Business and financial review

I am pleased with our performance in 2021, with growth in all three businesses. We have continued to launch new products while benefitting from the breadth of our portfolio.

Reported results (statutory)

	2021 $million	2020 $million	Change	Constant currency[1] change
Revenue	**2,553**	2,341	9%	7%
Operating profit	**582**	579	1%	3%
Profit attributable to shareholders	**421**	431	(2)%	2%
Cash flow from operating activities	**638**	464	38%	–
Basic earnings per share (cents)[2]	**182.3**	182.6	0%	4%
Total dividend per share (cents)	**54.0**	50.0	8%	–

Core results[3] (underlying)

	2021 $million	2020 $million	Change	Constant currency[1] change
Core revenue	**2,553**	2,341	9%	7%
Core operating profit	**632**	566	12%	15%
Core profit attributable to shareholders	**450**	408	10%	15%
Core basic earnings per share (cents)[2]	**194.8**	172.9	13%	17%

1 Constant currency numbers in 2021 represent reported 2021 numbers translated using 2020 exchange rates, excluding price increases in the business resulting from the devaluation of the Sudanese pound and excluding the impact from hyperinflation accounting. In 2021 Lebanon and Sudan were considered hyperinflationary economies, therefore the spot exchange rate as at 31 December 2021 was used to translate the results of these operations into US dollars
2 In June 2020, Hikma purchased 12.8 million ordinary shares from Boehringer Ingelheim, which are being held in treasury
3 Core results throughout the document are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in Note 6 of the Group consolidated financial statements. Core results are a non-IFRS measure and a reconciliation to reported IFRS measures is provided on page 33
4 Group net debt is calculated as Group total debt less Group total cash, including restricted cash. Group net debt is a non-IFRS measure. See page 34 for a reconciliation of Group net debt to reported IFRS figures
5 Core EBITDA is earnings before interest, tax, depreciation, amortisation, assets write-down and impairment charges/reversals. EBITDA is a non-IFRS measure, see page 34 for a reconciliation to reported IFRS results
6 Net debt to core EBITDA is calculated as Group net debt divided by core EBITDA and is considered a useful measure of the Group's financing decision
7 Subject to FTC approval

Strong 2021 performance

- Group revenue up 9%, reflecting a good performance from all three businesses
- Core operating profit up 12%, driven by a further step up in Generics margin
- Core profit attributable to shareholders up 10%
- Reported profit attributable to shareholders down 2% and basic EPS was flat
- Strong cashflow from operating activities, up 38% to $638 million
- Continued to invest 6% of revenue in R&D, with a growing pipeline of complex and specialty products
- Maintained healthy balance sheet, with net debt[4] of $420 million and low leverage at 0.6x net debt to core EBITDA[5,6]
- Full year dividend of 54 cents per share, up from 50 cents per share in 2020

Continued momentum, with growth in all three businesses

- Injectables: Good revenue growth across all three geographies, including in the US following a strong 2020. Injectables core operating profit grew 5%, with a strong operating margin of 37.5%
- Generics: 10% revenue growth and core operating margin improvement of 300 bps to 24.6%, reflecting a good performance from recently launched products
- Branded: Revenue grew 9% reflecting a good contribution from products used to treat chronic illnesses and core operating margin was 18.7%, down from 20.6% in 2020. Excluding the impact of currency and hyperinflation, revenue grew 5% and core operating margin was stable

Further portfolio expansion and increased investment to support growth

- Launched generic Advair Diskus® in April and are gradually growing market share, but expect competition to intensify in 2022
- Expansion of specialty product offering in the US, including the launch of Kloxxado™ 8mg naloxone nasal spray
- Positioning for future growth in Injectables with the signing of two US biosimilar agreements, the acquisition of Custopharm[7], the launch of a new US compounding business and post year-end expansion into Canada through acquisition of Teligent assets
- Further complex medicines added to Branded portfolio, including eight oral oncology products in Algeria

Khalid Nabilsi
Chief Financial Officer

Group

Group revenue grew 9% reflecting growth in each of our three businesses. Group gross margin reduced slightly, primarily due to a shift in product mix in our Injectables and Branded businesses.

