We aim to deliver significantly above average industry growth levels.

Take for example FIRAZYR, our leading acute treatment for the rare genetic disease Hereditary Angiodema (HAE). With only around half of sufferers in the US currently treated, FIRAZYR has great potential for future growth.

+102%
FIRAZYR growth year-on-year

growth

FIRAZYR
A leader with great growth potential

Patients

- Estimated 7,000-8,000 US HAE sufferers*
- Only around half of sufferers currently treated*

Product

- Portable, on-demand, subcutaneous self-administered presentation
- Average patient on FIRAZYR is treating 12-18 acute attacks per year*

Progress

- FIRAZYR has the leading market share in US of HAE attacks treated acutely*
- Over 1,600 patients in US have received FIRAZYR commercial therapy to date

Potential

- Potential for significant growth in the future with only 50% of the market treated

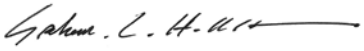
*Based on Shire's market research

Consolidated balance sheets
(In millions of US dollars, except share data)

	Notes	December 31, 2013 $'M	December 31, 2012 $'M
Assets			
Current assets:			
Cash and cash equivalents		**2,239.4**	(1,482.2)
Restricted cash		**22.2**	(17.1)
Accounts receivable, net	7	**961.2**	824.2
Inventories	8	**455.3**	436.9
Assets held for sale	9	**31.6**	–
Deferred tax asset	27	**315.6**	229.9
Prepaid expenses and other current assets	10	**263.0**	221.8
Total current assets		**4,288.3**	3,212.1
Non-current assets:			
Investments		**31.8**	38.7
Property, plant and equipment, net	11	**891.8**	955.8
Goodwill	12	**624.6**	644.5
Other intangible assets, net	13	**2,312.6**	2,388.1
Deferred tax asset	27	**141.1**	46.5
Other non-current assets		**32.8**	31.5
Total assets		**8,323.0**	7,317.2
Liabilities and equity			
Current liabilities:			
Accounts payable and accrued expenses	14	**1,688.4**	1,501.5
Other current liabilities	15	**119.5**	144.1
Total current liabilities		**1,807.9**	1,645.6
Non-current liabilities:			
Convertible bonds	16	**–**	1,100.0
Deferred tax liability	27	**560.6**	520.8
Other non-current liabilities	18	**588.5**	241.6
Total liabilities		**2,957.0**	3,508.0
Commitments and contingencies	19		
Equity:			
Common stock of 5p par value; 1,000 million shares authorized; and 597.5 million shares issued and outstanding (2012: 1,000 million shares authorized; and 562.5 million shares issued and outstanding)	23	**58.6**	55.7
Additional paid-in capital		**4,186.3**	2,981.5
Treasury stock: 13.4 million shares (2012: 10.7 million shares)	23	**(450.6)**	(310.4)
Accumulated other comprehensive income	20	**110.2**	86.9
Retained earnings		**1,461.5**	995.5
Total equity		**5,366.0**	3,809.2
Total liabilities and equity		**8,323.0**	7,317.2

The accompanying notes are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on February 24, 2014 and signed on its behalf by:



Graham Hetherington
Chief Financial Officer
February 24, 2014

Consolidated statements of income
(In millions of US dollars, except share and per share data)

	Notes	2013 $'M	2012 $'M
Revenues:			
Product sales		**4,757.5**	4,252.9
Royalties		**153.7**	241.6
Other revenues		**23.1**	32.9
Total revenues		**4,934.3**	4,527.4
Costs and expenses:			
Cost of product sales		**670.8**	585.8
Research and development[1]		**933.4**	953.0
Selling, general and administrative[1]		**1,651.3**	1,948.0
Goodwill impairment charge	12	**7.1**	–
Gain on sale of product rights	5	**(15.9)**	(18.1)
Reorganization costs	6	**88.2**	–
Integration and acquisition costs	4	**(134.1)**	13.5
Total operating expenses		**3,200.8**	3,482.2
Operating income from continuing operations		**1,733.5**	1,045.2
Interest income		**2.1**	3.0
Interest expense		**(38.1)**	(38.2)
Other expense, net		**(3.9)**	(2.2)
Total other expense, net		**(39.9)**	(37.4)
Income from continuing operations before income taxes and equity in earnings of equity method investees		**1,693.6**	1,007.8
Income taxes	27	**(277.9)**	(203.1)
Equity in earnings of equity method investees, net of taxes		**3.9**	1.0
Income from continuing operations, net of taxes		**1,419.6**	805.7
Loss from discontinued operations, net of taxes	9	**(754.5)**	(60.3)
Net income		**665.1**	745.4
Earnings per Ordinary Share – basic			
Earnings from continuing operations		**257.2c**	145.1c
Loss from discontinued operations		**(136.7c)**	(10.9c)
Earnings per Ordinary Share – basic		**120.5c**	134.2c
Earnings per Ordinary Share – diluted			
Earnings from continuing operations		**245.3c**	141.0c
Loss from discontinued operations		**(127.8c)**	(10.1c)
Earnings per Ordinary Share – diluted		**117.5c**	130.9c
Weighted average number of shares (millions):			
Basic	24	**552.0**	555.4
Diluted	24	**590.3**	593.5

[1] Research and development ("R&D") includes intangible asset impairment charges of $19.9 million (2012: $71.2 million) for the year to December 31, 2013. Selling, general and administrative ("SG&A") costs include amortization and impairment charges of intangible assets relating to intellectual property rights acquired of $152.0 million for the year to December 31, 2013 (2012: $280.3 million).

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of comprehensive income
(In millions of US dollars)

	2013 $'M	2012 $'M
Net income	**665.1**	745.4
Other comprehensive income:		
Foreign currency translation adjustments	**25.3**	23.7
Unrealized holding gain/(loss) on available-for-sale securities (net of taxes of $0.1 million and $2.5 million)	**(2.0)**	2.9
Comprehensive income	**688.4**	772.0

The components of accumulated other comprehensive income as at December 31, 2013 and December 31, 2012 are as follows:

	December 31, 2013 $'M	December 31, 2012 $'M
Foreign currency translation adjustments	**110.4**	85.1
Unrealized holding gain on available-for-sale securities, net of taxes	**(0.2)**	1.8
Accumulated other comprehensive income	**110.2**	86.9

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of changes in equity
(In millions of US dollars, except share data)

	Shire plc shareholders' equity						
	Common stock number of shares M's	Common stock $'M	Additional paid-in capital $'M	Treasury stock $'M	Accumulated other comprehensive income $'M	Retained earnings $'M	Total equity $'M
As at January 1, 2013	**562.5**	**55.7**	**2,981.5**	**(310.4)**	**86.9**	**995.5**	**3,809.2**
Net income	**–**	**–**	**–**	**–**	**–**	**665.1**	**665.1**
Other comprehensive income, net of tax	**–**	**–**	**–**	**–**	**23.3**	**–**	**23.3**
Options exercised	**1.2**	**0.1**	**16.1**	**–**	**–**	**–**	**16.2**
Convertible Bonds conversion to Ordinary Shares	**33.8**	**2.8**	**1,098.7**	**–**	**–**	**–**	**1,101.5**
Share-based compensation	**–**	**–**	**78.1**	**–**	**–**	**–**	**78.1**
Tax benefit associated with exercise of stock options	**–**	**–**	**11.9**	**–**	**–**	**–**	**11.9**
Shares purchased by employee benefit trust ("EBT")	**–**	**–**	**–**	**(50.0)**	**–**	**–**	**(50.0)**
Shares purchased under share buy-back program	**–**	**–**	**–**	**(193.8)**	**–**	**–**	**(193.8)**
Shares released by EBT to satisfy exercise of stock options	**–**	**–**	**–**	**103.6**	**–**	**(102.7)**	**0.9**
Dividends	**–**	**–**	**–**	**–**	**–**	**(96.4)**	**(96.4)**
As at December 31, 2013	**597.5**	**58.6**	**4,186.3**	**(450.6)**	**110.2**	**1,461.5**	**5,366.0**

The accompanying notes are an integral part of these consolidated financial statements.

Dividends per share
During the year to December 31, 2013 Shire plc declared and paid dividends of 17.60 US cents per Ordinary Share (equivalent to 52.80 US cents per ADS) totaling $96.4 million.

	Shire plc shareholders' equity						
	Common stock number of shares M's	Common stock $'M	Additional paid-in capital $'M	Treasury stock $'M	Accumulated other comprehensive income $'M	Retained earnings $'M	Total equity $'M
As at January 1, 2012	562.5	55.7	2,853.3	(287.2)	60.3	502.9	3,185.0
Net income	–	–	–	–	–	745.4	745.4
Other comprehensive income, net of tax	–	–	–	–	26.6	–	26.6
Options exercised	–	–	0.1	–	–	–	0.1
Share-based compensation	–	–	88.0	–	–	–	88.0
Tax benefit associated with exercise of stock options	–	–	40.1	–	–	–	40.1
Shares purchased by EBT	–	–	–	(99.3)	–	–	(99.3)
Shares purchased under Share buy-back program	–	–	–	(106.5)	–	–	(106.5)
Shares released by EBT to satisfy exercise of stock options	–	–	–	182.6	–	(166.5)	16.1
Dividends	–	–	–	–	–	(86.3)	(86.3)
As at December 31, 2012	562.5	55.7	2,981.5	(310.4)	86.9	995.5	3,809.2

The accompanying notes are an integral part of these consolidated financial statements.

Dividends per share
During the year to December 31, 2012, Shire plc declared and paid dividends of 15.32 US cents per Ordinary Share (equivalent to 45.96 US cents per ADS) totaling $86.3 million.

Consolidated statements of cash flows
(In millions of US dollars)

	2013 $'M	2012 $'M
Cash flows from operating activities:		
Net income	**665.1**	745.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**324.4**	308.6
Share based compensation	**77.4**	87.1
Change in fair value of contingent consideration	**(159.1)**	9.2
Impairment of intangible assets	**19.9**	197.9
Goodwill impairment charge	**198.9**	–
Impairment of assets held for sale	**636.9**	–
Write down of assets	**58.2**	0.9
Gain on sale of non-current investments	**–**	–
Gain on sale of product rights	**(15.9)**	(18.1)
Other, net	**8.3**	7.4
Movement in deferred taxes	**(349.9)**	(58.3)
Equity in earnings of equity method investees	**(3.9)**	(1.0)
Changes in operating assets and liabilities:		
(Increase)/decrease in accounts receivable	**(148.3)**	22.2
Increase in sales deduction accruals	**177.5**	42.7
Increase in inventory	**(36.6)**	(88.2)
Increase in prepayments and other assets	**(60.9)**	(14.5)
Increase in accounts payable and other liabilities	**67.9**	136.7
Returns on investment from joint venture	**3.1**	4.9
Net cash provided by operating activities [A]	**1,463.0**	1,382.9
Cash flows from investing activities:		
Movements in restricted cash	**(5.3)**	3.5
Purchases of subsidiary undertakings and businesses, net of cash acquired	**(227.8)**	(97.0)
Purchases of non–current investments	**(10.6)**	(18.0)
Purchases of property, plant and equipment ("PP&E")	**(157.0)**	(149.6)
Purchases of intangible assets	**–**	(43.5)
Proceeds from disposal of non-current investments and PP&E	**12.1**	7.2
Proceeds received on sale of product rights	**19.2**	17.8
Return on investments	**5.4**	–
Other, net	**3.1**	8.6
Net cash used in investing activities [B]	**(360.9)**	(271.0)

	2013 $'M	2012 $'M
Cash flows from financing activities:		
Payments to acquire shares under share buy-back program	**(193.8)**	(106.5)
Payment of dividend	**(96.4)**	(86.3)
Payments to acquire shares by the EBT	**(50.0)**	(99.3)
Proceeds from exercise of options	**17.2**	16.2
Repayment of debt acquired through business combinations	**(6.0)**	–
Facility arrangement fee	**(13.9)**	–
Excess tax benefit associated with exercise of stock options	**13.4**	40.7
Contingent consideration payments	**(14.1)**	(5.8)
Other, net	**(1.0)**	(3.3)
Net cash used in financing activities[C]	**(344.6)**	(244.3)
Effect of foreign exchange rate changes on cash and cash equivalents [D]	**(0.3)**	(5.4)
Net increase in cash and cash equivalents [A+B+C+D]	**757.2**	862.2
Cash and cash equivalents at beginning of period	**1,482.2**	620.0
Cash and cash equivalents at end of period	**2,239.4**	1,482.2

Supplemental information associated with continuing operations

	2013 $'M	2012 $'M
Interest paid	**(29.9)**	(34.6)
Income taxes paid	**(290.2)**	(199.2)

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of operations

Shire plc and its subsidiaries (collectively referred to as either "Shire", or the "Company") is a leading specialty biopharmaceutical company that focuses on developing and marketing innovative specialty medicines that address significant unmet patient needs.

The Company has grown through acquisition, completing a series of major transactions that have brought therapeutic, geographic and pipeline growth and diversification. The Company will continue to evaluate companies, products and pipeline opportunities that offer a good strategic fit and have the potential to deliver demonstrable value to all of the Company's stakeholders: patients, physicians, policy makers, payors, investors and employees.

2. Summary of significant accounting policies

(a) Basis of preparation

The accompanying consolidated financial statements include the accounts of Shire plc, all of its subsidiary undertakings and the Income Access Share trust, after elimination of intercompany accounts and transactions. They have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and US Securities and Exchange Commission ("SEC") regulations for annual reporting.

(b) Use of estimates in consolidated financial statements

The preparation of consolidated financial statements, in conformity with US GAAP and SEC regulations, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are primarily made in relation to the valuation of intangible assets, sales deductions, income taxes (including provisions for uncertain tax positions and the realization of deferred tax assets), provisions for litigation and legal proceedings, contingent consideration receivable from product divestments, contingent consideration payable in respect of business combinations and asset purchases and assets held for sale. If actual results differ from the Company's estimates, or to the extent these estimates are adjusted in future periods, the Company's results of operations could either benefit from, or be adversely affected by, any such change in estimate.

(c) Revenue recognition

The Company recognizes revenue when all of the following conditions are met:

- there is persuasive evidence of an agreement or arrangement;
- delivery of products has occurred or services have been rendered;
- the seller's price to the buyer is fixed or determinable; and
- collectability is reasonably assured.

Where applicable, all revenues are stated net of value added and similar taxes, and trade discounts. No revenue is recognized for consideration, the value or receipt of which is dependent on future events or future performance.

The Company's principal revenue streams and their respective accounting treatments are discussed below:

Product sales

Revenue for the sale of products is recognized when delivery has occurred and substantially all the risks and rewards of ownership have been transferred to the customer. Provisions for rebates, product returns and discounts to customers are provided for as reductions to revenue in the same period as the related sales are recorded. The provisions made at the time of revenue recognition are based on historical experience and updated for changes in facts and circumstances including the impact of new legislation. The provisions are recognized as a reduction to revenues.

Royalty income

Royalty income relating to licensed technology is recognized when the licensee sells the underlying product, with the amount of royalty income recorded based on sales information received from the relevant licensee. The Company estimates sales amounts and related royalty income based on the historical product information for any period that the sales information is not available from the relevant licensee.

