

Nomination and Governance Committee

Letter from the Chair



Patrick Butler
Chair, Nomination and Governance Committee
and Senior Independent Director

Dear Shareholders

I am writing to you in my roles as the Senior Independent Director and Chair of the Nomination and Governance Committee (NGC). In these roles, I help steer the development of the Group's governance and succession arrangements.

Succession

The Committee oversees succession for both executives and Independent Directors. In terms of executives, the Committee is responsible for the Executive Directors and for ensuring that appropriate arrangements are in place for senior positions below Board level.

Executive

During 2021, the Board reviewed and updated the succession plan and talent development framework that seeks to ensure that we have arrangements to manage executive succession. The medium-term plans have been discussed and developed taking into account views from a wide range of stakeholders within Hikma. These plans were presented to and discussed by the whole Board.

In terms of succession for Executive Directors, the Committee has considered the potential for medium-term change, taking into account the assessment of internal talent, and has the necessary relationships with executive recruitment specialists. As a result, the Committee considers it is well positioned.

Independent

During 2019 and 2020 we welcomed two new directors and in late 2020 we transitioned the Senior Independent Director role and chairs of the Audit Committee and NGC. These changes have allowed us to use 2021 to develop a new plan for the succession of Independent Directors over the medium term. Dr Pamela Kirby is standing down at the Annual General Meeting and I will reach nine years' service in 2023. Accordingly, we will be looking to find candidates to increase the level of independent representation on the Board during the course of 2022. During this process, the NGC will be mindful of the Board's commitment to have at least 33% Directors identifying as women. The NGC will also review the additional commitments of Directors in terms of Committee Chairs and other responsibilities with a view to ensuring a smooth transition of responsibilities. The Board considers it is important for those undertaking these additional responsibilities to have sufficient time to build experience of Hikma and relationships with relevant colleagues in advance.

In terms of succession for the chairing of Board Committees, I am pleased to report that Nina Henderson has kindly agreed to continue Pam's thoughtful leadership of the Remuneration Committee.

Balance

During the year, the NGC reviewed the composition of the Board. This review included consideration of the skills and attributes of each member, the balance between constructive challenge and empowerment of the executive, the results of the recent Board evaluation exercise and the current and desired level of diversity in the Boardroom (see page 69 and 81). I am pleased to report that the NGC confirms that the Board continues to operate effectively and that each member is valued for the experience and skills that they bring.

Skills and experience

The NGC continues to believe that a longer induction period is desirable for new Independent Directors to allow for building understanding of the business and, where succession for a Committee Chair is taking place, the transfer of knowledge and relationships associated with the particular committee. Additionally, the Board believes it is important for all Directors to have significant international experience at an executive level, a challenging yet consensual style, and the highest level of integrity. The Committee regularly considers whether there may be gaps in fulfilling the specific and in-depth experience that the Board requires as a whole, which focuses on the following areas:

- strategy, culture and leadership
- business environment in both the US and the MENA region
- pharmaceutical manufacturing and distribution
- development of new healthcare capabilities
- listing regulations, investor perceptions and governance

Hikma supports Directors in their continued professional development. As the Directors are highly experienced, their training needs tend to be related to either ensuring awareness of changes in the business, political and regulatory environments, or bespoke training on particular areas for development. Therefore, Hikma financially supports specific training requests and ensures that Directors are briefed by internal and external advisers on a regular basis.

During the year, the Board received briefings on matters such as the pharmaceutical competitive environment, the development of biosimilars, healthcare business development activity, crisis management, investor perceptions, business intelligence, capital markets and listing related developments.

Tenure

The Committee's policy on tenure is that the Independent Non-Executive Directors are normally expected to serve for a period of nine years or, if required to facilitate an orderly transfer of responsibilities, the next Annual General Meeting (AGM) of the Company following the ninth anniversary of their appointment. Their appointments are formally reviewed after three years and at six years a more rigorous review process is undertaken.

Other than Dr Pamela Kirby, each member of the Board will stand for election or re-election at the 2022 AGM. The position of each Director was closely reviewed during the year as part of the consideration of succession arrangements, independence issues, the bi-annual governance structure reviews, the Board and Committee evaluation processes and the ongoing dialogue between the Executive Chairman and the Senior Independent Director.