Group operating expenses were $719 million (2020: $622 million). Excluding adjustments related to the amortisation of intangible assets (other than software) of $73 million (2020: $42 million) and net income from exceptional items of $23 million (2020: $67 million), Group core operating expenses were $669 million (2020: $647 million).

Selling, general and administrative (SG&A) expenses were $561 million (2020: $509 million). Excluding the amortisation of intangible assets (other than software) and exceptional items, core SG&A expenses were $488 million (2020: $464 million), up 5%, reflecting good control of costs while increasing spend in certain areas such as sales and marketing for specialty products in the Generics business and a gradual return to pre-COVID marketing activities in our Branded business.

Research and development (R&D) expenses were $143 million (2020: $137 million). This reflects an increase in the second half as the Group focused on the future pipeline. Core R&D was 6% of Group core revenue, in line with our strategy.

Other net operating expenses were $15 million (2020: $26 million income). Excluding exceptional items[1], core other net operating expenses were $38 million (2020: $44 million), which primarily comprised foreign exchange-related costs.

The improvement in core operating margin to 24.8% was primarily driven by the good performance in the Generics business.

1 Exceptional items comprised a $60 million impairment reversal of product related intangibles, a $24 million charge of product related intangibles and a $13 million intangible assets write-down. Amortisation of intangible assets (other than software) was $73 million. Refer to Note 6 of the Group consolidated financial statements for further information

Injectables

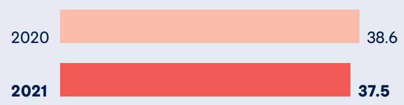
We supply hospitals across our markets with generic injectables, supported by our manufacturing facilities in the US, Europe and MENA. In the US, we have broadened our product offering to include compounded sterile injectables.

Financial highlights

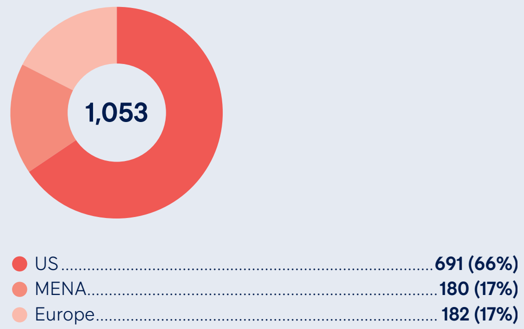
	2021 $million	2020 $million	Change	Constant currency change
Revenue	**1,053**	977	8%	6%
Core revenue	**1,053**	977	8%	6%
Gross profit	**581**	563	3%	2%
Core gross profit	**581**	563	3%	2%
Core gross margin	***55.2%***	*57.6%*	*(2.4)pp*	*(1.9)pp*
Operating profit	**351**	354	(1)%	1%
Core operating profit	**395**	377	5%	6%
Core operating margin	***37.5%***	*38.6%*	*(1.1)pp*	*0.3pp*

Core revenue ($m)

Core operating margin (%)



Core revenue by region ($m)



Outlook for 2022

We expect Injectables revenue to grow in the low to mid-single digits. We expect core operating margin to be in the range of 35% to 37%.

Injectables revenue grew 8% in 2021, benefitting from our broad portfolio, geographic spread, flexible manufacturing capabilities and new launches across our regions.

US Injectables revenue grew 4% to $691 million (2020: $662 million), reflecting a good performance from new launches while maintaining demand for our broad product portfolio.

MENA Injectables revenue was $180 million, up 13% on a reported basis and 4% on a constant currency basis (2020: $160 million). This growth reflects a strong performance across most of our markets and good demand for our growing biosimilar portfolio where we continue to grow the market by increasing patient access. This more than offset temporary disruptions in some markets.

European Injectables revenue was $182 million, up 17% (2020: $155 million). In constant currency, European Injectables revenue increased by 13%. This reflects a good performance from our own products, recent launches and continued demand for contract manufacturing.

Core gross profit grew 3% to $581 million and gross margin declined to 55.2%, reflecting a normalisation in product mix following the strong demand for COVID-19 related products in 2020.

Injectables core operating profit, which excludes the amortisation of intangible assets (other than software)[1] grew 5% and core operating margin was 37.5%, compared with 38.6% in 2020. In constant currency, core operating profit grew 7% and core operating margin remained largely stable, reflecting good control of costs.