Licensing revenues

Other revenue includes revenues derived from product out-licensing arrangements, which typically consist of an initial upfront payment on inception of the license and subsequent milestone payments contingent on the achievement of certain clinical and sales milestones. Product out-licensing arrangements often require the Company to provide multiple deliverables to the licensee.

Initial license fees received in connection with product out-licensing agreements entered into prior to January 1, 2011 are deferred and recognized over the period in which the Company has continuing substantive performance obligations, typically the period over which the Company participates in the development of the out-licensed product, even where such fees are non-refundable and not creditable against future royalty payments.

For product out-licensing arrangements entered into, or subject to material modification, after January 1, 2011, consideration received is allocated between each of the separable elements in the arrangement using the relative selling price method. An element is considered separable if it has value to the customer on a stand-alone basis. The selling price used for each separable element will be based on vendor specific objective evidence ("VSOE") if available, third party evidence if VSOE is not available, or estimated selling price if neither VSOE nor third party evidence is available. Revenue is then recognized as each of the separable elements to which the revenue has been allocated is delivered.

Milestone payments which are non-refundable, non creditable and contingent on achieving certain clinical milestones are recognized as revenues either on achievement of such milestones if the milestones are considered substantive or over the period the Company has continuing substantive performance obligations, if the milestones are not considered substantive. If milestone payments are creditable against future royalty payments, the milestones are deferred and released over the period in which the royalties are anticipated to be paid.

2. Summary of significant accounting policies continued

(d) Sales deductions

(i) Rebates

Rebates primarily consist of statutory rebates to state Medicaid agencies and contractual rebates with health-maintenance organizations. These rebates are based on price differentials between a base price and the selling price. As a result, rebates generally increase as a percentage of the selling price over the life of the product (as prices increase). Provisions for rebates are recorded as reductions to revenue in the same period as the related sales are recorded, with the amount of the rebate based on the Company's best estimate if any uncertainty exists over the unit rebate amount, and with estimates of future utilization derived from historical trends.

(ii) Returns

The Company estimates the proportion of recorded revenue that will result in a return, based on historical trends and when applicable, specific factors affecting certain products at the balance sheet date. The accrual is recorded as a reduction to revenue in the same period as the related sales are recorded.

(iii) Coupons

The Company uses coupons as a form of sales incentive. An accrual is established based on the Company's expectation of the level of coupon redemption, estimated using historical trends. The accrual is recorded as a reduction to revenue in the same period as the related sales are recorded or the date the coupon is offered, if later than the date the related sales are recorded.

(iv) Discounts

The Company offers cash discounts to customers for the early payment of receivables which are recorded as reductions to revenue and accounts receivable in the same period as the related sale is recorded.

(v) Wholesaler chargebacks

The Company has contractual agreements whereby it supplies certain products to third parties at predetermined prices. Wholesalers acting as intermediaries in these transactions are reimbursed by the Company if the predetermined prices are less than the prices paid by the wholesaler to the Company. Accruals for wholesaler chargebacks, which are based on historical trends, are recorded as reductions to revenue in the same period as the related sales are recorded.

(e) Collaborative arrangements

The Company enters into collaborative arrangements to develop and commercialize drug candidates. These collaborative arrangements often require up-front, milestone, royalty or profit share payments, or a combination of these, with payments often contingent upon the success of the related development and commercialization efforts. Collaboration agreements entered into by the Company may also include expense reimbursements or other such payments to the collaborating partner.

The Company reports costs incurred and revenue generated from transactions with third parties as well as payments between parties to collaborative arrangements either on a gross or net basis, depending on the characteristics of the collaborative relationship.

(f) Cost of product sales

Cost of product sales includes the cost of purchasing finished product for sale, the cost of raw materials and manufacturing for those products that are manufactured by the Company, shipping and handling costs, depreciation and amortization of intangible assets in respect of favorable manufacturing contracts. Royalties payable on products to which the Company does not own the rights are also included in Cost of product sales.

(g) Leased assets

The costs of operating leases are charged to operations on a straight-line basis over the lease term, even if rental payments are not made on such a basis.

Assets acquired under capital leases are included in the consolidated balance sheet as property, plant and equipment and are depreciated over the shorter of the period of the lease or their useful lives. The capital element of future lease payments is recorded as a liability, while the interest element is charged to operations over the period of the lease to produce a level yield on the balance of the capital lease obligation.

(h) Advertising expense

The Company expenses the cost of advertising as incurred. Advertising costs amounted to $60.9 million and $85.8 million for the years to December 31, 2013 and 2012 respectively and were included within Selling, general and administrative ("SG&A") expenses.

(i) R&D expense

R&D costs are expensed as incurred. Upfront and milestone payments made to third parties for in-licensed products that have not yet received marketing approval and for which no alternative future use has been identified are also expensed as incurred.

Milestone payments made to third parties on and subsequent to regulatory approval are capitalized as intangible assets, and amortized over the remaining useful life of the related product.

(j) Valuation and impairment of long-lived assets other than goodwill, indefinite lived intangible assets and investments

The Company evaluates the carrying value of long-lived assets other than goodwill, indefinite lived intangible assets and investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of the relevant assets may not be recoverable. When such a determination is made, management's estimate of undiscounted cash flows to be generated by the use and ultimate disposition of these assets is compared to the carrying value of the assets to determine whether the carrying value is recoverable. If the carrying value is deemed not to be recoverable, the amount of the impairment recognized in the consolidated financial statements is determined by estimating the fair value of the relevant assets and recording an impairment loss for the amount by which the carrying value exceeds the estimated fair value. This fair value is usually determined based on estimated discounted cash flows.

(k) Finance costs of debt

Finance costs relating to debt issued are recorded as a deferred charge and amortized to the consolidated statements of income over the period to the earliest redemption date of the debt, using the effective interest rate method. On extinguishment of the related debt, any unamortized deferred financing costs are written off and charged to interest expense in the consolidated statements of income.

2. Summary of significant accounting policies continued

(l) Foreign currency

Monetary assets and liabilities in foreign currencies are translated into the functional currency of the relevant subsidiary in which they arise at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into the relevant functional currency at the rate of exchange ruling at the date of the transaction. Transaction gains and losses, other than those related to current and deferred tax assets and liabilities, are recognized in arriving at income from operations before income taxes and equity in earnings of equity method investees. Transaction gains and losses arising on foreign currency denominated current and deferred tax assets and liabilities are included within income taxes in the consolidated statements of income.

The results of operations for subsidiaries, whose functional currency is not the US dollar, are translated into the US dollar at the average rates of exchange during the period, with the subsidiaries' balance sheets translated at the rates ruling at the balance sheet date. The cumulative effect of exchange rate movements is included in a separate component of Other comprehensive income.

Foreign currency exchange transaction losses included in consolidated statements of income in the years to December 31, 2013 and 2012 amounted to $8.7 million and $3.5 million respectively.

(m) Income taxes

Uncertain tax positions are recognized in the consolidated financial statements for positions which are considered more likely than not of being sustained, based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the consolidated financial statements is based upon the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes. The Company recognizes interest relating to unrecognized tax benefits and penalties within income taxes.

Deferred tax assets and liabilities are recognized for differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

(n) Earnings per share

Basic earnings per share is based upon net income attributable to Shire plc divided by the weighted average number of Ordinary Shares outstanding during the period. Diluted earnings per share is based upon net income attributable to Shire plc adjusted for the impact of interest expense on convertible debt on an "if-converted" basis (when the effect is dilutive and prior to the actual conversion or redemption of debt) divided by the weighted average number of Ordinary Share equivalents outstanding during the period, adjusted for the dilutive effect of all potential Ordinary Shares equivalents that were outstanding during the year. Such potentially dilutive shares are excluded when the effect would be to increase diluted earnings per share or reduce the diluted loss per share.

(o) Share-based compensation

Share-based compensation represents the cost of share-based awards granted to employees. The Company measures share-based compensation cost for awards classified as equity at the grant date, based on the estimated fair value of the award. Predominantly all of the Company's awards have service and/or performance conditions and the fair values of these awards are estimated using a Black-Scholes valuation model.

For share-based compensation awards which cliff vest, the Company recognizes the cost of the relevant share based payment award as an expense on a straight-line basis (net of estimated forfeitures) over the employee's requisite service period. For those share-based compensation awards with a graded vesting schedule, the Company recognizes the cost of the relevant share based payment award as an expense on a straight-line basis (net of estimated forfeitures) over the requisite service period for the entire award (that is, over the requisite service period for the last separately vesting portion of the award). The share based compensation expense is recorded in Cost of product sales, R&D, and SG&A in the consolidated statements of income based on the employees' respective functions.

The Company records deferred tax assets for awards that result in deductions on the Company's income tax returns, based on the amount of compensation cost recognized and the Company's statutory tax rate in the jurisdiction in which it will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the Company's income tax return are recorded in additional paid-in capital (if the tax deduction exceeds the deferred tax asset) or in the consolidated statements of income (if the deferred tax asset exceeds the tax deduction and no additional paid-in capital exists from previous awards).

The Company's share-based compensation plans are described more fully in Note 28.

(p) Cash and cash equivalents

Cash and cash equivalents are defined as short term highly liquid investments with original maturities of ninety days or less.

(q) Financial instruments – derivatives

The Company uses derivative financial instruments to manage its exposure to foreign exchange risk associated with intercompany financing. These instruments consist of swap and forward foreign exchange contracts. The Company does not apply hedge accounting for these instruments. The fair values of these instruments are included on the balance sheet in current assets/liabilities, with changes in the fair value recognized in the consolidated statements of income. The cash flows relating to these instruments are presented within net cash provided by operating activities in the consolidated statement of cash flows, unless the derivative instruments are economically hedging specific investing or financing activities.

2. Summary of significant accounting policies continued

(r) Inventories

Inventories are stated at the lower of cost or market. Cost incurred in bringing each product to its present location and condition is based on purchase costs calculated on a first-in, first-out basis, including transportation costs.

Inventories include costs relating to both marketed products and, for certain products, cost incurred prior to regulatory approval. Inventories are capitalized prior to regulatory approval if the Company considers that it is probable that the US Food and Drug Administration ("FDA") or another regulatory body will grant commercial and manufacturing approval for the relevant product, and it is probable that the value of capitalized inventories will be recovered through commercial sale.

Inventories are written down for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those anticipated, inventory adjustments may be required.

(s) Assets held-for-sale

An asset or asset disposal group is classified as held-for-sale when, amongst other things, the Company has committed to a plan of disposition, the asset or asset disposal group is available for immediate sale, and the plan is not expected to change significantly. Assets held-for-sale are carried at the lower of their carrying amount or fair value less cost to sell.

The Company does not record depreciation or amortization on assets classified as held-for-sale.

(t) Investments

The Company has certain investments in pharmaceutical and biotechnology companies.

Investments are accounted for using the equity method of accounting if the investment gives the Company the ability to exercise significant influence, but not control over, the investee. Significant influence is generally deemed to exist if the Company has an ownership interest in the voting stock of the investee between 20% and 50%, although other factors such as representation on the investee's Board of Directors and the nature of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the Company records its investments in equity-method investees in the consolidated balance sheet under Investments and its share of the investees' earnings or losses together with other-than-temporary impairments in value under equity in earnings of equity method investees in the consolidated statements of income.

All other equity investments, which consist of investments for which the Company does not have the ability to exercise significant influence, are accounted for under the cost method or at fair value. Investments in private companies are carried at cost, less provisions for other-than-temporary impairment in value. For public companies that have readily determinable fair values, the Company classifies its equity investments as available-for-sale and, accordingly, records these investments at their fair values with unrealized holding gains and losses included in the consolidated statement of comprehensive income, net of any related tax effect. Realized gains and losses, and declines in value of available-for-sale securities judged to be other-than-temporary, are included in other income, net. The cost of securities sold is based on the specific identification method. Interest on securities classified as available-for-sale are included as interest income.

(u) Property, plant and equipment

Property, plant and equipment is shown at cost reduced for impairment losses, net of accumulated depreciation. The cost of significant assets includes capitalized interest incurred during the construction period. Depreciation is recorded on a straight-line basis at rates calculated to write off the cost less estimated residual value of each asset over its estimated useful life as follows:

Buildings	15 to 50 years
Office furniture, fittings and equipment	3 to 10 years
Warehouse, laboratory and manufacturing equipment	3 to 15 years

The cost of land is not depreciated. Assets under the course of construction are not depreciated until the relevant assets are available and ready for their intended use.

Expenditures for maintenance and repairs are charged to the consolidated statements of income as incurred. The costs of major renewals and improvements are capitalized. At the time property, plant and equipment is retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the asset and accumulated depreciation accounts. The profit or loss on such disposition is reflected in operating income.

(v) Goodwill and other intangible assets

(i) Goodwill

In business combinations completed subsequent to January 1, 2009, goodwill represents the excess of the fair value of the consideration given and the fair value of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities acquired. For business combinations completed prior to January 1, 2009 goodwill represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired.

Goodwill is not amortized, but instead is reviewed for impairment, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. For the purpose of assessing the carrying value of goodwill for impairment, goodwill has been allocated to the Company's reporting unit. Events or changes in circumstances which could trigger an impairment review include but are not limited to: significant underperformance of the reporting unit relative to expected historical or projected future operating results; significant changes in the manner of the Company's use of acquired assets or the strategy for the overall business; and significant negative industry trends.

2. Summary of significant accounting policies continued

Goodwill is reviewed for impairment by comparing the carrying value of the reporting unit's net assets (including allocated goodwill) to the fair value of the reporting unit. If the reporting unit's carrying amount is greater than its fair value, a second step is performed whereby the portion of the reporting unit's fair value relating to goodwill is compared to the carrying value of the reporting unit's goodwill. The Company recognizes a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds its estimated fair value. In the year to December 31, 2013 the Company has recorded an impairment charge of $198.9 million related to the goodwill allocated to the Company's former Regenerative Medicine ("RM") reporting unit. See Note 12 for further details.

(ii) Other intangible assets

Other intangible assets principally comprise intellectual property rights for products with a defined revenue stream, acquired product technology and IPR&D. Intellectual property rights for currently marketed products and acquired product technology are recorded at fair value and amortized over the estimated useful life of the related product, which ranges from 1 to 20 years (weighted average 10.1 years). IPR&D acquired through a business combination is capitalized as an indefinite lived intangible asset until the completion or abandonment of the associated R&D efforts. IPR&D is reviewed for impairment using a "one-step" approach which compares the fair value of the IPR&D asset with its carrying amount. An impairment loss is recognized to the extent that the carrying value exceeds the fair value of the IPR&D asset. Once the R&D efforts are completed the useful life of the relevant assets will be determined, and the IPR&D asset amortized over this useful economic life.