Time commitment

The NGC continues to review the external commitments of each Director with a view to ensuring that the benefits of the additional experience from their external commitments are not outweighed by reductions in the commitment to the Company. The Directors achieve excellent attendance and spend significant time delivering their responsibilities. Accordingly, the NGC considers that there is currently an appropriate balance. The Committee will continue to monitor the situation.

Diversity

The Board approved Hikma's diversity policy, which applies to the whole Group, including the Board. Hikma's objective is to continue to ensure that it has an inclusive workplace that welcomes different cultures, perspectives, and experiences from across the globe. Hikma is committed to employing and engaging talented people, irrespective of their race, colour, religion, age, sex, sexual orientation, marital status, national origin, present or past history of mental or physical disability and any other factors not related to a person's ability to perform the relevant role.

Hikma's inclusive workplace welcomes different cultures, perspectives, and experiences from across the globe

One of the three pillars of the Group's strategy is to 'inspire and enable our people'. The Group's policy and approach to diversity, succession and appointments are a core part of this pillar. The Board monitors the diversity metrics which are detailed on page 69 and uses these as a reference point when considering the level of achievement against its diversity objective (detailed above). Hikma has successful empowerment and talent development programmes to help all employees make the most of their potential, for more information please see pages 8 and 13. This diversity policy is included in our Code of Conduct and communicated to all employees. Further detail on employee diversity is provided on page 69.

The Group's talent acquisition policies for the three most senior staff grades require a balanced list of candidates that ensures diversity.

Ethnicity

The Board considers that it has demonstrated strong ethnic diversity since the formation of Hikma and has three Directors identifying as Minority Ethnic representing 30% of the Board, including the Executive Chairman. Accordingly, the Board has achieved and wholeheartedly supports and adopts the Parker recommendation to have at least one Director identifying as minority ethnic.

Gender

Since its founding, Hikma has actively promoted gender diversity across its operations. The NGC was pleased to be able to improve gender diversity in the Boardroom over the past few years. The Board has adopted the Hampton-Alexander target to achieve at least 33% of Board members identifying as women. The processes to enhance the level of independent representation on the Board during the course of 2022 will take into account the desire to achieve this target.

Governance review

As in previous years, the NGC undertook the annual review of the Group's governance arrangements in conjunction with the Company Secretary. This year the exercise included a thorough review of the structure of the Board, Board Governance Manual, and compliance with the UK Governance Code and supporting governance guidance.

Evaluation and performance

During 2021, we undertook a full, externally moderated interview and observations-based Board evaluation with Independent Audit Limited (IAL). IAL were appointed following a competitive tender process during 2020. Our previous provider of board evaluation services had worked with us for circa nine years and the Board considered it was an appropriate point to refresh our approach. IAL do not perform any other consultancy services for the Group.

As part of the refreshment of our approach to Board evaluation, we have adopted the 'Principles of Good Practice for listed companies using external Board reviewers' which were published by the Corporate Governance Institute in January 2021. We confirm that IAL

have adopted the 'Code of Practice for Board reviewers' and that we have agreed with IAL the description of the Board evaluation process detailed on this page and the disclosures which reflect opinions attributed to IAL. IAL started working with the Board in 2021 and have not provided any other services to Hikma prior to this. In discharging their duties, several Independent Directors have engaged with IAL as part of the evaluation work undertaken by other companies and organisations where they have a governance role.

Process

The most recent evaluation process was coordinated by the Senior Independent Director at the request of the Executive Chairman. IAL observed the conduct of one meeting of the Board and each Committee and conducted a private interview with each Director, the Company Secretary, and selected members of management. Based on the observations and feedback, IAL produced a report which they discussed with the Senior Independent Director and Company Secretary and, subsequently, with the Executive Chairman. As a result of these meetings, the Senior Independent Director and Company Secretary prepared a note for the Board which detailed a proposed response to the points raised. IAL provided their feedback on the response note. IAL's full report and the response note were subsequently reviewed by the full Board in a meeting with only Board members, IAL's representative, and the Company Secretary present. Further to that meeting, the responses to the points raised (see the table on this page) were refined and agreed at a subsequent Board meeting.

The results of the 2021 evaluation process formed part of the Executive Chairman's appraisal of the overall effectiveness of the Board and its members and the assessment of the Executive Chairman's performance by the other members of the Board. Additionally, during the period between assessments, the Directors suggest and promote improvements as they arise.