During the year, the Injectables business launched 15 products in the US, 29 in MENA and 34 in Europe. We submitted 93 filings to regulatory authorities across all markets. This primarily reflects our efforts to expand our European portfolio and register products in new European markets. We also signed new licensing deals, including to enter the US biosimilar market.

We are benefitting from strong commercial capabilities across our markets and flexible, high-quality operations

1 Exceptional items comprised a $10 million impairment of product related intangibles and a $1 million intangible assets write-down. Amortisation of intangible assets (other than software) was $33 million. Refer to Note 6 of the Group consolidated financial statements for further information

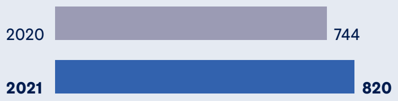
Generics

We supply oral and other non-injectable generic and specialty branded products in the US retail market, leveraging our state-of-art manufacturing facility in Columbus, Ohio.

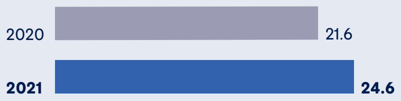
Financial highlights

	2021 $million	2020 $million	Change
Revenue	**820**	744	10%
Core revenue	**820**	744	10%
Gross profit	**388**	329	18%
Core gross profit	**388**	341	14%
Core gross margin	***47.3%***	*45.8%*	*1.5pp*
Operating profit	**217**	203	7%
Core operating profit	**202**	161	25%
Core operating margin	***24.6%***	*21.6%*	*3.0pp*

Core revenue ($m)



Core operating margin (%)



Outlook for 2022

We expect Generics revenue to grow in the range of 8% to 10%. We expect core operating margin to be in the range of 24% to 25%.

The good revenue growth in our Generics business, up 10% in 2021, was primarily driven by a strong performance from recently launched products, which more than offset increased price erosion.

Generics core gross profit growth and margin expansion was primarily due to product mix, with good demand for profitable recent launches.

We delivered a strong improvement in Generics core operating profit, which excludes the amortisation of intangible assets (other than software) and exceptional items[1], mostly due to the improvement in gross profit. While sales and marketing spend increased as a result of the expansion of our specialty business, this was partially offset by good control of other operating expenses. For the year, Generics core operating margin was 24.6%, ahead of our guidance of 22% to 24%.

In 2021, the Generics business launched seven products and submitted five files to regulatory authorities.

We are delivering strong operating profit expansion, benefitting from recently launched products

1 Exceptional items comprised a $60 million impairment reversal of product related intangibles and a $14 million impairment charge of product related intangibles and a $1 million intangible assets write-down. Amortisation of intangible assets (other than software) was $30 million. Refer to Note 6 of the Group consolidated financial statements for further information

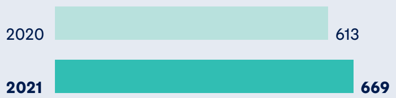
Branded

We supply branded generics and in-licensed patented products from our local manufacturing facilities to retail and hospital customers across the MENA region.

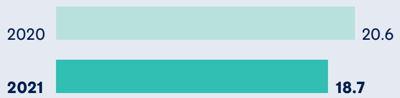
Financial highlights

	2021 $million	2020 $million	Change	Constant currency change
Revenue	**669**	613	9%	5%
Core revenue	**669**	613	9%	5%
Gross profit	**328**	307	7%	0%
Core gross profit	**328**	307	7%	0%
Core gross margin	***49.0%***	*50.1%*	*(1.1)pp*	*(2.0)pp*
Operating profit	**104**	120	(13)%	(7)%
Core operating profit	**125**	126	(1)%	5%
Core operating margin	***18.7%***	*20.6%*	*(1.9)pp*	*0.0pp*

Core revenue ($m)



Core operating margin (%)



Outlook for 2022

We expect Branded revenue in 2022 to be in line with 2021. Excluding the impact of hyperinflation in 2021, we expect Branded revenue to grow in the mid-single digits.