The following factors, where applicable, are considered in estimating the useful lives of Other intangible assets:

- expected use of the asset;
- regulatory, legal or contractual provisions, including the regulatory approval and review process, patent issues and actions by government agencies;
- the effects of obsolescence, changes in demand, competing products and other economic factors, including the stability of the market, known technological advances, development of competing drugs that are more effective clinically or economically;
- actions of competitors, suppliers, regulatory agencies or others that may eliminate current competitive advantages; and
- historical experience of renewing or extending similar arrangements.

When a number of factors apply to an intangible asset, these factors are considered in combination when determining the appropriate useful life for the relevant asset.

(w) Non-monetary transactions

The Company enters into certain non-monetary transactions that involve either the granting of a license over the Company's patents or the disposal of an asset or group of assets in exchange for a non–monetary asset, usually equity. The Company accounts for these transactions at fair value if the Company is able to determine the fair value within reasonable limits. To the extent the Company concludes that it is unable to determine the fair value of a transaction that transaction is accounted for at the recorded amounts of the assets exchanged. Management is required to exercise its judgment in determining whether or not the fair value of the asset received or given up can be determined.

(x) New accounting pronouncements adopted during the period

Indefinite-Lived Intangible Assets (Other than Goodwill) Impairment Testing

In July 2012 the Financial Accounting Standard Board ("FASB") issued guidance on the testing of indefinite-lived intangible assets for impairment. The guidance permits an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, performing the impairment test is unnecessary. The more-likely-than-not threshold is defined as a likelihood of more than 50 percent. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the impairment test and may resume performing the qualitative assessment in any subsequent period. The guidance has been adopted prospectively from January 1, 2013. The adoption of the guidance did not impact the Company's consolidated financial position, results of operations or cash flows.

Disclosure about offsetting assets and liabilities

In December 2011 the FASB issued guidance on disclosures about offsetting assets and liabilities. In January 2013 the FASB amended the previous guidance to clarify the scope of guidance issued in December 2011. The amended guidance requires entities to disclose both gross and net information about derivatives including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with FASB guidance on topics "Balance Sheet" and "Derivatives and Hedging" or subject to an enforceable master netting arrangement or similar agreement; to enable users of financial statements to understand the effects or potential effects of those arrangements on its financial position. The guidance has been adopted prospectively from January 1, 2013. The adoption of the guidance did not impact the Company's consolidated financial position, results of operations or cash flows. Enhanced disclosure of balance sheet offsetting as required by this guidance is included in Note 21.

2. Summary of significant accounting policies continued

Amounts reclassified out of Comprehensive Income
In February 2013 the FASB issued guidance on reporting amounts reclassified out of accumulated other comprehensive income. The guidance requires entities to provide information about the amount reclassified out of comprehensive income by component and presents either on the face of the financial statements or in the notes, significant amounts reclassified out of other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under US GAAP that provide additional detail about those amounts. The guidance has been adopted prospectively from January 1, 2013. The adoption of the guidance did not impact the Company's consolidated financial position, results of operations or cash flows.

Presentation of an unrecognized tax benefit
In July 2013 the FASB issued guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carry forward, a similar tax loss, or a tax credit carry forward exists. The guidance requires entities to present an unrecognized tax benefit or a portion of an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carry forward, a similar tax loss, or a tax credit carry forward, except as follows: to the extent a net operating loss carry forward, a similar tax loss, or a tax credit carry forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The guidance will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The Company has adopted this guidance in the period. The adoption of the guidance did not materially impact the Company's consolidated financial position, results of operations or cash flows.

(y) Statutory accounts
The consolidated financial statements as at December 31, 2013 and 2012, and for each of the two years in the period to December 31, 2013 do not comprise statutory accounts within the meaning of Section 434 of the UK Companies Act 2006 or Article 104 of the Companies (Jersey) Law 1991.

Statutory accounts of the Company, consisting of the solus accounts of Shire plc for the year to December 31, 2013 prepared under UK GAAP and in compliance with Jersey law will be delivered to the Registrar of Companies in Jersey in 2014. The Company further expects to file the consolidated accounts of the Company for the year to December 31, 2013, prepared in accordance with US GAAP, in fulfillment of the Company's UKLA annual reporting requirements with the UKLA in 2014.

Statutory accounts of the Company, consisting of the solus accounts of Shire plc for the year to December 31, 2012 prepared under UK GAAP and in compliance with Jersey law have been delivered to the Registrar of Companies for Jersey. The consolidated accounts of the Company for the year ended December 31, 2012 prepared in accordance with US GAAP, in fulfillment of the Company's United Kingdom Listing Authority ("UKLA") annual reporting requirements were filed with the UKLA. The auditor's reports on these accounts were unqualified.

3. Critical accounting estimates
The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States ("US GAAP") and SEC regulations, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are primarily made in relation to the valuation of intangible assets, sales deductions, income taxes (including provisions for uncertain tax positions and the realization of deferred tax assets), provisions for litigation and legal proceedings, contingent consideration receivable from product divestments,contingent consideration payable in respect of business combinations and asset purchases and noncurrent assets or disposal groups classified as held for sale. If actual results differ from the Company's estimates, or to the extent these estimates are adjusted in future periods, the Company's results of operations could either benefit from, or be adversely affected by, any such change in estimate.

(i) Valuation of intangible assets
In accordance with US GAAP the Company classifies intangible assets into three categories: (1) finite lived intangible assets, which are amortized over their estimated useful lives; (2) intangible assets with indefinite lives, which are not subject to amortization; and (3) goodwill.

At December 31, 2013 the carrying value of the Company's finite lived intangible assets was $1,361 million (2012: $2,157 million), the carrying value of the Company's indefinite lived intangible assets was $952 million (2012: $231 million), and the carrying value of the Company's goodwill was $625 million (2012: $645 million). The Company's indefinite lived intangible assets relate solely to IPR&D assets acquired through business combinations.

3. Critical accounting estimates continued

1. Initial valuation of intangible assets acquired through business combinations

The Company accounts for business combinations using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the fair value of consideration given and the fair value of any noncontrolling interest over the fair values of the identifiable assets and liabilities acquired is recorded as goodwill. The determination of estimated fair values of acquired intangible assets, as well as the useful economic life ascribed to finite lived intangible assets, requires the use of significant judgement. The use of different estimates and assumptions to those used by the Company could result in a materially different valuation of acquired intangible assets, which could have a material effect on the Company's results of operations.

Initial valuation of finite lived intangible assets

At December 31, 2013 the carrying value of the Company's finite lived intangible assets was $1,361 million primarily representing the following products: VYVANSE ($737 million), REPLAGAL ($220 million), FIRAZYR ($200 million) and RESOLOR ($121 million).

The fair values of all finite lived identifiable intangible assets, for commercialized products and developed product technologies, acquired through business combinations have been determined using an income approach on a project-by-project basis using the multi-period excess earnings method. The multi-period excess earnings method starts with a forecast of all expected future net cash flows which a market participant could have either generated or saved as a result of ownership of the intellectual property, customer relationships, product technologies and other intangible assets. These cash flows are then adjusted to present value by applying a market participant discount rate that reflects the risk factors that a market participant would associate with the cash flows (to the extent the underlying cash flows have not similarly been risk adjusted). Forecasting these future cash flows requires various assumptions to be made. These valuations are based on information at the time of the acquisition of the identifiable intangible assets, and the expectations and assumptions that (i) have been deemed reasonable by the Company's management and (ii) are based on information, expectations and assumptions that would be available to and made by a market participant. No assurance can be given, however, that the underlying assumptions or events associated with such valuations will occur as projected. For these reasons, among others, actual cash flows may differ from these forecasts and, dependent on the outcome of future events or circumstances, impairment losses (as outlined below) may result. The use of different estimates and assumptions to those used by the Company could result in a materially different valuation of finite lived intangible assets. However, as the valuation process for intangible assets involves a number of inter-related assumptions, the Company does not consider it meaningful to quantify the sensitivity of the valuation of intangible assets to changes in any individual assumption.

Initial valuation of indefinite lived intangible assets (IPR&D)

IPR&D represents the fair value assigned to incomplete technologies and development projects that the Company has acquired through business combinations which completed after January 1, 2009 which, at the time the business combination closed, had not reached technological feasibility or which had no alternative future use. At December 31, 2013 the carrying value of the Company's indefinite lived intangible assets (IPR&D) was $952 million, primarily representing the following pipeline programs or products: Lifitegrast (SHP606) for the treatment of Dry Eye disease ($412 million); rC7, for the treatment of DEB ($177 million); SHP602, an iron chelating agent for the treatment of iron overload secondary to chronic transfusion ($166 million); and PREMIPLEX (SHP607) for the treatment of Retinopathy of Prematurity ($153 million).

The fair value of IPR&D assets is determined using the income approach on a project-by-project basis using the multi-period excess earnings method. The fair value of the acquired IPR&D assets has been based on the present value of probability adjusted incremental cash flows which a market participant would expect the IPR&D projects to generate after the deduction of contributory asset charges for other assets employed in these projects. This method incorporates an evaluation of the probability of success of each development project, and the application of an appropriate market participant discount rate commensurate with the project's stage of completion, the nature of the product, the scientific data associated with the technology, the current patent situation and market competition.

The cash flows that will ultimately be generated by IPR&D projects are subject to major risks and uncertainties including whether the IPR&D projects will be completed in a timely manner, if at all, whether the necessary regulatory approvals will be obtained and how commercially successful the project will be subsequent to commercial launch. The Company is required to use estimates and assumptions in relation to these risks and uncertainties when valuing IPR&D projects. The use of different estimates and assumptions to those used by the Company could result in a materially different valuation of the related IPR&D. However, as the valuation process for IPR&D involves a number of inter-relating assumptions, the Company does not consider it meaningful to quantify the sensitivity of the valuation of IPR&D to changes in any individual assumption.

The initial valuation of indefinite lived IPR&D is based on information that existed at the time of the acquisition of the relevant development project, and utilizes expectations and assumptions that (i) have been deemed reasonable by the Company's management, and (ii) are based on information, expectations and assumptions that would be available to and made by a market participant. However, no assurance can be given that the underlying assumptions or estimates associated with the valuation of IPR&D will occur as projected. If IPR&D projects fail during development, are abandoned, or do not receive the relevant regulatory approvals, the Company may not realize the future cash flows that it has estimated nor recover the value of the R&D investment made subsequent to acquisition of the project. If such circumstances occur, the Company's future operating results could be materially adversely impacted.

3. Critical accounting estimates continued

2. Subsequent measurement of intangible assets

Finite lived intangible assets – estimation of amortization charges and impairment losses

Management's estimate of the useful life of its finite lived intangible assets considers, amongst other things, the following factors:

(i) the expected use of the finite lived intangible asset by the Company;

(ii) any legal, regulatory, or contractual provisions that may limit or extend the useful life;

(iii) the effects of demand and competition, including the launch of generic products; and

(iv) other general economic and/or industry specific factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels).

The Company reviews the useful life of its intangible assets subject to amortization at each reporting period, and revises its estimate of the useful life if warranted by events or circumstances. Any future changes to the useful life of the Company's finite lived intangible assets could result in higher or lower amortization charges in future periods, which could materially affect the Company's results from operations.

The Company reviews its finite lived intangible assets for impairment using a "two-step" approach, whenever events or circumstances suggest that the carrying value of its finite lived intangible assets may not be recoverable. Under step one, if the undiscounted cash flows resulting from the use and ultimate disposition of the finite lived intangible asset (based on entity specific assumptions) are less than its carrying value, the intangible asset is considered not to be recoverable. The impairment loss is determined under step two as the amount by which the carrying value of the intangible asset exceeds its fair value (based on market participant assumptions).

Events or circumstances that could suggest that the Company's finite lived intangible assets may not be recoverable, and which would lead to an evaluation of the recoverability of the relevant asset, include but are not limited to, the following:

(i) changes to a product's commercialization strategy;

(ii) the loss of patent protection, regulatory exclusivity or challenge or circumvention by competitors of the Company's regulatory exclusivity patents;

(iii) the development and marketing of competitive products, including generic entrants into the marketplace;

(iv) changes to the product labels, or other regulatory intervention;

(v) sustained government pressure on prices and, specifically, competitive pricing;

(vi) the occurrence of significant adverse events in respect to the Company's products;

(vii) a significant deterioration in a product's operating performance compared to expectations; and

(viii) an expectation that the intangible asset will be divested before the end of its previously estimated useful life.

The occurrence of any such events or circumstances may result in the Company reducing the estimated future net cash flows to be generated by, and the fair value of, its finite lived intangible assets and therefore give rise to an impairment loss.

As a result of divestment of DERMAGRAFT to Organogenesis, the Company has reclassified the DERMAGRAFT intangible asset (and other assets subject to disposal) as Assets held for sale and recorded an impairment charge of $611.4 million, measured at fair value less costs to sell, in the year to December 31, 2013. In the year to December 31, 2012 the Company recognized impairment losses of $126.7 million to write-down its RESOLOR finite lived intangible assets to their fair value.

Dependent on future events or circumstances, the Company's operating results could be materially and adversely affected by future impairment losses relating to its finite lived intangible assets.

Indefinite lived intangible assets (IPR&D) – estimation of impairment losses

The Company reviews its indefinite lived intangible assets (which currently only relate to IPR&D assets) for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Indefinite lived assets are reviewed for impairment by comparing the fair value of the indefinite lived asset (based on market participant assumptions) with its carrying amount. An impairment loss is recognized to the extent that the carrying value exceeds the estimated fair value of the relevant indefinite lived intangible asset.

Events or circumstances that could suggest that the Company's IPR&D assets may not be recoverable, and which would lead to an evaluation of the relevant asset for impairment, include those factors considered for finite lived intangible assets (outlined above) as well as any adverse changes to the technological or commercial viability of the IPR&D projects, which could include abandonment of the IPR&D project or a decline in its estimated commercial potential. The occurrence of any such events or circumstances could result in the Company reducing the estimated future net cash flows to be generated by, and the fair value of, its indefinite lived intangible assets and therefore give rise to an impairment loss.

After the identification of any such events or circumstances, and the resultant impairment reviews, the Company recognized impairment losses of $19.9 million in the year to December 31, 2013 (2012: $71.2 million) to write-down its RESOLOR IPR&D assets to their fair value (See Note 13, "Other intangible assets, net" to the consolidated financial statements set forth in this Annual Report for details). Dependent on future events or circumstances, the Company's operating results could be materially and adversely affected by future impairment losses relating to its indefinite lived intangible assets.

3. Critical accounting estimates continued

Goodwill – estimation of impairment losses

The Company reviews goodwill for impairment at least annually, or more frequently if events or circumstances indicate the carrying amount of goodwill may not be recoverable.

The Company reviews goodwill for impairment by firstly comparing the fair value of a reporting unit with its carrying value. If the fair value of a reporting unit exceeds its carrying value, then the goodwill is considered recoverable and no further testing is performed. If the carrying value of a reporting unit is greater than its fair value, then goodwill is considered impaired and a further test is performed to determine the amount by which the carrying value of a reporting unit's goodwill exceeds its fair value, with an impairment loss recognized in an amount equal to that excess.

The Company determines the fair value of a reporting unit (and if required the fair value of its goodwill) through a present value technique, principally using the income approach. The determination of fair value of a reporting unit requires the use of significant judgment and assumptions, which include, amongst other things, the estimation of future forecast cash flows and an appropriate discount rate used to determine the fair value.

