Chairman and Chief Executive's statement

'Whilst 2017 was a challenging year for the Group as we faced significant headwinds in our US Generics business, we delivered a solid performance in our Branded and Injectable businesses and our balance sheet remains strong. I am confident in the prospects for the Group both in the short term and the long term.'

40 years of better health

2018 marks our 40th anniversary and gives us an important opportunity to reflect not only on our past successes and the millions of lives upon which we've had a positive impact, but also to ready ourselves for the future. We need to remain competitive in today's fast-changing environment, and the next four decades will no doubt require different things of us and our business – new ways of working, of innovating and of enabling more and more people to live healthy, productive lives. In this letter, I outline some of our recent challenges, but also our progress and some of the steps we are taking to achieve our ambitious goals.

A challenging year

2017 was a challenging year. With more than 62% of our revenues now generated in the US, we are increasingly impacted by the changing dynamics of the US market. The consolidation of our customers and the increase in the pace of ANDA approvals by the FDA have led to more significant price erosion and more intense competition than the industry has seen in recent years and than we anticipated. This had a material impact on our results in 2017 and, in particular, on our West-Ward Columbus business, which was further impacted by the delay in approval of our ANDA for our generic version of Advair Diskus®.

As a result of these many headwinds, we have had to re-evaluate the potential of the West-Ward Columbus product portfolio and R&D pipeline, which we now believe will deliver less than we anticipated at the time of the acquisition in February 2016. As a result, we are taking an impairment charge of $1,084 million to reflect our updated view of the fair value of this business.

Across our other businesses, we delivered a solid performance. Our Injectables business was resilient, maintaining exceptionally strong margins despite new competitors for our top products and benefiting from our strong market position in the US hospital segment. Revenue and profitability in our Branded business remained stable and we reinforced our position as the partner of choice in the MENA region, signing new licensing agreements.

Overall, the Group delivered revenue of $1.9 billion and core operating profit of $386 million, down from $419 million last year. We generated record cash flow from operations of $443 million, lowering our net debt and strengthening our balance sheet, which remains one of the strongest in the industry.

Transforming our business

To ensure we can continue to overcome obstacles and deliver growth, we are making some transformational changes across our organisation. We have strengthened our leadership team in the US, bringing in new heads of research and development, sales and marketing, business development and a new plant manager. We have a newly-appointed Chief Scientific Officer and we have started the rollout of our new brand.

As part of this transformation, we recently announced the appointment of Siggi Olafsson as Chief Executive Officer. Siggi is an exceptional leader with extensive experience in the industry. He is the right person to take the business to the next level.

Progress and recognition

Despite the challenges we faced in 2017, it was also a year of progress and recognition. In the MENA region, we continue to be the partner of choice for leading biotech and pharmaceutical companies looking to expand into the region. In 2017, we expanded our long-standing relationship with Takeda, and likewise broadened our partnership with Celltrion, the Korean biopharmaceutical company, to distribute select products in the region. Our venture capital arm, Hikma Ventures, took us into exciting new businesses in the areas of artificial intelligence, biosensor technology and online healthcare.

The Institute of Directors in London ranked Hikma first among the FTSE100 pharmaceutical companies for corporate governance (17th overall in the FTSE100). We were also awarded 'Company of the Year' by the trade publication Generics Bulletin, and are proud to remain a constituent of the FTSE4Good. Investing in our communities and improving access to medicine has been a long-established principle of this company since its founding day, and we continue to support the many communities in which we live and work with donations, fundraising and volunteering.

Enabling collaboration

People have always been at the heart of our business – the people we employ and the people whose lives we improve through the medicines we make. In addition to bolstering our leadership, we put in place a new human capital management system and new global intranet to help colleagues work faster, more collaboratively and have access to better information. Our successful pilot of the Hikma Young Professionals programme in Jordan, a two-year rotational programme developed for high-potential and high-performing recent graduates, was expanded across our global network. It aims to attract talented individuals and instill in them Hikma leadership values through a series of rotations in finance, operations and commercial roles.

"Bringing together all we've learned in the past 40 years, and with our new talent, technologies and expertise, we will continue to deliver on our purpose of providing quality affordable medicines to people who need them."

Last year, we said goodbye to Mike Raya who led and grew our US business for more than 20 years. In his career at Hikma, Mike showed great leadership and commitment in the many different roles he held, across operations, quality and ultimately as CEO of the US business. While Mike will be missed, he leaves a strong team behind in the US, bolstered by several new leaders who I know will help carry on Mike's legacy.

Value for shareholders

We have a strong track record of delivering value for shareholders. Since Hikma listed on the London Stock Exchange in 2005, we have delivered a total shareholder return of 361%. This exceeds the FTSE250 and FTSE Pharmaceuticals indices. In 2017, however, the challenges we faced in the US had a material impact on our share price, which closed the year at 1,134p, down from 1,893p on 31 December 2016. I am confident that the transformational changes we are making across the Group will enable us to deliver positive returns to shareholders in the near term.

Looking ahead

As we look ahead to 2018, I expect we will continue to be impacted by the challenges facing our industry. I am confident that our new leadership and our strategy built on five growth pillars will enable us to meet these challenges head on. In 2018, we are also implementing a single enterprise brand strategy that will bring the entire family of Hikma companies under a revitalised and more relevant Hikma brand. We expect this investment in a new brand to be a catalyst for change within our organisation, helping to drive efficiencies and improving engagement with customers and employees. You can read more about our new brand in this report and on our website, hikma.com.

I will end where I started, which is to emphasise my optimism and confidence of the future of this business, particularly with the introduction of our new CEO, Siggi Olafsson, earlier this year.

Thank you to my colleagues across the Hikma family for your hard work, loyalty and integrity.

Said Darwazah
Chairman