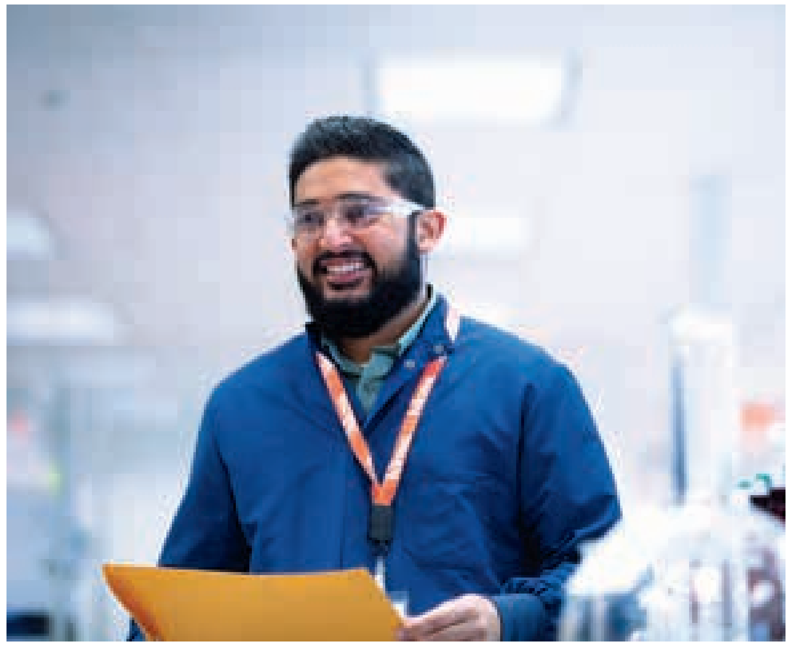
Our Branded business continued to deliver growth in 2021, with revenue up 9%, which includes the impact of hyperinflation. In constant currency, revenue grew 5%, with a good performance across our markets, particularly in Algeria, where we saw the benefits of our new oncology plant and in Egypt, where we benefitted from strong demand for our chronic treatments. Our chronic treatments also saw good demand in our retail business in Saudi Arabia, which partially offset lower demand in the government tender business. Other markets, including Jordan, UAE and Morocco grew strongly. Across the region we benefitted from our focussed commercial efforts, a responsive supply chain and the breadth of our portfolio.

Core gross profit grew 7% and, on a constant currency basis, core gross profit was flat primarily due to an increase in slow-moving inventory resulting from pandemic-related demand fluctuations. Core gross margin contracted slightly to 49.0%.

Core operating profit, which excludes the amortisation of intangibles (other than software) and exceptional items[1], fell 1%. In constant currency, core operating profit grew 5% as higher investment in R&D and increased sales and marketing spend due to activities returning to pre-COVID levels was offset by good control of G&A costs. Core operating margin decreased primarily due to devaluation of the Sudanese pound. In constant currency, core operating margin was stable.

During the year, the Branded business launched 87 products and submitted 144 filings to regulatory authorities. Revenue from in-licensed products represented 36% of Branded revenue (2020: 37%).

Our growth is increasingly coming from medicines used to treat chronic illness



1 Exceptional items comprised a $11 million intangible assets write-down. Amortisation of intangible assets (other than software) was $10 million. Refer to Note 6 of the Group consolidated financial statements for further information

Other businesses

Other businesses, which primarily comprises Arab Medical Containers (AMC), a manufacturer of plastic specialised medicinal sterile containers, and International Pharmaceuticals Research Centre (IPRC), which conducts bio-equivalency studies, contributed revenue of $11 million in 2021 (2020: $7 million) with an operating profit of $2 million (2020: $nil).

Research and development

Our investment in R&D and business development enables us to continue expanding the Group's product portfolio. During 2021, we had 172 new launches and received 243 approvals. To ensure the continuous development of our product pipeline, we submitted 242 regulatory filings.