In the first quarter of 2013 the Company identified circumstances which indicated that the carrying value of goodwill in the RM reporting unit may not be recoverable, which triggered an impairment test in advance of the annual testing date. The results of the Company's March 31, 2013 impairment test showed that the carrying amount of the RM reporting unit exceeded its fair value and the implied value of the goodwill was $nil. As a result the Company recorded an impairment charge of $198.9 million related to the goodwill allocated to the RM reporting unit of which $191.8 million was subsequently presented within discontinued operations (See Note 12, "Goodwill" to the consolidated financial statements set forth in this Annual Report for details).

The Company performed its annual goodwill impairment review at October 1, 2013, which indicated that the Company's goodwill was recoverable and was not deemed to be at risk of failing the first step in testing for impairment.

(ii) Sales Deductions

Sales deductions consist primarily of statutory rebates to State Medicaid and other government agencies, Medicare Part D rebates, contractual rebates with Managed Care Organizations ("MCOs"), product returns, sales discounts (including trade discounts), distribution service fees, wholesaler chargebacks, and allowances for coupon and patient assistance programs. These deductions are recorded as reductions to revenue in the same period as the related sales. Estimates of future obligations are derived from historical experience adjusted to reflect known changes in the factors that impact such reserves. On the balance sheet the Company records wholesaler chargebacks and trade discounts as a reserve against accounts receivable, whereas all other sales deductions are recorded within current liabilities.

The Company has the following significant categories of sales deductions, all of which involve estimates and judgments which the Company considers to be critical accounting estimates, and require the Company to use information from external sources:

Medicaid and Managed Care Rebates

Statutory and any supplemental rebates to State Medicaid agencies and contractual rebates to MCOs under managed care programs are based on statutory or negotiated discounts to the selling price. Medicaid rebates generally increase as a percentage of the selling price over the life of the product (if prices increase faster than general inflation).

As it can take up to six months for information to reach the Company on actual usage of the Company's products in managed care and Medicaid programs and on the total rebates to be reimbursed, the Company estimates the reserves required for amounts payable under these programs relating to sold products.

The amount of these reserves is based on historical experience of rebates, the timing of payments, the level of reimbursement claims, changes in prices (both normal selling prices and statutory or negotiated prices), changes in prescription demand patterns, projected product returns and the levels of inventory in the distribution channel. Adjustments are made for known changes in these factors.

Shire's estimates of the level of inventory in the distribution channel are derived from product-by-product inventory data provided by wholesalers and results of independently commissioned retail inventory surveys.

Revisions or clarification of guidelines from the CMS related to State Medicaid and other government program reimbursement practices with retroactive application can result in changes to management's estimates of the rebates reported in prior periods.

The accrual estimation process for Medicaid and managed care rebates involves in each case a number of interrelating assumptions, which vary for each combination of product and Medicaid agency or MCO. Accordingly, it would not be meaningful to quantify the sensitivity to change for any individual assumption or uncertainty. However, Shire does not believe that the effect of these uncertainties, taken as a whole, significantly impacts the Company's financial condition or results of operations.

Aggregate accruals for Medicaid and MCO rebates at December 31, 2013 and 2012 were $807.2 million and $640.5 million or 17% and 15%, respectively of net product sales. Historically, actual rebates have not varied significantly from the reserves provided.

Product Returns

The Company typically accepts customer product returns in the following circumstances: (a) expiration of shelf life; (b) product damaged while in the Company's possession; (c) under sales terms that allow for unconditional return (guaranteed sales); or (d) following product recalls or product withdrawals. Generally, returns for expired product are accepted up to one year after expiration date of the relevant product and the returned product is destroyed. Depending on the product and the Company's return policy with respect to that product, the Company may either refund the sales price paid by the customer by issuance of a credit, or exchange the returned product with replacement inventory. The Company typically does not provide cash refunds.

3. Critical accounting estimates continued

The Company estimates the proportion of recorded revenue that will result in a return by considering relevant factors, including:

(i) past product returns activity;

(ii) the duration of time taken for products to be returned;

(iii) the estimated level of inventory in the distribution channel;

(iv) product recalls and discontinuances;

(v) the shelf life of products;

(vi) the launch of new drugs or new formulations; and

(vii) the loss of patent protection or new competition.

The Company's estimates of the level of inventory in the distribution channel are based on product-by-product inventory data provided by wholesalers and results of independently commissioned third party retail inventory surveys.

Returns reserves for new products and for those products with generic competition generally require a higher level of estimation than those for established products without generic competition.

For shipments made to support the commercial launch of a new product (which can include guaranteed sales), the Company's policy is to defer recognition of the sales revenue until there is evidence of end-patient acceptance of the new product (primarily through third-party prescription data). For shipments after launch under standard terms (i.e. not guaranteed sales), the Company's initial estimates of sales return accruals are primarily based on the historical sales returns experience of similar products shortly after launch. Once sufficient historical data on actual returns of the product are available, the returns provision is based on this data and any other relevant factors as noted above.

The Company estimates returns reserves for products with generic competition based on historical sales, the estimated level of inventory in the distribution channel, product utilization and rebate data, which are modified through the use of management judgment to take into account many factors, including, but not limited to, current market dynamics, changes in contract terms, changes in sales trends and product pricing.

The accrual estimation process for product returns involves, in each case, a number of interrelating assumptions, which vary for each combination of product and customer. Accordingly, it would not be meaningful to quantify the sensitivity to change for any individual assumption or uncertainty. However, Shire does not believe that the effect of uncertainties, as a whole, significantly impacts the Company's financial condition or results of operations.

At December 31, 2013 and 2012, provisions for product returns were $98.8 million and $90.5 million or 2% and 2% respectively, of net product sales. Historically, actual returns have not varied significantly from the reserves provided.

(iii) Income Taxes

In accounting for uncertainty in income taxes, management is required to develop estimates as to whether a tax benefit should be recognized in the consolidated financial statements, based on whether it is more likely than not that the technical merits of the position will be sustained based on audit by the tax authorities. The measurement of the tax benefit recognized in the consolidated financial statements is based upon the largest amount of tax benefit that, in management's judgment, is greater than 50% likely to be realized based on a cumulative probability assessment of the possible outcomes. In accounting for income tax uncertainties, management is required to make judgments in the determination of the unit of account, the evaluation of the facts, circumstances and information in respect of the tax position taken, together with the estimates of amounts that the Company may be required to pay in ultimate settlement with the tax authority.

The Company operates in numerous countries where its income tax returns are subject to audit and adjustment by local tax authorities. As the Company operates globally, the nature of the uncertain tax positions is often very complex and subject to change and the amounts at issue can be substantial. The Company develops its cumulative probability assessment to measure uncertain tax positions using internal expertise, experience and judgment, together with assistance from professional advisors. Original estimates are refined as additional information becomes known. For example, in the year to December 31, 2013 the Company recognized additional provisions for uncertain tax positions of $91.3 million in relation to ongoing compliance management for current and prior years.

Any outcome upon settlement that differs from the recorded provision for uncertain tax positions may result in a materially higher or lower tax expense in future periods, which could significantly impact the Company's results of operations or financial condition. However, the Company does not believe it is possible to reasonably estimate the potential impact of any such change in assumptions, estimates or judgments and the resultant change, if any, in the Company's provision for uncertain tax positions, as any such change is dependent on factors such as future changes in tax law or administrative practice, the amount and nature of additional taxes which may be asserted by the taxation authorities, and the willingness of the relevant tax authorities to negotiate a settlement for any such position.

At December 31, 2013 the Company recognized a liability of $355.2 million for total unrecognized tax benefits (2012: $278.7 million) and had accrued $112.2 million (2012: $119.6 million) for the payment of interest and penalties. The Company is required in certain tax jurisdictions to make advance deposits to tax authorities on receipt of a tax assessment. These payments are either offset against the income tax liability or establish an income tax receivable but do not reduce the provision for unrecognized tax benefits.

3. Critical accounting estimates continued

The Company has significant deferred tax assets due to various tax attributes, including net operating losses ("NOLs") and tax credits (from Research and Development and Investment Tax Credits) principally in the Republic of Ireland, the US, Belgium, Germany and the UK. At December 31, 2013 the Company had gross deferred tax assets of $822 million (2012: $764 million), against which the Company had recorded valuation allowances of $282 million (2012: $269 million) and deferred tax liabilities of $644 million (2012: $740 million).

The realization of these assets is not assured and is dependent on various factors. Management is required to exercise judgment in determining whether it is more likely than not that it would realize these deferred tax assets. In assessing the need for a valuation allowance, management weighs all available positive and negative evidence including cumulative losses in recent years, expectations of future taxable income, carry forward and carry back potential under relevant tax law, expiration period of tax attributes, taxable temporary differences, and prudent and feasible tax-planning strategies. A valuation allowance is established where there is an expectation that on the balance of probabilities management considers it is more likely than not that the relevant deferred tax assets will not be realized. If actual events differ from management's estimates, or to the extent that these estimates are adjusted in the future, any changes to the valuation allowance could significantly impact the Company's financial condition and results of operations.

(iv) Litigation and legal proceedings

The Company has a number of lawsuits pending. The Company's principal pending legal and other proceedings are disclosed in Note 19 to the consolidated financial statements set forth in this Annual Report. The Company recognizes loss contingency provisions for probable losses when management is able to reasonably estimate the loss. When the estimated loss lies within a range, the Company records a loss contingency provision based on its best estimate of the probable loss. If no particular amount within that range is a better estimate than any other amount, the minimum amount is recorded. Estimates of losses may be developed substantially before the ultimate loss is known, and are therefore refined each accounting period as additional information becomes known. In instances where the Company is unable to develop a reasonable estimate of loss, no loss contingency provision is recorded at that time. As information becomes known a loss contingency provision is recorded when a reasonable estimate can be made. These estimates are reviewed quarterly and changed when expectations are revised. An outcome that deviates from the Company's estimate may result in an additional expense (or credit) in a future accounting period. At December 31, 2013 provisions for litigation losses, insurance claims and other disputes totaled $72.7 million (December 31, 2012: $130.5 million).

The outcomes of these proceedings are not always predictable and can be affected by various factors. For those legal and other proceedings for which it is considered at least reasonably possible that a loss has been incurred, the Company discloses the possible loss or range of possible loss in excess of the recorded loss contingency provision, if any, where such excess is both material and estimable. The estimation of the likelihood, amount and range of any loss arising from these proceedings requires significant judgment. Any revisions in the Company's estimates, or outcomes upon settlement that deviate from the Company's best estimate may result in an additional expense (or credit) in a future accounting period, which could materially impact the Company's financial condition or results of operations.

Contingent consideration receivable from product divestments

At December 31, 2013 the Company has contingent consideration assets of $36.1 million (2012: $38.3 million), all of which relate to the divestment of DAYTRANA to Noven in October 2010.

Consideration receivable by the Company on the divestment of product rights typically includes up-front receipts and/or milestones and royalties which are contingent on the outcome of future events (with such milestones and royalties being, for example, based upon the future sales performance of the divested product). Contingent consideration occasionally represents a significant proportion of the economic value receivable by the Company for a divested product. In these situations the Company initially recognizes this contingent consideration as an asset at its divestment date fair value, with re-measurement of this asset to its then current fair value at subsequent balance sheet dates.

The Company estimates the fair value of contingent consideration receivable using the income approach, based on a discounted cash flow method. This discounted cash flow approach uses significant unobservable Level 3 inputs (as defined in US GAAP) including: the probability weightings applied to different sales scenarios and related forecast future royalties receivable under scenarios developed by the Company; and the discount rate to be applied in calculating the present value of these forecast future cash flows. Significant judgment is employed by the Company in developing these estimates and assumptions. If actual events differ from management's estimates, or to the extent that these estimates are adjusted in the future, the Company's financial condition and results of operations could be affected in the period of any such change of estimate.

(v) Contingent consideration payable

The fair value of the Company's contingent consideration payable at December 31, 2013 was $405.9 million (December 31, 2012: $136.4 million).

3. Critical accounting estimates continued

Contingent consideration payable represents (i) future milestones the Company may be required to pay in conjunction with various business combinations and (ii) future royalties payable as a result of certain business combinations and licenses. The amounts ultimately payable by Shire are dependent upon (i) the successful achievement of the relevant milestones and (ii) future net sales of the relevant products over the life of the royalty term respectively.

The Company re-measures its contingent consideration payable to fair value at each balance sheet date. Gains or losses arising on changes to the fair value of contingent consideration payable are recorded within Integration and acquisition costs in the Company's consolidated income statement.

The Company estimates the fair value of contingent consideration payable using the income approach, based on a discounted cash flow method. The discounted cash flow method uses significant unobservable Level 3 inputs (as defined under US GAAP), including: the probability of, and period in which, the relevant milestone event is expected to be achieved; the amount of royalties that will be payable based on forecast net sales of the relevant products; and the discount rates to be applied in calculating the present values of the relevant milestone or royalty. Significant judgment is employed by the Company in developing these estimates and assumptions. If actual events differ from management's estimates, or to the extent that these estimates are adjusted in the future, the Company's financial condition and results of operations could be materially affected in the period of any such change of estimate.

(vi) Assets held for sale

Assets held for sale comprise noncurrent assets or disposal groups (together with any liabilities), the carrying amounts of which will be realized principally through a sale transaction expected to conclude within the next twelve months, rather than through continued use.

At December 31, 2013 the Company has presented $31.6 million (2012: $nil) of net assets as assets held for sale in the consolidated balance sheet. The assets and liabilities within this disposal group all relate to the disposal of the DERMAGRAFT asset group, which was announced on January 16, 2014.

At the time of their classification as "held for sale," such assets are collectively measured at the lower of their carrying amount and fair value less costs to sell, and depreciation or amortization ceases. An impairment charge of $636.9 million was recorded in the fourth quarter of 2013 reflecting the adjustment of the DERMAGRAFT disposal group's carrying amount to its fair value less cost to sell.

Significant judgment is employed by the Company in assessing: at what point all the held for sale presentation conditions are met for the disposal group; whether it is necessary to allocate goodwill to the disposal group; and estimating both the fair value of the disposal group and the incremental costs to transact a sale of the disposal group. If actual events differ from management's estimates, or to the extent that estimates of selling price or costs to sell are adjusted in the future, the Company's financial condition and results of operations could be affected in the period of any such change of estimate.

4. Business combinations

Acquisition of ViroPharma Inc. ("ViroPharma")

On November 11, 2013, the Company signed a definitive agreement to acquire all of the outstanding share capital of ViroPharma for $50 per share in cash or approximately $4,200 million. The transaction was completed on January 24, 2014 at which time ViroPharma became a wholly-owned subsidiary.

ViroPharma is a high growth, rare disease Biopharmaceutical Company, whose commercial product CINRYZE (C1 esterase inhibitor human), is a leading brand for the prophylactic treatment of Hereditary Angioedema ("HAE").

