- participant causing serious reputational damage to Hikma
- mistake in the calculation of the level of satisfaction of the performance targets
- participant's actions amounting to serious misconduct

Service contracts

The Committee's policy for service contracts is:

- a maximum 12 month period applies. The Committee may in exceptional circumstances arising on recruitment allow a longer period, which would in any event reduce to 12 months following the financial year of employment
- there are no contractual arrangements that would
  - constitute liquidated damages clauses
  - guarantee a pension with limited or no abatement on severance or early retirement
  - provide for compensation for loss of office or employment that occurs because of a takeover bid
- Executive Directors serve until notice is given and the notice provisions have expired

Service contracts can be viewed either at the AGM or at the Company's offices. The Company Secretary will make arrangements upon request.

Recruitment remuneration

The Committee's normal approach to internal and external recruitment is to pay no more than is necessary to attract candidates of the appropriate calibre and experience needed for the role from the international market in which the Company competes.

The Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments made on recruitment and the appropriateness of any performance measures associated with an award.

The table below summarises the adjustments to the Policy with respect to recruitment of Executive Directors. Other than these potential adjustments, other package elements would be in accordance with the main Policy elements on pages 80 to 81. In the event of recruitment of a Non-Executive Director, there are no changes to the Policy detailed on page 84.

Component	Policy
Maximum level of variable remuneration	In exceptional circumstances, solely for the year of recruitment, the maximum level of variable remuneration available may be increased by 150% of salary.
Share buy-outs/replacement awards	The Committee's policy is not to provide share buy-outs as a matter of course. However, should the Committee determine that the individual circumstances of recruitment justify the provision of a buy-out, the value of any incentives that will be forfeited on cessation of a Director's previous employment will be calculated taking into account the following: — the proportion of the performance period completed on the date of the Director's cessation of employment — the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied — any other terms and conditions having a material effect on their value (lapsed value) The Committee may grant up to the lapsed value under the Company's incentive plans. To the extent that it was not possible or practical to provide the buy-out within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.

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

Payment for loss of office

When considering termination payments, the Remuneration Committee takes account of the best interests of Hikma and the individual's circumstances, including the reasons for termination, contractual obligations and the rules governing certain items of remuneration (eg incentive plan rules). The Remuneration Committee will ensure that there are no unjustifiable payments for failure on termination of employment. On an Executive Director ceasing to hold office, the Company will announce an out-going Executive Director's remuneration arrangements around the time of leaving.

Component	Approach	Application of Remuneration Committee discretion
General	The Committee's policy in relation to leavers can be summarised as follows: — the Committee will honour Executive Directors' contractual entitlements — if a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case — in the normal course of events, the Executive Director will work their notice period (12 months for existing Executive Directors) and receive contractual compensation payments and benefits during this time — in the event of the termination of an executive's contract and Hikma requesting the executive to cease working immediately, payment in lieu of notice equal to fixed pay, pension entitlements, other benefits and, on a discretionary basis and only where it is in Hikma's interest, a pro-rated performance related bonus will be payable — in the event of termination for gross misconduct, neither notice nor payment in lieu of notice will be given and the executive will cease to perform services immediately	Right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.
Base salary, benefits and pension	Any payments in lieu of notice will be equivalent to the salary payments, benefit value and pension contributions that they would have received if still employed by the Company for a maximum of 12 months.	Discretion to make payments in lieu of notice to the same value.
EIP	The treatment of awards on cessation of employment is governed by the rules of the EIP, which provide that on termination of employment before the performance measurement date or prior to the relevant vesting date, no award will be granted in respect of the year of cessation and any subsisting entitlements will lapse; unless the following circumstances apply: — injury or disability — redundancy — retirement by agreement with the Company — the participant being employed by a company which ceases to be a member of the Group — the participant being employed in an undertaking or part of an undertaking which is transferred to a person who is not a member of the Group; or — any other circumstances if the Remuneration Committee decides in any particular case If an Executive Director leaves in one of the above circumstances, the EIP rules provide for the following: **Current year** The Remuneration Committee will calculate the amount of any payment pro-rated to the amount of the plan year completed on the Executive Director's date of cessation and taking into account the level of satisfaction of the performance targets at the next performance measurement date. Any payment shall be made in cash (not deferred in shares) as soon as practicable after the determination of the level of satisfaction of the performance targets. **Outstanding shares** Outstanding deferred share awards will vest.	To determine that the reason for termination is classified in the same manner as those described in the adjacent column. The Remuneration Committee will only use its general discretion to determine that an Executive Director is a good leaver in exceptional circumstances and will provide a full explanation to shareholders of the basis for its determination.