	2021 submissions[1]	2021 approvals[1]	2021 launches[1]
Injectables	93	114	78
US	13	12	15
MENA	24	66	29
Europe	56	36	34
Generics	5	5	7
Branded	144	124	87
Total	**242**	**243**	**172**

Net finance expense

	2021	2020	Change	Constant currency change
Finance income	**30**	47	0%	4%
Finance expense	**69**	69	13%	17%
Net finance expense	**39**	22	0%	4%
Core finance income	**1**	9	13%	17%
Core finance expense	**56**	54	–	–
Core net finance expense	**55**	45	–	–

On a reported basis, net finance expense was $39 million (2020: $22 million). This comprised $30 million finance income and $69 million finance expense. Excluding exceptional items[2], core net finance expense was $55 million (2020: $45 million). This comprised $1 million finance income and $56 million finance expense. The increase compared with 2020 in part reflects a drop in interest income over the course of 2021 due to a reduction in interest rates, and a slight increase in expenses related to the refinancing of our revolving credit facility.

We expect core net finance expense to be around $55 million in 2022.

Profit before tax

Reported profit before tax decreased to $544 million (2020: $558 million), primarily reflecting an increase in the amortisation of intangibles (other than software), from $42 million to $73 million, due to new product launches. Excluding the amortisation of intangibles (other than software) and exceptional items[3], core profit before tax was $578 million (2020: $522 million), up 11%, reflecting the strong performance of our three business segments.

Tax

The Group incurred a reported tax expense of $124 million (2020: $128 million) and a reported effective tax rate of 22.8% (2020: 22.9%). Excluding exceptional items, Group core tax expense was $129 million (2020: $115 million). The core effective tax rate increased slightly to 22.3% (2020: 22.0%), primarily due to a change in the earnings mix.

We expect the Group core effective tax rate to be in the range of 22% to 23% in 2022.

Profit attributable to shareholders

Profit attributable to shareholders was $421 million (2020: $431 million). Core profit attributable to shareholders increased by 11% to $450 million (2020: $408 million).

Earnings per share

	2021	2020	Change	Constant currency change
Basic earnings per share (cents)	182.3	182.6	0%	4%
Core basic earnings per share (cents)	194.8	172.9	13%	17%
Diluted earnings per share (cents)	180.7	181.1	0%	4%
Core diluted earnings per share (cents)	193.1	171.4	13%	17%
Weighted average number of Ordinary Shares for the purposes of basic earnings ('m)	231	236	–	–
Weighted average number of Ordinary Shares for the purposes of diluted earnings ('m)	233	238	–	–

The increase in core earnings per share reflects the strong performance of the Group and the value for shareholders created by the Group's buy back of 12.8 million ordinary shares in the first half of 2020.

Dividend

The Board is recommending a final dividend of 36 cents per share (approximately 26 pence per share) (2020: 34 cents per share) bringing the total dividend for the full year to 54 cents per share (approximately 40 pence per share) (2020: 50 cents per share). The proposed dividend will be paid on 28 April 2022 to eligible shareholders on the register at the close of business on 18 March 2022, subject to approval at the Annual General Meeting on 25 April 2022.

Net cash flow, working capital and net debt

The Group generated strong operating cash flow of $638 million (2020: $464 million). This change primarily reflects the good performance of the Group, combined with a focussed effort to optimise inventories following COVID-19 related stocking in 2020. The resultant decrease in inventory days drove an improvement in working capital days, which decreased by 26 days to 238 days.

Capital expenditure was $145 million (2020: $172 million). In the US, $56 million was spent upgrading equipment and adding new technologies for our Generics and Injectables businesses, including our new compounding facility in Dayton, New Jersey. In MENA, $66 million was spent on strengthening and expanding manufacturing capabilities. In Europe, we spent $23 million on strengthening our capabilities. We expect Group capital expenditure to be in the range of $160 million to $180 million in 2022.

The Group's total debt decreased to $846 million at 31 December 2021 (31 December 2020: $932 million). This decrease primarily reflects our strong cash flow generation, which enabled a reduction in short-term borrowing, while we maintained the repayment schedule of long-term loans.

During the year, we upsized, amended and extended our revolving credit facility (RCF), effective as of January 2022, allowing us the flexibility to pursue strategic opportunities. The RCF remained undrawn at year end.

The Group's cash balance at 31 December 2021 was $426 million (2020: $327 million).

The Group's net debt (excluding co-development agreements and contingent liabilities) was $420 million at 31 December 2021 (31 December 2020: $605 million). We continue to have a strong balance sheet, with a net debt to core EBITDA ratio of 0.6x (31 December 2020: 0.9x).