The acquisition of ViroPharma will be accounted for as a business combination using the acquisition method. The assets acquired and the liabilities assumed from ViroPharma will be recorded at the date of acquisition, at their fair value. The Company's consolidated financial statements will reflect these fair values at, and the results of ViroPharma will be included in the Company's consolidated statement of income from, January 24, 2014. As the initial accounting for the business combination has not yet been completed, further disclosure relating to this acquisition will be included in the Company's Form 10-Q for the three months ended March 31, 2014.

In the year to December 31, 2013 the Company expensed costs of $12.8 million (2012: $nil) relating to the acquisition of ViroPharma, which have been recorded within integration and acquisition costs in the Company's consolidated income statement.

Acquisition of SARcode Bioscience Inc. ("SARcode")

On April 17, 2013, Shire completed the acquisition of 100% of the outstanding share capital of SARcode. The acquisition date fair value of consideration totaled $368 million, comprising cash consideration paid on closing of $151 million and the acquisition date fair value of contingent consideration payable of $217 million. Following top-line Phase 3 study results in December 2013, the maximum amount of contingent cash consideration which may now be payable by Shire in future periods is $225 million dependent upon achievement of certain net sales milestones.

This acquisition brings the global rights of a new Phase 3 compound, Lifitegrast, currently under development for the treatment of Dry Eye disease, into Shire's portfolio. Top-line results from OPUS-2, a Phase 3 efficacy and safety study of 5.0% Lifitegrast ophthalmic solution, were announced on 6 December 2013. Shire intends to investigate the full data from OPUS-2 and is planning further interactions with the FDA in the first half of 2014 in order to advance this program.

The acquisition of SARcode has been accounted as a business combination using the acquisition method. The assets and liabilities assumed from SARcode have been recorded at their fair values at the date of acquisition, being April 17, 2013. The Company's consolidated financial statements and results of operations include the results of SARcode from April 17, 2013. In the year to December 31, 2013 the Company's consolidated income statement includes pre-tax losses of $26.0 million in relation to the post acquisition results of SARcode.

4. Business combinations continued

The purchase price has been allocated to acquired in process research and development ("IPR&D") in respect of Lifitegrast ($412 million), net current liabilities assumed ($8.2 million), net non-current liabilities assumed, including deferred tax liabilities ($122.4 million) and goodwill ($86.6 million). This acquisition resulted in goodwill of $86.6 million, which is not deductible for tax purposes. Goodwill includes the value of the assembled workforce and the related scientific expertise in ophthalmology which allows for potential expansion into a new therapeutic area.

In the year to December 31, 2013 the Company recorded a net credit of $170.7 million (2012: $nil) within Integration and acquisition costs relating to the acquisition of SARcode. This amount principally comprises a credit of $176.0 million on re-measuring the fair value of the contingent consideration payable following OPUS-2 trial results. In addition, acquisition and integration costs related to SARcode amounted to $15.3 million.

Acquisition of Premacure AB ("Premacure")

On March 8, 2013 the Company completed the acquisition of 100% of the outstanding share capital of Premacure. The acquisition date fair value of the consideration totaled $140.2 million, comprising cash consideration paid on closing of $30.6 million, and the fair value of contingent consideration payable of $109.6 million. The maximum amount of contingent cash consideration which may be payable by the Company in future periods, dependent upon the successful completion of certain development and commercial milestones, is $169 million. The Company will also pay royalties on relevant net sales.

Premacure is developing a protein replacement therapy ("PREMIPLEX"), currently in Phase 2 development, for the prevention of Retinopathy of Prematurity ("ROP"). ROP is a rare and potentially blinding eye disorder that primarily affects premature infants and is one of the most common causes of visual loss in childhood. Together, the acquisitions of SARcode and Premacure build the Company's presence in the ophthalmology therapeutic area.

The acquisition of Premacure has been accounted for as a business combination using the acquisition method. The assets and the liabilities assumed from Premacure have been recorded at their fair values at the date of acquisition, being March 8, 2013. The Company's consolidated financial statements and results of operations include the results of Premacure from March 8, 2013.

The purchase price has been allocated to acquired IPR&D in respect of PREMIPLEX ($151.8 million), net current liabilities assumed ($11.7 million), net non-current liabilities assumed, including deferred tax liabilities ($29.5 million) and goodwill ($29.6 million). This acquisition resulted in goodwill of $29.6 million, which is not deductible for tax purposes.

In the year to December 31, 2013 the Company expensed costs of $9.5 million (2012: $nil) relating to the acquisition of Premacure (including charges related to the change in fair value of contingent consideration payable), which have been recorded within integration and acquisition costs in the Company's consolidated income statement.

Acquisition of Lotus Tissue Repair, Inc ("Lotus")

On February 12, 2013, the Company completed the acquisition of 100% of the outstanding share capital of Lotus. The acquisition date fair value of consideration totaled $174.2 million, comprising cash consideration paid on closing of $49.4 million, and the fair value of contingent consideration payable of $124.8 million. The maximum amount of contingent cash consideration which may be payable by the Company in future periods is $275 million. The amount of contingent cash consideration ultimately payable by the Company is dependent upon achievement of certain pre-clinical and clinical development milestones.

Lotus is developing a proprietary recombinant form of human collagen Type VII ("rC7") as the first and only intravenous protein replacement therapy currently being investigated for the treatment of Dystrophic Epidermolysis Bullosa ("DEB"). DEB is a devastating orphan disease for which there is no currently approved treatment option other than palliative care. The acquisition adds to the Company's pipeline a late stage pre-clinical product for the treatment of DEB with global rights.

The acquisition of Lotus has been accounted for as a business combination using the acquisition method. The assets and the liabilities assumed from Lotus have been recorded at their fair values at the date of acquisition, being February 12, 2013. The Company's consolidated financial statements and results of operations include the results of Lotus from February 12, 2013.

The purchase price has been allocated to acquired IPR&D in respect of rC7 ($176.7 million), net current assets assumed ($6.8 million), net non-current liabilities assumed, including deferred tax liabilities ($63.4 million) and goodwill ($54.1 million). This acquisition resulted in goodwill of $54.1 million, which is not deductible for tax purposes.

In the year to December 31, 2013, the Company expensed costs of $2.3 million (2012: $0.5 million) relating to the acquisition of Lotus, which have been recorded within integration and acquisition costs in the Company's consolidated income statement.

Acquisition of FerroKin BioSciences, Inc. ("FerroKin")

On April 2, 2012, the Company completed the acquisition of 100% of the outstanding share capital of FerroKin. The acquisition-date fair value of consideration totalled $159.3 million, comprising cash consideration paid on closing of $94.5 million and the fair value of contingent consideration payable of $64.8 million. The maximum amount of contingent cash consideration which may be payable by the Company in future periods is $225.0 million. The amount of contingent cash consideration ultimately payable by the Company is dependent upon the achievement of certain clinical development, regulatory and net sales milestones.

4. Business combinations continued

The acquisition of FerroKin adds global rights to a Phase 2 product, SHP602 (formerly referred to as FBS0701), to the Company's pipeline. SHP602 is intended to serve a chronic patient need for treatment of iron overload following numerous blood transfusions. Together with the Company's collaboration with Sangamo Biosciences Inc. ("Sangamo"), this acquisition is a strategic step in building the Company's hematology business, which already includes XAGRID and a growing development pipeline.

The acquisition of FerroKin has been accounted for as a business combination using the acquisition method. The assets acquired and the liabilities assumed from FerroKin have been recorded at their fair values at the date of acquisition, being April 2, 2012. The Company's consolidated financial statements and results of operations include the results of FerroKin from April 2, 2012. In the year to December 31, 2012 the Company included pre-tax losses of $19.1 million, for FerroKin within its consolidated statement of income.

The purchase price has been allocated to acquired in-process research and development ("IPR&D") in respect of SHP602 ($166.0 million), net current liabilities assumed ($6.6 million), net non-current liabilities assumed (including deferred tax liabilities) ($46.2 million) and goodwill ($46.1 million). Goodwill arising of $46.1 million is not deductible for tax purposes.

In the year to December 31, 2013 the Company expensed costs of $10.4 million (2012: $12.1 million) relating to the FerroKin acquisition, which have been recorded within Integration and acquisition costs in the Company's consolidated statement of income.

Acquisition of certain assets & liabilities of Pervasis Therapeutics, Inc. ("Pervasis")

On April 19, 2012, the Company acquired substantially all the assets and certain liabilities of Pervasis. The acquisition date fair value of the consideration totaled $26.1 million, comprising cash consideration paid on closing of $2.5 million and the fair value of contingent consideration payable of $23.6 million. The maximum amount of contingent cash consideration which may be payable by the Company in future periods is up to $169.5 million. The amount of contingent cash consideration ultimately payable by the Company is dependent upon achievement of certain clinical development, regulatory and net sales milestones. The acquisition adds SHP613 (formerly VASCUGEL) to the Company's Regenerative Medicine business. SHP613 is currently in Phase 2 development for acute vascular repair, focused on improving hemodialysis access for patients with end-stage renal disease.

The acquisition has been accounted for as a business combination using the acquisition method. The assets acquired and the liabilities assumed from Pervasis have been recorded at their fair values at the date of acquisition, being April 19, 2012. The Company's consolidated financial statements and results of operations include the results of the assets acquired and the liabilities assumed from Pervasis from April 19, 2012. The purchase price has been allocated to acquired IPR&D (principally for VASCUGEL) ($24.3 million), current liabilities assumed ($0.2 million) and goodwill ($2.0 million). Goodwill arising of $2.0 million is not deductible for tax purposes.

Acquisition of Advanced BioHealing, Inc. ("ABH")

On June 28, 2011, the Company completed its acquisition of 100% of the outstanding shares and other equity instruments of ABH. The fair value of cash consideration paid by the Company during 2011 was $739.6 million.

The acquisition of ABH added the DERMAGRAFT product, a bio-engineered skin substitute, to the Company's portfolio. On January 16, 2014, the Company sold the DERMAGRAFT business to Organogenesis.

The acquisition of ABH was accounted for as a business combination using the acquisition method. The assets acquired and the liabilities assumed from ABH have been recorded at their fair values at the date of acquisition, being June 28, 2011. The determination of final fair values was completed on June 28, 2012. The Company's consolidated financial statements and results of operations include the results of ABH from June 28, 2011. The amount of ABH's revenues and pre-tax losses included in the Company's consolidated statement of income for the year ended December 31, 2011 were $105.3 million and $15.3 million (after intangible asset amortization of $20.0 million) respectively.

4. Business combinations continued

The Company's allocation of the purchase price to the assets acquired and liabilities assumed is outlined below:

	Fair value $'M
Assets	
Current assets:	
Cash and cash equivalents	14.6
Accounts receivable	30.1
Inventories	30.7
Deferred tax assets	51.1
Other current assets	7.9
Total current assets	134.4
Non-current assets:	
Property, plant and equipment	16.6
Goodwill	197.0
Other intangible assets	
– DERMAGRAFT product technology	710.0
– other intangible assets	1.5
Other non-current assets	0.2
Total assets	1,059.7
Liabilities	
Current liabilities:	
Accounts payable and other current liabilities	52.4
Non-current liabilities:	
Long term debt, less current portion	9.1
Deferred tax liabilities	258.5
Other non-current liabilities	0.1
Total liabilities	320.1
Fair value of identifiable assets acquired and liabilities assumed	739.6
Consideration	
Cash consideration paid	739.6

Supplemental disclosure of pro forma information

The unaudited pro forma financial information to present the combined results of the operations of Shire, SARcode, Premacure and Lotus are not provided as the impacts of these acquisitions were not material to the Company's results of continuing operations for any period presented.

5. Divestment of product rights

On October 1, 2010, the Company completed the divestment of DAYTRANA to Noven (Noven developed and manufactures DAYTRANA, and the Company licensed DAYTRANA from Noven in 2003). No consideration was received at the time of divestment, however consideration is receivable from Noven dependent on DAYTRANA's performance in the period subsequent to divestment. On divestment the Company recorded the fair value of contingent consideration receivable from Noven within current and non-current assets. During the year to December 31, 2013 the Company recognized a gain of $15.9 million (2012: gain of $18.1 million) due to changes in the fair value of this contingent consideration. At December 31, 2013 the Company has recorded a receivable based on the fair value of future contingent consideration totaling $36.1 million (2012: $39.2 million), split between current assets $9.6 million (2012: $11.6 million) and non-current assets $26.5 million (2012: $27.6 million).

6. Reorganization costs

Turnhout, Belgium Site Closure

On January 23, 2013 the Company announced that it had decided to proceed with a collective dismissal and business closure at its site in Turnhout, Belgium. This decision follows the conclusion of an information and consultation process. The Company will continue to sell RESOLOR in Europe and the supply of RESOLOR for patients in Europe who rely on the medicine will not be affected. The closure of the Turnhout site was completed during 2013. In the year to December 31, 2013 the Company incurred reorganization costs totaling $23.6 million, relating to employee involuntary termination benefits and other reorganization costs.

One Shire business reorganization

On May 2, 2013, the Company announced that there would be a reorganization of the business to integrate the three divisions into a simplified One Shire organization in order to drive future growth and innovation.

On November 7, 2013, the Company announced that, as part of the One Shire reorganization, the Company had undertaken a review of all of Shire's pipeline programs to identify those projects that fit with Shire's new strategic direction and have an acceptable likelihood of success. Shire's pre-clinical investments will now be primarily focused on Rare Diseases, meaning that the majority of other pre-clinical projects will not continue. Several clinical programs have also been discontinued. The impact of the prioritization and rationalization of the Company's development portfolio means many of the R&D programs currently run from Basingstoke, UK will cease. Taken together with the overall streamlining of the R&D organization, this has resulted in a significant number of R&D roles in Basingstoke being eliminated and some positions being re-located. A small number of functional roles that support R&D in Basingstoke have also been affected.

In addition the Company also announced plans to relocate its international commercial hub from Nyon, Switzerland to Zug, Switzerland. All Nyon-based employees have been impacted by the One Shire transition and the proposed move to Zug. Shire is planning for the new Zug office to be ready for occupancy in summer 2014, and will phase out the Nyon office over a reasonable period of time to enable employees and their families to manage their re-locations.

In the year to December 31, 2013, the Company incurred reorganization costs totaling $64.6 million, relating to employee involuntary termination benefits and other reorganization costs. The One Shire reorganization is expected to be substantially completed by the end of 2014. Currently, the Company estimates that further costs in respect of the One Shire reorganization of approximately $150 million will be expensed as incurred during 2014.

The liability for reorganization costs arising on the closure of Company's site in Turnhout, Belgium and the One Shire business reorganization at December 31, 2013 is as follows:

	Opening liability at January 1, 2013 $'M	Amount charged to re-organization $'M	Paid/Utilized $'M	Closing liability at December 31, 2013 $'M
Involuntary termination benefits	–	44.7	(29.4)	**15.3**
Other reorganization costs	–	43.5	(34.0)	**9.5**
	–	88.2	(63.4)	**24.8**

At December 31, 2013, the closing reorganization cost liability was recorded within accounts payable and accrued expenses ($24.8 million).