Remuneration policy continued

Change of control

Component	Approach	Application of Remuneration Committee discretion
EIP	The treatment of awards on a change of control is governed by the rules of the EIP. The treatment is substantially the same as the good leaver provisions in the 'Payments for loss of office section'.	The Remuneration Committee has discretion whether to pro-rate any element to time. It is the Remuneration Committee's policy in normal circumstances to pro-rate to time; however, in exceptional circumstances where the nature of the transaction produces exceptional value for shareholders and provided the performance targets are met, the Remuneration Committee will consider whether pro-rating is equitable.

Differences between the policies for Executive Directors and employees, consideration of shareholder views and consideration of conditions elsewhere in the Group

Employees were not directly consulted on the executive remuneration policy. All employees receive a salary, pension and medical insurance on a similar basis to the Executive Directors. Additionally, all employees participate in a cash bonus scheme, which is similar to Element A of the EIP. The Committee reviews detailed internal and summary benchmarking data, and is satisfied that the level of remuneration is proportionate across the HR grades. Further information is available on pages 75 and 76 regarding how the Committee takes account of shareholder views when developing and implementing the remuneration policy.

Non-Executive Directors

Non-Executive Directors' (NEDs) fees are set by the Board under the direction of the Executive Directors having considered the:

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

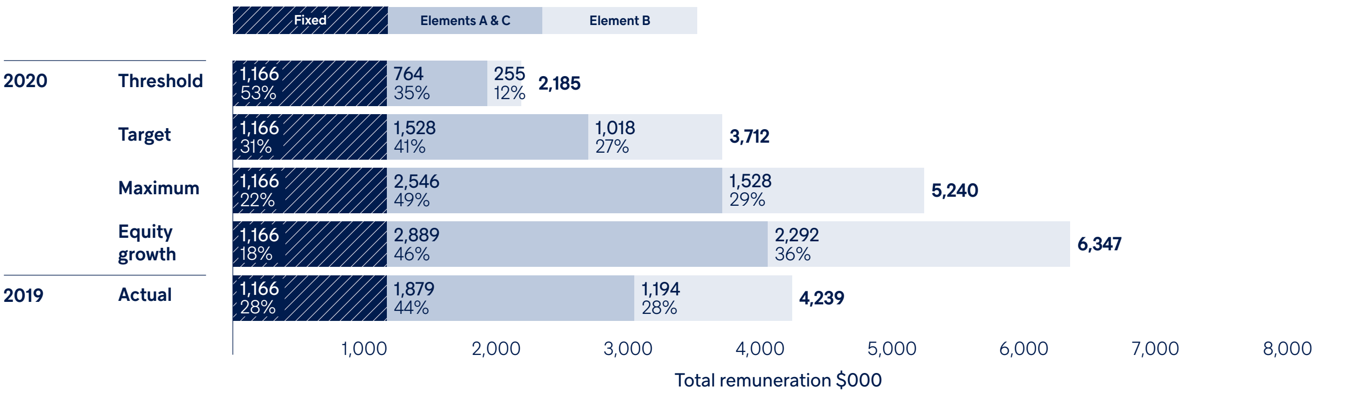
NEDs do not participate in the Group's pension or incentive arrangements. The annual fees payable to newly recruited NEDs will follow the policy for fees payable to existing NEDs, whose fees comprise:

Element	Policy	Maximum opportunity
Basic fee	An underlying fee for undertaking the duties of a Director of Hikma, chiefly relating to Board, strategy and shareholder meetings. Provides a level of fees to support recruitment and retention of NEDs with the necessary experience.	Whilst there is no maximum, the practice is to remain within the parameters of FTSE peers.
Committee membership fee	A composite fee for taking additional responsibilities in relation to Committee membership. Usually NEDs are members of at least three committees.	
Committee Chair/ employee engagement fee	The Committee Chairs undertake additional responsibilities in leading a committee and are expected to act as a sounding board for the executive that reports to the relevant committee. The Director responsible for employee engagement receives a similar fee due to the additional requirements of that role. The chairmanship fee is paid in addition to the membership fee.	
Expenses	The Company pays expenses incurred wholly in relation to the position of NEDs and ensures that Directors do not incur a tax liability as a result. The Company retains discretion to provide for an allowance structure as an alternative to the latter payment.	