Results

Our response to the issues raised in the 2021 Board evaluation report are:

Observations	Action taken
Facilitating discussion IAL noted that there may be opportunities for more extensive Board discussion by making adjustments to the way in which information is shared and meetings are structured.	The Board adopted IAL's recommendation that there should be more opportunity for discussions without management present. Additionally, the Board restructured its meetings into three parts and requested that Executive Committee members attend the information sharing part of the new meeting structure (which is detailed on pages 75 and 76). This ensures that executives are aware of the key issues that may affect their Group-level responsibilities and the Board believes this makes for a fuller and more informed discussion and strengthens the relationship between Directors and management. The Board adopted IAL's recommendations that board time without management should be adjusted so that they chiefly take place at the beginning and the end of the meeting. The Board considered that the Chief Executive Officer's highly informative briefing did not require a written submission as to do so could reduce the free flowing and informative nature of the report and, nevertheless, any important matters were documented in the minutes.

Observations	Action taken
Positioning and summarising IAL observed some meeting items being positioned and summarised by the presenters	The Board reviewed the positioning of meeting business and concluded that the Executive Chairman should lead the first part of the meeting where the key discussions are held on matters related to governance, major strategic initiatives, and finance. The Board considers the Chairman's leadership in the first part of the meeting ensures that discussions are appropriately framed and directors have an opportunity to discuss aspects without management.
Presentation and purpose IAL observed that improvements could be made to the positioning of papers, defining their purpose and setting out the issues that the Board may choose to focus on in its discussions. Furthermore, this would give an opportunity to reduce the length of management presentations	The Board has adapted its agenda to make clear whether items require approval, input or are for information only. This has ensured that less meeting time is spent on matters that are for information only and the material is available in advance. The Board considers that management's highly informative and comprehensive papers and presentations significantly add to the processes for making decisions and developing ideas and, therefore, has not significantly altered the processes related to presenting and positioning matters for approval or input. All presentations include an appropriate opportunity for questioning.
Governance disclosure IAL observed that the governance disclosure in the Annual Report could more fully explain the conduct of Board meetings and the roles of relevant parties	The Board has reviewed its governance disclosure and enhanced the description of the roles of the Chairman, Chief Executive Officer, and Senior Independent Director and the explanation of the way in which meetings are conducted through the 'Applied Governance' section on pages 75 and 76.

During the year, I met separately with the Independent Directors, the Chairman and the Chief Executive Officer in order to undertake an assessment of the performance of the Board. We concluded that the Board continues to operate effectively and that a significant number of enhancements have been made over the recent period, particularly since the Chief Executive Officer joined in February 2018. The next Board evaluation exercise will be undertaken during 2022 and reported in the following Annual Report.

The evaluation process has helped us recognise strengths and make further enhancements

Conclusions and actions

In relation to the most recent assessment exercise, the Board has reviewed its approach and made modifications where it believes that additional value can be obtained and has enhanced the disclosure of its governance arrangements (see pages 75 and 76 for further details). Additionally, the Board considered that it continued to operate effectively with particular strengths in the following areas:

- the strategic leadership of the Executive Chairman
- the effective relationship between Executive Chairman and the Chief Executive Officer
- the commitment to doing the right things
- the energy and dedication of the executive management team and Board Directors
- our approaches to setting and monitoring risk appetite

Executive Chairman's appraisal

The Executive Chairman and I meet regularly to discuss matters including the performance of the Board and how his role helps deliver and enhance that performance. This builds on discussions that I hold with the Independent Directors which occur bi-annually and commentary received through the board evaluation process. The Executive Chairman's performance is also reviewed by the Remuneration Committee as part of the determination of performance-based compensation.

Director appraisal

The Executive Chairman, having taken into account the comments from the Board evaluation and discussions with the Senior Independent Director and Chief Executive Officer, reviewed the performance of each of the Directors during the year and concluded that each Director contributes effectively to the Board, brings particular areas of skill and experience that ensure the Board as a whole has the right capabilities, and devotes sufficient time to their role. The NGC has concluded that the relevant Directors be recommended to shareholders for re-election at the 2022 AGM.

For and on behalf of the Nomination and Governance Committee.