7. Accounts receivable, net

Accounts receivable at December 31, 2013, of $961.2 million (December 31, 2012: $824.2 million), are stated net of a provision for discounts and doubtful accounts of $47.9 million (December 31, 2012: $41.7 million).

Provision for discounts and doubtful accounts:

	2013 $'M	2012 $'M
As at January 1,	**41.7**	31.1
Provision charged to operations	**306.8**	283.3
Provision utilization	**(300.6)**	(272.7)
As at December 31,	**47.9**	41.7

At December 31, 2013 accounts receivable included $37.8 million (December 31, 2012: $38.5 million) related to royalty income.

8. Inventories

Inventories are stated at the lower of cost or market and comprise:

	December 31, 2013 $'M	December 31, 2012 $'M
Finished goods	**156.6**	124.4
Work-in-progress	**240.5**	220.6
Raw materials	**58.2**	91.9
	455.3	436.9

9. Results of discontinued operations and assets held for sale

On January 16, 2014 the Company entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with Organogenesis Inc. (the "Purchaser" or "Organogenesis"), pursuant to which, on January 16, 2014 the Company sold and transferred to the Purchaser certain of the assets (the "Transferred Assets") relating to the manufacturing, marketing, sale and distribution of DERMAGRAFT (the "Business"), and the Purchaser assumed certain of the liabilities relating to the Business. The Company will receive no upfront payment from the Purchaser but is entitled to receive total milestone payments of up to $300 million in cash if the Purchaser meets certain annual net sales targets during the five consecutive calendar years ending with the calendar year ending December 31, 2018.

The Transferred Assets include intellectual property relating to DERMAGRAFT, including patents, trademarks and know-how, regulatory filings and registrations relating to DERMAGRAFT ($611.4 million), certain manufacturing plant, equipment and materials relating to the Business ($29.1 million), and DERMAGRAFT product inventory ($16.2 million) and accounts receivable ($11.8 million). The Company is generally retaining liabilities incurred prior to the date of the Asset Purchase Agreement relating to the DERMAGRAFT business, including the previously disclosed investigation by the US Department of Justice relating to the sales and marketing practices of Advanced Biohealing, Inc. ("ABH").

The Transferred Assets have been measured at their fair value less costs to sell, amounting to $31.6 million, and are presented within "Assets held-for-sale" in the consolidated balance sheet as at December 31, 2013. The fair value of these assets was determined using the income approach, which used significant unobservable (Level 3) inputs (see Note 22 for further details).

On October 22, 2013 the Company announced that it had decided to discontinue the construction of its new manufacturing facility in San Diego. The Company is currently assessing disposal options for this facility. In the year to December 31, 2013, the Company recorded charges of $99.6 million, comprising charges to write down the carrying value of the assets related to this manufacturing facility, accruals for non-cancellable contractual costs in relation to the construction, and a provision for the onerous land lease. These costs have been presented within discontinued operations in the consolidated income statement.

The operating results associated with the DERMAGRAFT business including the costs of discontinuing the second manufacturing facility, have been classified as discontinued operations in the consolidated statements of income for all periods presented.

9. Results of discontinued operations and assets held for sale continued

The components of discontinued operations which relate to the DERMAGRAFT business are as follows:

	2013 $'M	2012 $'M
Revenues:		
Product revenues	**89.8**	153.8
Loss from discontinued operations before income taxes	**(1,080.9)**	(96.4)
Income taxes	**326.4**	36.1
Loss from discontinued operations, net of taxes	**(754.5)**	(60.3)

The loss from discontinued operations before income taxes in 2013 includes: $191.8 million, being the proportion of the RM reporting unit goodwill impairment charge (recorded in the first quarter of 2013) that relates to the DERMAGRAFT business, $636.9 million being the impairment charge recorded upon re-measurement of the divested assets to their fair value less costs to sell in the fourth quarter of 2013, and $99.6 million being amounts previously recorded to Reorganization costs in relation to the DERMAGRAFT business.

10. Prepaid expenses and other current assets

	December 31, 2013 $'M	December 31, 2012 $'M
Prepaid expenses	**29.4**	31.7
Income tax receivable	**177.4**	130.6
Value added taxes receivable	**14.5**	20.9
Other current assets	**41.7**	38.6
	263.0	221.8

11. Property, plant and equipment, net

	December 31, 2013 $'M	December 31, 2012 $'M
Land and buildings	**695.0**	701.2
Office furniture, fittings and equipment	**467.0**	383.8
Warehouse, laboratory and manufacturing equipment	**276.2**	287.2
Assets under construction	**45.6**	93.8
	1,483.8	1,466.0
Less: Accumulated depreciation	**(592.0)**	(510.2)
	891.8	955.8

Depreciation expense for the years to December 31, 2013 and 2012 was $127.6 million and $109.0 million respectively.

12. Goodwill

	December 31, 2013 $'M	December 31, 2012 $'M
Goodwill arising on businesses acquired	**624.6**	644.5

In the year to December 31, 2013 the Company completed the acquisitions of SARcode, Premacure and Lotus, which resulted in goodwill of $86.6 million, $29.6 million and $54.1 million, respectively (see Note 4 for details).

As a result of the re-alignment of the business into a simplified One Shire organization, the Company now comprises one operating and one reportable segment (see note 25 for further details).

	2013 $'M	2012 $'M
As at January 1,	**644.5**	592.6
Acquisitions	**170.3**	48.1
Goodwill impairment charge related to continuing operations	**(7.1)**	–
Goodwill impairment charge related to DERMAGRAFT business and transferred to discontinued operations	**(191.8)**	–
Foreign currency translation	**8.7**	3.8
As at December 31,	**624.6**	644.5

Goodwill is tested for impairment at least annually as at October 1 each year. This assessment is also performed whenever there is a change in circumstances that indicates the carrying value of these assets may not be recoverable.

In the first quarter of 2013 the Company identified circumstances which indicated that the carrying value of goodwill in the Company's former RM reporting unit may not be recoverable, which triggered an impairment test in advance of the annual testing date.

Those circumstances included the results of an independent market research study of the DERMAGRAFT sales potential, commissioned by the Company, which was finalized late in the first quarter of 2013. In addition, the recently completed restructuring of the RM sales and marketing organization and the implementation of a new commercial model had a more pronounced impact than previously expected. As a result of those and other factors forecast future sales were lower than at the time of acquisition.

The results of the Company's March 31, 2013 impairment test showed that the carrying amount of the former RM reporting unit exceeded its fair value and the implied value of the goodwill was $nil. As a result the Company recorded an impairment charge of $198.9 million related to the goodwill allocated to the former RM reporting unit. The RM goodwill impairment charge is not deductible for tax purposes. Accumulated goodwill impairment as at December 31, 2013 was $198.9 million (December 31, 2012: $nil).

The Company determined the estimated fair value of the RM reporting unit using discounted cash flow analyses, which used significant unobservable (Level 3) inputs. These unobservable inputs included, among other things, expected cash flows for the period from March 31, 2013 to December 31, 2023 and the associated discount rate of 15.1%, which was derived from management's best estimate of the after-tax weighted average cost of capital for the RM reporting unit.

Discounted cash flow analyses are dependent upon a number of quantitative and qualitative factors including estimates of forecasted revenue, profitability, earnings before interest, taxes, depreciation and amortization, and terminal values. The discount rates applied in the discounted cash flow analyses also have an impact on the estimates of fair value, as use of a higher rate will result in a lower estimate of fair value.

Following the divestment of DERMAGRAFT (see Note 9) the Company has reclassified the Goodwill and related accumulated impairment of $191.8 million (being the portion of the former RM reporting unit goodwill impairment charge that relates to the DERMAGRAFT business) to discontinued operations.

13. Other intangible assets, net

	December 31, 2013 $'M	December 31, 2012 $'M
Amortized intangible assets		
Intellectual property rights acquired for currently marketed products	**2,573.3**	2,462.0
Acquired product technology	**–**	710.0
Other intangible assets	**46.1**	44.5
	2,619.4	3,216.5
Unamortized intangible assets		
Intellectual property rights acquired for IPR&D	**951.5**	231.0
	3,570.9	3,447.5
Less: Accumulated amortization	**(1,258.3)**	(1,059.4)
	2,312.6	2,388.1

The change in the net book value of other intangible assets for the year to to December 31, 2013 and 2012 is shown in the table below:

	Other intangible assets	
	2013 $'M	2012 $'M
As at January 1,	**2,388.1**	2,493.0
Acquisitions	**731.8**	281.6
Amortization charged	**(152.0)**	(153.6)
Amortization charged on DERMAGRAFT product technology, presented within discontinued operations in the consolidated income statement.	**(39.4)**	(40.5)
Impairment charges	**(19.9)**	(197.9)
Reclassification of DERMAGRAFT product technology to assets held for sale	**(611.4)**	–
Foreign currency translation	**15.4**	5.5
As at December 31,	**2,312.6**	2,388.1

In the year to December 31, 2013 the Company acquired intangible assets totaling $731.8 million, relating to intangible assets acquired with SARcode, Premacure and Lotus (see Note 4 for further details).

In the second quarter of 2013 the Company reviewed certain intangible assets acquired through Movetis N.V. ("Movetis") for impairment and recognized an impairment charge of $19.9 million (2012: $197.9 million) in the consolidated income statement, to write-down these assets to their fair value. The fair values of these assets were determined using the income approach, which used significant unobservable (Level 3) inputs (see Note 22 for further details).

Following the divestment of DERMAGRAFT (see Note 9) the Company has reclassified $6114.4 million of intangible assets related to the DERMAGRAFT product technology to assets held for sale.

Management estimates that the annual amortization charge in respect of intangible assets held at December 31, 2013 will be approximately $127 million for each of the five years to December 31, 2018. Estimated amortization expense can be affected by various factors including future acquisitions, disposals of product rights, regulatory approval and subsequent amortization of acquired IPR&D projects, foreign exchange movements and the technological advancement and regulatory approval of competitor products.

14. Accounts payable and accrued expenses

	December 31, 2013 $'M	December 31, 2012 $'M
Trade accounts payable and accrued purchases	**202.6**	208.1
Accrued rebates – Medicaid	**549.1**	455.6
Accrued rebates – Managed care	**258.1**	184.9
Sales return reserve	**98.8**	90.5
Accrued bonuses	**130.9**	109.0
Accrued employee compensation and benefits payable	**79.4**	64.5
R&D accruals	**69.6**	73.5
Provisions for litigation losses and other claims	**71.7**	118.2
Other accrued expenses	**228.2**	197.2
	1,688.4	1,501.5

15. Other current liabilities

	December 31, 2013 $'M	December 31, 2012 $'M
Income taxes payable	**69.0**	78.4
Value added taxes	**15.8**	23.6
Contingent consideration payable	**12.9**	16.0
Other current liabilities	**21.8**	26.1
	119.5	144.1

16. Convertible bonds

Shire 2.75% Convertible Bonds due 2014

On May 9, 2007, Shire issued $1,100 million in principal amount of Bonds. As of December 31, 2013 all of the Bonds had been converted or redeemed as described below.

On November 26, 2013, Shire issued an optional redemption notice under the Trust Deed to the holders of the Bonds. The aggregate outstanding principal amount of the Bonds on November 25, 2013, the last practicable date prior to the date of the optional redemption notice, was $1,075,070,000. The last day on which holders were able to exercise their conversion rights was December 13, 2013. Those Bonds which were not voluntarily converted by holders were redeemed by the Company on December 27, 2013 at par together with interest accrued to that date. As at December 31, 2013, Bonds in an aggregate principal amount of the $1,099,050,000 had been voluntarily converted into 33,806,464 fully paid Ordinary Shares at a conversion price of US$32.51 per Ordinary Share, in the capital of the Company, with par value of £0.05 each. The remaining outstanding Bonds in an aggregate principal amount of $950,000 were redeemed pursuant to the Optional Redemption Notice issued on November 26, 2013. Following the redemption of all the outstanding Bonds, the Company cancelled the listing of the Bonds on the Official List maintained by the UK Listing Authority and the admission to trading of the Bonds on the Professional Securities Market of the London Stock Exchange.

17. Other long term debt

Term Loan Agreement

On November 11, 2013, the Company entered into a $2.60 billion Facilities Agreement with, among others, Morgan Stanley Bank International Limited (acting as lead arranger and agent) (the "Facilities Agreement"). The Facilities Agreement comprises two credit facilities: (i) a $1.75 billion term loan facility and (ii) a $0.85 billion term loan facility.

On December 13, 2013 and on February 21, 2014, the Company cancelled part of the $2.60 billion term loan facility. The revised Facilities Agreement of $1.40 billion now comprises two credit facilities: (i) a $0.55 billion term loan facility and (ii) a $0.85 billion term loan facility. All other terms and conditions remained unchanged.

The $0.55 billion term loan facility, which matures on November 10, 2014, may be used only to finance the purchase price payable in respect of the Company's proposed acquisition of ViroPharma (including certain related costs) and for the redemption of the Company's Bonds. The Company has the option to extend the maturity of the $0.55 billion term loan facility once by a further 364 days.

The $0.85 billion term loan facility, which matures on November 11, 2015, may be used only to finance the purchase price payable in respect of the Company's proposed acquisition of ViroPharma (including certain related costs).

Interest on any loans made under the facilities will be payable on the last day of each interest period, which may be one week or one, two, three or six months at the election of Shire, or as otherwise agreed with the lenders. The interest rate applicable to the $0.55 billion term loan facility is LIBOR plus 0.75% per annum and increases by 0.25% per annum on August 11, 2014 and on three-month intervals thereafter.

The interest rate applicable to the $0.85 billion term loan facility commenced at LIBOR plus 1.15% per annum until delivery of the compliance certificate for the year ending December 31, 2013 and thereafter is subject to change depending upon the prevailing ratio of Net Debt to EBITDA of the Group (each as defined in the Facilities Agreement), in respect of the most recently completed financial year or financial half year.

The Company shall also pay a commitment fee on the available but unutilized commitments under the $0.55 billion term loan facility and the $0.85 billion term loan facility for the availability period applicable to each facility. With effect from first utilization, the commitment fee rate will be 35% of the applicable margin. Before first utilization, the commitment fee rate will increase in stages from 0% to 35% of the applicable margin over a period of three months.

The Facilities Agreement includes customary representations and warranties, covenants and events of default, including requirements that the ratio of Net Debt to EBITDA of the Group (each as defined in the Facilities Agreement) must not, at any time, exceed 3.5:1 for the Relevant Period (as defined in the Facilities Agreement), except that following certain acquisitions, including the Viropharm acquisition, the Company may elect to increase the ratio to 4.0:1 in the relevant period in which the acquisition was completed and the immediately following relevant period. In addition, for each 12-month period ending December 31 or June 30, the ratio of EBITDA of the Group to Net Interest (each as defined in the Facilities Agreement) must not be less than 4.0:1.

The Facilities Agreement restricts (subject to certain covenants) Shire's ability to incur additional financial indebtedness, grant security over its assets or provide or guarantee loans. Further, any lender may require mandatory prepayment of its participation if there is a change of control of the Company. In addition, in certain circumstances, the net proceeds of certain shares, undertakings or business disposals by the Company must be applied towards the mandatory prepayment of the facilities, subject to certain exceptions.