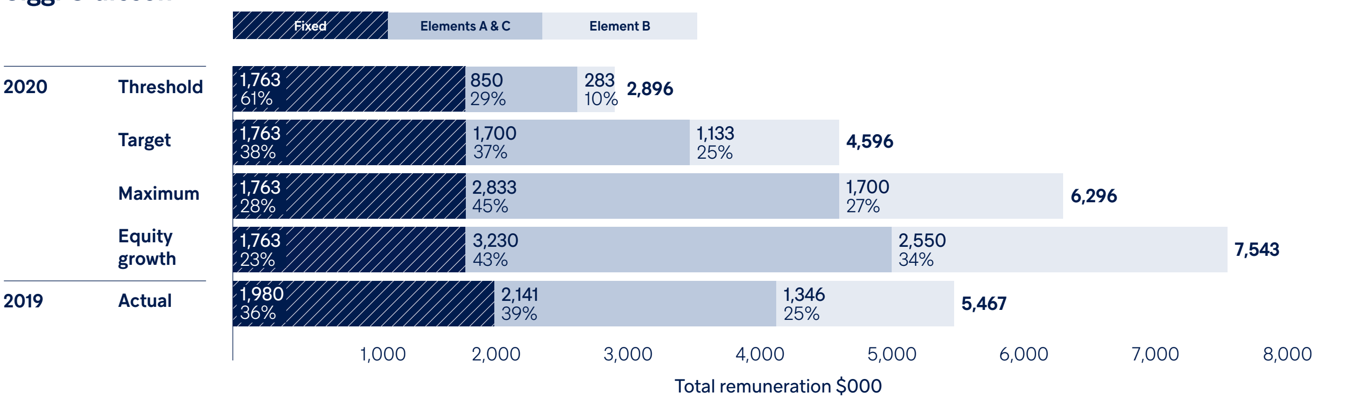
Illustration of policy

The following charts show the value of each of the main elements of the compensation package provided to the Executive Directors during 2019 and the potential available for 2020 (dependent upon performance).

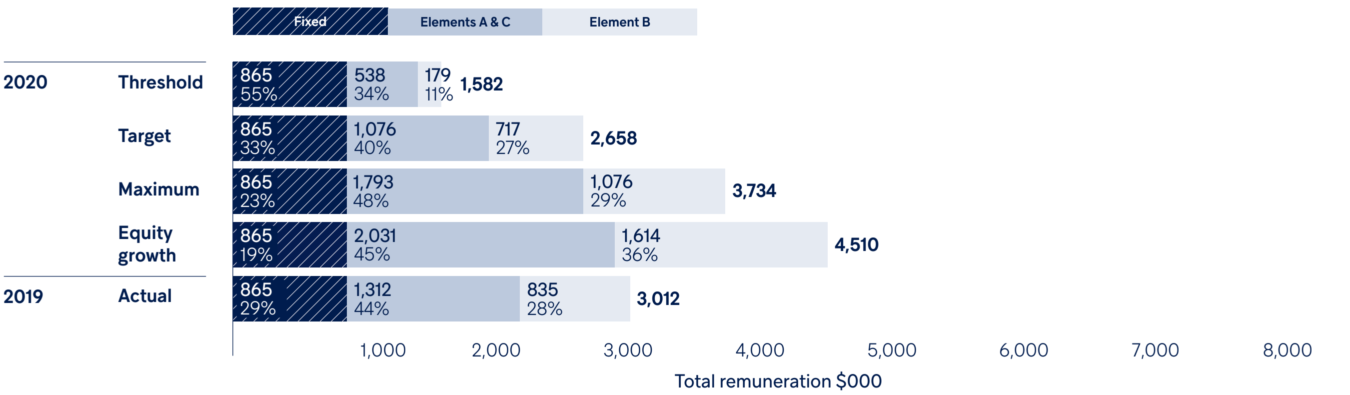
Said Darwazah



Siggi Olafsson



Mazen Darwazah



The following notes are applicable to the above calculations:

— Salary, benefits and pension comprise 'Fixed' remuneration.
— Elements A and C of the EIP comprise the bonus and; Element B comprises the share award. Elements A, B and C of the EIP are made in the year after the performance is achieved (eg for the 2020 illustration, the bonus would be paid and the share awards be granted in 2021. The share awards would vest two to three years later). Please note that the Remuneration and performance summary on page 78 uses share awards vesting (ie actual shares received, not those granted) during the period in order to make clear the difference between potential remuneration and what the executive receives in practice.
— 'Equity growth' presumes a 50% increase in the value of shares granted under the EIP in respect of that year and that the executive remains in place for the holding period (ie the award vests).

End of remuneration policy.