On 24 February 2022, the Group announced a share buyback programme of up to $300 million to be executed during 2022. This takes into account the strength of our balance sheet and low leverage ratio while maintaining the financial flexibility needed to invest in the business and pursue inorganic growth opportunities.

Balance sheet

Net assets at 31 December 2021 were $2,467 million (31 December 2020: $2,148 million). Net current assets were $1,078 million (31 December 2020: $894 million).

Outlook

For Injectables, as the COVID-19 volatility continues to ease and we see a gradual return of elective surgeries, we expect for revenue to grow in the low to mid-single digits, supported by new product launches. We expect core operating margin to be in the range of 35% to 37%. Our guidance does not include a contribution from Custopharm, which remains subject to FTC approval.

For Generics, we expect revenue to grow in the range of 8% to 10% and for core operating margin to be in the range of 24% to 25%. This reflects a good contribution from new and recent launches, which we expect will more than offset an acceleration in price erosion. Our guidance assumes a mid-year launch of sodium oxybate.

For Branded, we expect revenues in 2022 to be in line with 2021. Excluding the impact from hyperinflation in 2021, we expect Branded revenue to grow in the mid-single digits.

We expect Group core net finance expense to be around $55 million and the core effective tax rate to be in the range of 22% to 23%.

We expect Group capital expenditure to be in the range $160 million to $180 million.

Definitions

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

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

Core results

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

Group operating profit	2021 $million	2020 $million
Core operating profit	**632**	**566**
Intangible assets write-down	(13)	–
Jordan warehouse fire incident	–	11
GxA inventory related provisions	–	(15)
MENA severance and restructuring costs	–	(3)
Net impairment reversal of product related intangibles	36	62
Intangible assets amortisation other than software	(73)	(42)
Reported operating profit	**582**	**579**

1 New products submitted, approved and launched by country in 2021
2 Exceptional items comprised $29 million non-cash finance income related to the remeasurement of contingent consideration related to the Generics business and $13 million non-cash finance expense related to the unwinding and remeasurement of contingent consideration related to the Generics business
3 Exceptional items comprised a $60 million impairment reversal of product related intangibles, a $24 million impairment charge of product related intangibles, a $13 million intangible assets write-down and $16 million net finance income due to the remeasurement of contingent consideration. Amortisation of intangible assets (other than software) was $73 million. Refer to Note 6 of the Group consolidated financial statements for further information

Constant currency

As the majority of our business is conducted in the US, we present our results in US dollars. For both our Branded and Injectable businesses, a proportion of their sales are denominated in a currency other than the US dollar. In order to illustrate the underlying performance of these businesses, we include information on our results in constant currency.

Constant currency numbers in 2021 represent reported 2021 numbers translated using 2020 exchange rates, excluding price increases in the business resulting from the devaluation of the Sudanese pound and excluding the impact from hyperinflation accounting.

EBITDA

EBITDA is earnings before interest, tax, depreciation, amortisation, assets write-down and impairment charges/reversals.

EBITDA	2021 $ million	2020 $ million
Reported operating profit	**582**	**579**
Depreciation, amortisation, assets write-down and impairment charges/reversals	145	91
Reported EBITDA	**727**	**670**
Exceptional items:		
Jordan warehouse fire incident	–	(11)
Assets write off – inventory-related provisions	–	12
MENA severance and restructuring costs	–	3
Core EBITDA	**727**	**674**

Working capital days

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

Group net debt

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

Group net debt	31 Dec 2021 $ million	31 Dec 2020 $ million
Short-term financial debts	(112)	(158)
Short-term leases liabilities	(9)	(10)
Long-term financial debts	(651)	(692)
Long-term leases liabilities	(74)	(72)
Total debt	**(846)**	**(932)**
Cash, cash equivalents and restricted cash	426	327
Net debt	**(420)**	**(605)**

ROIC

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

ROIC	2021 $ million	2020 $ million
Core operating profit	632	566
Total tax	(137)	(121)
Core operating profit before tax	**495**	**445**
Net debt	420	605
Equity	2,467	2,148
Invested capital	**2,887**	**2,753**
ROIC	**17.1%**	**16.2%**