Patrick Butler
Chair, Nomination and Governance Committee
23 February 2022

Audit Committee Letter from the Chair



Douglas Hurt
Chair, Audit Committee

Dear Shareholders

I am pleased to report that the Committee has had another year of solid progress in its oversight of the matters delegated to it by the Board.

During the year, the Committee continued to play a key role in assisting the Board in its oversight of financial reporting, forecasting and auditing matters. The Committee's activities included reviewing and monitoring the integrity of the Group's financial information, the Group's systems of internal controls and risk management, and the internal and external audit process.

Ensuring resilience and clear reporting

Pandemic impacts

The COVID-19 pandemic continued to create challenging conditions in 2021, which required a high level of adaptability and resilience from our financial reporting and external audit teams. The Committee is pleased to report that all the relevant processes under its oversight have continued to operate in an effective manner during the pandemic. We recognise that we owe a lot to the commitment of our colleagues and their strong relationships with internal and external auditors and advisers.

In terms of the impacts of the pandemic on our financial performance, we have continued to experience changes to the mix of products required by hospitals and patients. The Group has performed well throughout the pandemic and at the end of the financial year had undrawn committed financing facilities in excess of \$1,000 million. The viability statement and going concern assumptions have been critically reviewed and the Group is in a strong financial position.

Verification

During the year, management reviewed the mechanisms to enhance the assurance process related to the qualitative disclosures in the Annual Report (beyond the audit, adviser review and internal review processes). As a result, the qualitative disclosures have been reviewed by our internal teams who are responsible for each section of the Annual Report and who have provided additional verification and support material in respect of each material statement of fact. This enhancement assisted the Committee in its determination that the report and accounts taken as a whole are fair, balanced and understandable.

Distributable reserves

The Committee is aware that the FRC is encouraging organisations to provide greater clarity on their distributable reserves position. During the year, management re-assessed the Group's distributable reserves in line with FRC guidance. The Committee has reviewed and approved the distributable reserves disclosure in the financial statements (see page 181 for further details).

The Committee has also reviewed a proposal by management to convert the Group's merger reserve (which was created when the business listed in 2005 and as a result of the acquisition of the Columbus facility in 2016) into further distributable reserves. This merger reserve reduction process has been undertaken by several other listed companies. It is an ordinary course legal procedure undertaken with guidance from our legal advisers and subject to shareholder approval at the Annual General Meeting and the approval of the Court. It should result in the Company's distributable reserves increasing significantly in excess of the current dividend requirements, thereby creating greater flexibility for the future. Shareholders will find further details of the merger reserve reduction in the AGM notice on pages 6 to 7.

Internal audit

The internal audit of Hikma is performed by Ernst & Young (EY), who report directly to the Chair of the Committee. There is a regular programme of interaction between EY and the Committee.

EY assess each facility and the Group's major processes over a three-year period. For major sites, assessments are more frequent. Management is required to respond to findings within a short time period, complete all process improvements within two years and ensure at least 80% of high-risk findings are resolved within six months. The Committee has received reports on the findings of the programme and is pleased to report that management has responded appropriately to any new findings and has made good progress in delivering its plans for enhancements that have previously been identified.

During the year, the Committee monitored progress with the internal audit programme for 2021 and reviewed and approved the plan for 2022. EY and management work closely together to deliver the internal audit plan, develop action plans for points raised, and ensure that the Committee receives appropriate and timely information. The Committee is pleased with the progress and commitment of management and the internal auditors.

During the year, the Committee continued to monitor the performance and independence of the internal auditors in accordance with the policies that have been established. The Committee concluded that EY continue to perform an effective internal audit programme and remain independent. The Committee considers that EY bring significant pharmaceutical and MENA market experience which is complemented by the experience of other third-party experts where required.

External audit

The external audit was undertaken by PricewaterhouseCoopers LLP (PwC) and has been since their appointment in May 2016. PwC were appointed following a competitive tender process. Mr Darryl Phillips was appointed as a key audit partner in 2017 before subsequently becoming the senior statutory auditor in May 2019. Mr Phillips has served the maximum time allowed on the audit of Hikma and will hand over his responsibilities to Mr Nigel Comello. Mr Comello is a partner in the audit practice of PwC who was selected following internal assessments by PwC. Following a briefing by PwC regarding the selection process, the Committee reviewed and approved the appointment. The Committee welcomes Mr Comello to the role and thanks Mr Phillips for his dedicated service.