Events of default under the facilities include: (i) non-payment of any amounts due under the facilities, (ii) failure to satisfy any financial covenants, (iii) material misrepresentation in any of the finance documents, (iv) failure to pay, or certain other defaults, under other financial indebtedness, (v) certain insolvency events or proceedings, (vi) material adverse changes in the business, operations, assets or financial condition of the Company and its subsidiaries, (vii) if it becomes unlawful for the Company or any of its subsidiaries that are parties to the Facilities Agreement to perform their obligations or (viii) if S the Company or any subsidiary of the Company which is a party to the Facilities Agreement repudiates the Facilities Agreement or any other finance document, among others.

The Facilities Agreement is governed by English law.

18. Other non-current liabilities

	December 31, 2013 $'M	December 31, 2012 $'M
Income taxes payable	**115.7**	58.9
Deferred revenue	**9.8**	11.4
Deferred rent	**11.3**	11.9
Insurance provisions	**1.0**	12.3
Contingent consideration payable	**393.0**	120.4
Other non-current liabilities	**57.7**	26.7
	588.5	241.6

19. Commitments and contingencies

(a) Leases

Future minimum lease payments under operating leases at December 31, 2013 are presented below:

	Operating leases $'M
2014	**44.9**
2015	**33.6**
2016	**23.9**
2017	**17.9**
2018	**12.2**
Thereafter	**83.4**
	215.9

The Company leases land, facilities, motor vehicles and certain equipment under operating leases expiring through 2032. Lease and rental expense amounted to $44.0 million and $43.2 million for the years ended December 31, 2013 and 2012 respectively, which is predominately included in SG&A expenses in the Company's consolidated income statement.

(b) Letters of credit and guarantees

At December 31, 2013, the Company had irrevocable standby letters of credit and guarantees with various banks and insurance companies totaling $51.0 million, providing security for the Company's performance of various obligations. These obligations are primarily in respect of the recoverability of insurance claims, lease obligations and supply commitments.

(c) Collaborative arrangements

Details of significant updates in collaborative arrangements are included below:

In-licensing arrangements

(i) Research Collaboration with Santaris Pharma A/S ("Santaris") on Locked Nucleic Acid ("LNA") Drug Platform

On August 24, 2009, the Company announced that it had entered into a research collaboration with Santaris, to develop its proprietary LNA technology in a range of rare diseases. LNA technology has the benefit of shortened target validation and proof of concept, potentially increasing the speed and lowering the cost of development. As part of the joint research project Santaris will design, develop and deliver pre-clinical LNA oligonucleotides for the Company -selected orphan disease targets, and the Company will have the exclusive right to further develop and commercialize these candidate compounds on a worldwide basis.

In the year to December 31, 2013 the Company paid success milestones and other support costs of $1.5 million (2012: $3.0 million) and $4.5 million (2012: $8.1 million) to Santaris respectively, which were expensed to R&D. The Company has remaining obligations to pay Santaris development and sales milestones up to a maximum of $71.0 million for each current indication. The Company will also pay single or double digit tiered royalties on net sales of the product.

The Company and Santaris have formed a joint research committee to monitor R&D activities through preclinical lead candidate selection at which point all development and commercialization costs will be the responsibility of the Company.

(iii) Collaboration and license agreement with Sangamo to develop therapeutics for hemophilia

On February 1, 2012 the Company and Sangamo announced that they had entered into a collaboration and license agreement to develop therapeutics for hemophilia and other monogenic diseases based on Sangamo's ZFP technology. Sangamo is responsible for all activities through submission of Investigational New Drug Applications and European Clinical Trial Applications for each product and the Company will reimburse Sangamo for its internal and external research program-related costs. The Company is responsible for clinical development and commercialization of products arising from the collaboration.

19. Commitments and contingencies continued

In the year to December 31, 2012 the Company made an upfront payment to Sangamo of $13.0 million, for technology access and R&D funding, which was expensed to R&D.

In the year to December 31, 2013 the Company's share of R&D costs under this collaboration agreement was $15.2 million (2012: $8.9 million) which were expensed to R&D. The Company may be required to pay research, regulatory, development and commercial milestone payments up to a maximum of $213.5 million and to pay royalties on net sales of the product.

Out-licensing arrangements

The Company has entered into various collaborative arrangements under which the Company has out-licensed certain product or intellectual property rights for consideration such as up-front payments, development milestones, sales milestones and/or royalty payments. In some of these arrangements the Company and the licensee are both actively involved in the development and commercialization of the licensed product and have exposure to risks and rewards dependent on its commercial success. Under the terms of these arrangements, the Company may receive development milestone payments up to an aggregate amount of $39.0 million and sales milestones up to an aggregate amount of $71.5 million. The receipt of these substantive milestones is uncertain and contingent on the achievement of certain development milestones or the achievement of a specified level of annual net sales by the licensee. In the year to December 31, 2013 the Company received up-front and milestone payments totaling $3.0 million (2012: $18.3 million). In the year to December 31, 2013 Shire recognized milestone income of $5.0 million (2012: $19.4 million) in other revenues and $58.3 million (2012: $83.8 million) in product sales for shipment of product to the relevant licensee.

(d) Commitments

(i) Clinical testing

At December 31, 2013 the Company had committed to pay approximately $346 million (December 31, 2012: $425 million) to contract vendors for administering and executing clinical trials. The timing of these payments is dependent upon actual services performed by the organizations as determined by patient enrollment levels and related activities.

(ii) Contract manufacturing

At December 31, 2013 the Company had committed to pay approximately $109 million (December 31, 2012: $125 million) in respect of contract manufacturing. The Company expects to pay $109 million of these commitments in 2014.

(iii) Other purchasing commitments

At December 31, 2013 the Company had committed to pay approximately $128 million (December 31, 2012: $145 million) for future purchases of goods and services, predominantly relating to active pharmaceutical ingredients sourcing. The Company expects to pay $121 million of these commitments in 2014.

(iv) Investment commitments

At December 31, 2013 the Company had outstanding commitments to subscribe for interests in companies and partnerships for amounts totaling $14 million (December 31, 2012: $15 million) which may all be payable in 2014, depending on the timing of capital calls. The investment commitments include additional funding to Nimbus Neptune, Inc. a variable interest entity, of which the Company is not the primary beneficiary.

Under the terms of the agreement Nimbus Neptune, Inc. controls and conducts all related research up to achievement of drug candidate status at which point Shire will have an exclusive option to acquire the program. Shire will then be responsible for all clinical development and future commercialization activities. Nimbus Neptune Inc. will be eligible to receive further consideration contingent upon achievement of certain development and commercial milestones.

(v) Capital commitments

At December 31, 2013 the Company had committed to spend $12 million (December 31, 2012: $97 million) on capital projects.

(e) Legal and other proceedings

The Company expenses legal costs as they are incurred.

The Company recognizes loss contingency provisions for probable losses when management is able to reasonably estimate the loss. When the estimated loss lies within a range, the Company records a loss contingency provision based on its best estimate of the probable loss. If no particular amount within that range is a better estimate than any other amount, the minimum amount is recorded. Estimates of losses may be developed substantially before the ultimate loss is known, and are therefore refined each accounting period as additional information becomes known. In instances where the Company is unable to develop a reasonable estimate of loss, no loss contingency provision is recorded at that time. As information becomes known a loss contingency provision is recorded when a reasonable estimate can be made. The estimates are reviewed quarterly and the estimates are changed when expectations are revised. An outcome that deviates from the Company's estimate may result in an additional expense or release in a future accounting period. At December 31, 2013 provisions for litigation losses, insurance claims and other disputes totaled $72.7 million (December 31, 2012: $130.5 million).

The Company's principal pending legal and other proceedings are disclosed below. The outcomes of these proceedings are not always predictable and can be affected by various factors. For those legal and other proceedings for which it is considered at least reasonably possible that a loss has been incurred, the Company discloses the possible loss or range of possible loss in excess of the recorded loss contingency provision, if any, where such excess is both material and estimable.

VYVANSE

In May and June 2011, the Company was notified that six separate Abbreviated New Drug Applications ("ANDAs") were submitted under the Hatch-Waxman Act seeking permission to market generic versions of all approved strengths of VYVANSE. The notices were from Sandoz, Inc. ("Sandoz"); Amneal Pharmaceuticals LLC ("Amneal"); Watson Laboratories, Inc.; Roxane Laboratories, Inc. ("Roxane"); Mylan Pharmaceuticals, Inc.; and Actavis Elizabeth LLC and Actavis Inc. (collectively, "Actavis"). Within the requisite 45 day period, the Company filed lawsuits for infringement of certain of Shire's VYVANSE patents in the US District Court for the District of New Jersey against each of Sandoz, Roxane, Amneal and Actavis; in the US District Court for the Central District of California against Watson Laboratories, Inc.; and in the US District Court for the Eastern District of New York against Mylan Pharmaceuticals, Inc. and Mylan Inc. (collectively "Mylan"). In February 2013, the Company withdrew its lawsuit against Watson following Watson's withdrawal of its ANDA. On December 9, 2011, the District Court of New Jersey consolidated the Sandoz, Roxane, Amneal and Actavis cases.

19. Commitments and contingencies continued

The filing of the lawsuits triggered a stay of approval of all six ANDAs for up to 30 months from the expiration of the new chemical entity exclusivity, which will expire on August 23, 2014. In December 2011 and February 2012, the Company received additional notifications that Mylan had filed further certifications challenging other VYVANSE patents listed in the Orange Book. Within the requisite 45 day period, the Company filed a new lawsuit against Mylan, Johnson Matthey Pharmaceutical Materials and Johnson Matthey Inc. in New Jersey. In May 2012, the Mylan case that was filed in the Eastern District of New York was transferred and consolidated with the Mylan, Sandoz, Roxane, Amneal and Actavis cases in New Jersey. In December 2012, the parties completed a Markman briefing. A Markman hearing took place on August 5, 2013 and a ruling was rendered on August 8, 2013. No trial dates have been set.

INTUNIV

Between March 2010 and March 2011, the Company was notified that seven separate ANDAs had been submitted to the FDA under the Hatch-Waxman Act seeking permission to market generic versions of all approved strengths of INTUNIV. The ANDA filers were Actavis Inc., Teva Pharmaceuticals USA, Inc., Anchen, Inc., Watson Pharmaceuticals, Inc., Impax Laboratories, Inc., Mylan Pharmaceuticals, Inc., Sandoz, Inc., and certain of their respective affiliates. the Company filed lawsuits against each of these ANDA filers. All of the lawsuits have now been settled. Under the terms of the Actavis settlement, Actavis has a license to make and market Actavis' generic versions of INTUNIV in the United States on December 1, 2014. Such sales will require the payment of a royalty of 25% of gross profits to the Company during the 180 day period of Actavis' exclusivity. All other parties with whom the Company has settled will be able to enter the market with their respective ANDA-approved products after Actavis' 180 day exclusivity period has expired. Each of the settlements included a consent judgment confirming that the proposed ANDA products infringe the patents-in-suit, U.S. Patents 6,287,599 and 6,811,794, and that those patents are valid and enforceable with respect to their respective proposed ANDA products. U.S. Patent 5,854,290, which was originally asserted in some of the litigations, has been dedicated to the public.

FOSRENOL

Between February 2009 and December 2010 the Company was notified that four separate ANDAs had been submitted to the FDA under the Hatch-Waxman Act seeking permission to market generic versions of all approved strengths of FOSRENOL. The ANDA filers were Barr Laboratories, Inc.; Mylan, Inc.; Natco Pharma Limited and Alkem Laboratories Ltd., and certain of their respective affiliates. The Company filed lawsuits against each of these ANDA filers. In April 2011, the Company and Barr reached a settlement and the lawsuit against Barr was dismissed. The settlement provides Barr with a license to market its own generic version of FOSRENOL upon receiving FDA approval in the US on the earlier of the date of entry of another company's generic version of FOSRENOL to the US market, or October 1, 2021. The Company's lawsuits against Mylan, Alkem and Natco have each been dismissed, and consequently, each of Mylan, Alkem and Natco may enter the US market upon FDA approval of their respective ANDA products.

LIALDA

In May 2010 the Company was notified that Zydus Pharmaceuticals USA, Inc. ("Zydus") had submitted an ANDA under the Hatch-Waxman Act seeking permission to market a generic version of LIALDA. Within the requisite 45 day period, the Company filed a lawsuit in the US District Court for the District of Delaware against Zydus and Cadila Healthcare Limited, doing business as Zydus Cadila. As of February 22, 2013, the case has been administratively closed. No further activity will take place until after one of the parties files a motion to reopen the case.

In February 2012, the Company was notified that Osmotica Pharmaceutical Corporation ("Osmotica") had submitted an ANDA under the Hatch-Waxman Act seeking permission to market a generic version of LIALDA. Within the requisite 45 day period, the Company filed a lawsuit in the US District Court for the Northern District of Georgia against Osmotica. The filing of the lawsuit triggered a stay of approval of the ANDA for up to 30 months. The court has appointed a special master to assist with a Markman hearing and to preside over any discovery disputes. A Markman hearing took place on August 22, 2013 but no ruling has been rendered. No trial date has been set.

In March 2012, the Company was notified that Watson Laboratories Inc.-Florida had submitted an ANDA under the Hatch-Waxman Act seeking permission to market a generic version of LIALDA. Within the requisite 45 day period, the Company filed a lawsuit in the US District Court for the Southern District of Florida against Watson Laboratories Inc.-Florida and Watson Pharmaceuticals, Inc. The filing of the lawsuit triggered a stay of approval of the ANDA for up to 30 months. In August 2012, the Company filed an amended complaint adding Watson Pharma, Inc. and Watson Laboratories, Inc. as defendants. A Markman hearing was held on December 20, 2012 and a written Markman decision was given by the court on January 17, 2013. A trial took place in April, 2013 and on May 9, 2013 the trial court issued a decision finding that the proposed generic product infringes the patent-in-suit and that the patent is not invalid. Watson has appealed the trial court's ruling to the Court of Appeals of the Federal Circuit ("CAFC") and a hearing took place on December 2, 2013. No ruling has been issued by the CAFC.

In April 2012, the Company was notified that Mylan Pharmaceuticals, Inc. ("Mylan") had submitted an ANDA under the Hatch-Waxman Act seeking permission to market a generic version of LIALDA. Within the requisite 45 day period, the Company filed a lawsuit in the US District Court for the Middle District of Florida against Mylan. The filing of the lawsuit triggered a stay of approval of the ANDA for up to 30 months. No date for a Markman hearing has been set. A trial is scheduled to occur in September, 2014.

19. Commitments and contingencies continued

ADDERALL XR

On November 1, 2010 Impax Laboratories, Inc. ("Impax") filed suit against the Company in the US District Court for the Southern District of New York claiming that the Company was in breach of its supply contract for the authorized generic version of ADDERALL XR. On February 7, 2013 the Company and Impax settled this dispute and agreed to discontinue all court and related proceedings. Under the terms of the settlement the Company made a one-time cash payment to Impax of $48 million in the first quarter of 2013. Also as part of the settlement, the parties have entered into an amended supply agreement which will govern the supply of authorized generic ADDERALL XR from the Company to Impax until the end of the supply term on September 30, 2014.

In February 2011, the Company was notified that Watson Laboratories, Inc.-Florida had submitted an ANDA under the Hatch-Waxman Act seeking permission to market a generic version of all approved strengths of ADDERALL XR. the Company filed a lawsuit in the U.S. District Court for the Southern District of New York against Watson Pharmaceuticals, Inc. and certain of its affiliates for infringement of certain of the Company's ADDERALL XR patents. Par Pharmaceutical, Inc. (the successor in interest to Watson's ANDA for ADDERALL XR) has withdrawn its ANDA, and the litigation was dismissed on January 23, 2013 by agreement between the Company, Watson and Par Pharmaceutical, Inc.

In February 2013, the Company was notified that Neos Therapeutics, Inc. had submitted a New Drug Application under section 505(b)(2) of the Hatch Waxman Act ("505(b)(2) Application"). The 505(b)(2) Application was submitted with a paragraph IV certification for U.S. Reissued Patent Nos. RE41,148 and 42,096 listed in the Orange Book. Within the requisite 45 day period, the Company filed a lawsuit in the Northern District of Texas against Neos Therapeutics, Inc. for infringement of those patents. The filing of the lawsuit triggered a stay of final approval of the 505(b)(2) Application for 30 months. No trial date has been set.

Subpoena related to ADDERALL XR, DAYTRANA and VYVANSE

On September 23, 2009 the Company received a civil subpoena from the US Department of Health and Human Services Office of Inspector General in coordination with the US Attorney for the Eastern District of Pennsylvania seeking production of documents related to the sales and marketing of ADDERALL XR, DAYTRANA and VYVANSE. The investigation covered whether the Company engaged in off-label promotion and other conduct that may implicate the civil False Claims Act.

On February 1, 2013 the Company announced it had reached an agreement in principle to resolve this matter. The agreement also addresses sales and marketing practices relating to LIALDA and PENTASA pursuant to a subsequent voluntary disclosure made by the Company. the Company cooperated with the US Government throughout the process that led to this agreement in principle.

The Company has recorded a $57.5 million charge comprised of the agreement in principle amount, interest and costs, which has been charged to SG&A in the fourth quarter of 2012. The agreement in principle is subject to change until this matter is finally resolved. Discussions between the Company and the US Government are ongoing to establish a final resolution to the investigation.

Louisiana Complaint related to ADDERALL, ADDERALL XR, DAYTRANA, VYVANSE and INTUNIV

On July 22 and July 23, 2013, the State of Louisiana served Shire LLC and Shire US Inc., respectively, with a civil complaint filed in the 19th Judicial District Court for the Parish of East Baton Rouge. The complaint alleges that the Company's sales, marketing, and promotion of ADDERALL, ADDERALL XR, DAYTRANA, VYVANSE and INTUNIV violated state law. The State is seeking monetary relief for its claims of fraud, redhibition, and unjust enrichment, as well as violations of Louisiana's Medical Assistance Programs Integrity Law, Unfair Trade Practices Act, and anti-trust laws. Shire intends vigorously to defend these claims. The Company is not in a position at this time to predict the timing, result or outcome of these claims.

Investigation related to DERMAGRAFT

The Company understands that the Department of Justice, including the US Attorney's Office for the Middle District of Florida, Tampa Division and the US Attorney's Office for Washington, DC, is conducting civil and criminal investigations into the sales and marketing practices of Advanced BioHealing Inc. ("ABH") relating to DERMAGRAFT. Shire is cooperating fully with these investigations. The Company is not in a position at this time to predict the scope, duration or outcome of these investigations.

Civil Investigative Demand for ADDERALL XR, ADDERALL XR Authorized Generics and VYVANSE

On April 5, 2012 the Company received a Civil Investigative Demand ("CID") from the United States Federal Trade Commission ("FTC") requesting that the Company provide it with certain information regarding the supply and reported shortages of ADDERALL XR and its authorized generics and the marketing and sale of ADDERALL XR, its authorized generics and VYVANSE. The Company believes the CID was triggered by reports of product shortages of ADDERALL XR and the authorized generic products in 2011. The Company responded to the CID in 2012. On August 29, 2013, the FTC informed the Company that it was closing the investigation without taking any further action.

20. Accumulated other comprehensive income

The changes in accumulated other comprehensive income, net of their related tax effects, in the year to to December 31, 2013 are included below:

	Foreign currency translation adjustment	Unrealized holding gain/ (loss) on available-for-sale securities	Accumulated other comprehensive income
As at January 1, 2013	85.1	1.8	86.9
Current period change:			
Other Comprehensive income before reclassification	25.3	1.5	26.8
Gain transferred to the income statement (within Other (expense)/income, net) on disposal of available-for-sale securities	–	(3.5)	(3.5)
Net current period other comprehensive income	25.3	(2.0)	23.3
As at December 31, 2013	110.4	(0.2)	110.2

21. Financial instruments

Treasury policies and organization

The Company's principal treasury operations are coordinated by its corporate treasury function. All treasury operations are conducted within a framework of policies and procedures approved annually by the Board. As a matter of policy, the Company does not undertake speculative transactions that would increase its currency or interest rate exposure.

Interest rate risk

The Company is exposed to interest rate risk on its $1,200 million Revolving Credit Facility, its $0.55 billion term loan facility, its $0.85 billion term loan facility (the "Facilities"), to the extent the Facilities are utilized, restricted cash, cash and cash equivalents and on foreign exchange contracts on which interest is at floating rates. This exposure is primarily to US dollar, Pounds sterling, Euro and Canadian dollar interest rates. The Company has evaluated the interest rate risk on its debt facilities and considers the floating rate as appropriate. As the Company maintains all of its cash, liquid investments and foreign exchange contracts on a short term basis for liquidity purposes, this risk is not actively managed. In the year to to December 31, 2013 the average interest rate received on cash and liquid investments was less than 1% per annum. The largest proportion of these cash and liquid investments was in US dollar money market and liquidity funds. At December 31, 2013 the Facilities were not utilized.

The Company incurred interest at a fixed rate of 2.75% on its $1,100 million in principal amount convertible bonds which was converted and redeemed at December 31, 2013.

No derivative instruments were entered into during the year to December 31, 2013 to manage interest rate exposure. The Company continues to review its interest rate risk and the policies in place to manage the risk.

Credit risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of short term cash investments, derivative contracts and trade accounts receivable (from product sales and from third parties from which the Company receives royalties). Cash is invested in short term money market instruments, including money market and liquidity funds and bank term deposits. The money market and liquidity funds in which the Company invests are all triple A rated by both Standard and Poor's and by Moody's credit rating agencies.

The Company is exposed to the credit risk of the counterparties with which it enters into derivative instruments. The Company limits this exposure through a system of internal credit limits which vary according to ratings assigned to the counterparties by the major rating agencies. The internal credit limits are approved by the Board and exposure against these limits is monitored by the corporate treasury function. The counterparties to these derivatives contracts are major international financial institutions.

The Company's revenues from product sales in the US are mainly governed by agreements with major pharmaceutical wholesalers and relationships with other pharmaceutical distributors and retail pharmacy chains. For the year to December 31, 2013 there were three customers in the US that accounted for 52% of the Company's product sales. However, such customers typically have significant cash resources and as such the risk from concentration of credit is considered acceptable. The Company has taken positive steps to manage any credit risk associated with these transactions and operates clearly defined credit evaluation procedures. However, an inability of one or more of these wholesalers to honor their debts to the Company could have an adverse effect on the Company's financial condition and results of operations.

21. Financial instruments continued

A substantial portion of the Company's accounts receivable in countries outside of the United States is derived from product sales to government-owned or government-supported healthcare providers. The Company's recovery of these accounts receivable is therefore dependent upon the financial stability and creditworthiness of the relevant governments. In recent years the creditworthiness and general economic condition of a number of Eurozone countries (including Greece, Italy, Portugal and Spain (the "relevant countries")) has deteriorated. As a result, in some of these countries the Company is experiencing delays in the remittance of receivables due from government-owned or government-supported healthcare providers. The Company continued to receive remittances in relation to government-owned or government-supported healthcare providers in all the relevant countries in the year to December 31, 2013, including receipts of $116.8 million and $144.7 million in respect of Spanish and Italian receivables, respectively.

To date the Company has not incurred significant losses on accounts receivable in the relevant countries, and continues to consider that such accounts receivable are recoverable. The Company will continue to evaluate all its accounts receivable for potential collection risks and has made provision for amounts where collection is considered to be doubtful. If the financial condition of the relevant countries or other Eurozone countries suffer significant deterioration, such that their ability to make payments becomes uncertain, or if one or more Eurozone member countries withdraws from the Euro, additional allowances for doubtful accounts may be required, and losses may be incurred, in future periods. Any such loss could have an adverse effect on the Company's financial condition and results of operations.

Foreign exchange risk

The Company trades in numerous countries and as a consequence has transactional and translational foreign exchange exposures.

Transactional exposure arises where transactions occur in currencies different to the functional currency of the relevant subsidiary. The main trading currencies of the Company are the US dollar, Pounds Sterling, Swiss Franc and the Euro. It is the Company's policy that these exposures are minimized to the extent practicable by denominating transactions in the subsidiary's functional currency.

Where significant exposures remain, the Company uses foreign exchange contracts (being spot, forward and swap contracts) to manage the exposure for balance sheet assets and liabilities that are denominated in currencies different to the functional currency of the relevant subsidiary. These assets and liabilities relate predominantly to intercompany financing. The foreign exchange contracts have not been designated as hedging instruments. Cash flows from derivative instruments are presented within net cash provided by operating activities in the consolidated cash flow statement, unless the derivative instruments are economically hedging specific investing or financing activities.

Translational foreign exchange exposure arises on the translation into US dollars of the financial statements of non-US dollar functional subsidiaries.

At December 31, 2013 the Company had 29 swap and forward foreign exchange contracts outstanding to manage currency risk. The swap and forward contracts mature within 90 days. The Company did not have credit risk related contingent features or collateral linked to the derivatives. The Company has master netting agreements with a number of counterparties to these foreign exchange contracts and on the occurrence of specified events, the Company has the ability to terminate contracts and settle them with a net payment by one party to the other. The Company has elected to present derivative assets and derivative liabilities on a gross basis in the consolidated balance sheet. As at December 31, 2013 the potential effect of rights of set off associated with the foreign exchange contracts would be an offset to both assets and liabilities of $0.7 million, resulting in net derivative assets and derivative liabilities of $3.3 million and $2.1 million, respectively. Further details are included below:

		Fair value December 31, 2013 $'M	Fair value December 31, 2012 $'M
Assets	Prepaid expenses and other current assets	**4.0**	1.3
Liabilities	Other current liabilities	**2.8**	3.0

Net (losses)/gains (both realized and unrealized) arising on foreign exchange contracts have been classified in the consolidated statements of income as follows:

	Location of net (loss)/gain recognized in income	**Amount of net (loss)/gain recognized in income**	
In the year to		**December 31, 2013 $'M**	December 31, 2012 $'M
Foreign exchange contracts	Other income, net	**(1.8)**	6.2

These net foreign exchange (losses)/gains are offset within Other income, net by net foreign exchange gains/(losses) arising on the balance sheet items that these contracts were put in place to manage.

22. Fair value measurement

Assets and liabilities that are measured at fair value on a recurring basis

As at December 31, 2013 and December 31, 2012 the following financial assets and liabilities are measured at fair value on a recurring basis using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

	Carrying value	Fair value			
At December 31, 2013	**$'M**	**Total $'M**	**Level 1 $'M**	**Level 2 $'M**	**Level 3 $'M**
Financial assets:					
Available-for-sale securities[1]	**6.7**	**6.7**	**6.7**	**–**	**–**
Contingent consideration receivable[2]	**36.1**	**36.1**	**–**	**–**	**36.1**
Foreign exchange contracts	**4.0**	**4.0**	**–**	**4.0**	**–**
Financial liabilities:					
Foreign exchange contracts	**2.8**	**2.8**	**–**	**2.8**	**–**
Contingent consideration payable[3]	**405.9**	**405.9**	**–**	**–**	**405.9**

At December 31, 2012	$'M	Total $'M	Level 1 $'M	Level 2 $'M	Level 3 $'M
Financial assets:					
Available-for-sale securities[1]	14.2	14.2	14.2	–	–
Contingent consideration receivable[2]	38.3	38.3	–	–	38.3
Foreign exchange contracts	1.3	1.3	–	1.3	–
Financial liabilities:					
Foreign exchange contracts	3.0	3.0	–	3.0	–
Contingent consideration payable[3]	136.4	136.4	–	–	136.4

1 Available-for-sale securities are included within Investments in the consolidated balance sheet.
2 Contingent consideration receivable is included within Prepaid expenses and other current assets and Other non-current assets in the consolidated balance sheet.
3 Contingent consideration payable is included within Other current liabilities and Other non-current liabilities in the consolidated balance sheet.

Certain estimates and judgments were required to develop the fair value amounts. The fair value amounts shown above are not necessarily indicative of the amounts that the Company would realize upon disposition, nor do they indicate the Company's intent or ability to dispose of the financial instrument.

The following methods and assumptions were used to estimate the fair value of each material class of financial instrument:

- Available-for-sale securities – the fair values of available-for-sale securities are estimated based on quoted market prices for those investments.
- Contingent consideration receivable – the fair value of the contingent consideration receivable has been estimated using the income approach (using a probability weighted discounted cash flow method).
- Foreign exchange contracts – the fair values of the swap and forward foreign exchange contracts have been determined using an income approach based on current market expectations about the future cash flows.
- Contingent consideration payable – the fair value of the contingent consideration payable has been estimated using the income approach (using a probability weighted discounted cash flow method).

22. Fair value measurement continued

Assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3)

The change in the fair value of the Company's contingent consideration receivable and payables, which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3), are as follows:

Contingent consideration receivable	2013 $'M	2012 $'M
Balance at January 1,	**38.3**	37.8
Gain recognized in the income statement (within Gain on sale of product rights) due to change in fair value during the period	**15.9**	18.1
Reclassification of amounts to Other receivables within Other current assets	**(19.5)**	(18.7)
Amounts recorded to other comprehensive income (within foreign currency translation adjustments)	**1.4**	1.1
Balance at December 31,	**36.1**	38.3

Contingent consideration payable	2013 $'M	2012 $'M
Balance at January 1,	**136.4**	–
Initial recognition of contingent consideration payable	**451.4**	127.8
Change in fair value during the period with the corresponding adjustment recognized as a gain in the income statement (within Integration and acquisition costs)	**(159.1)**	9.2
Reclassification of amounts to Other current liabilities	**(13.9)**	(8.8)
Change in fair value during the period with corresponding adjustment to the associated intangible asset	**(8.9)**	8.2
Balance at December 31,	**405.9**	136.4

Quantitative information about sssets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3)

Quantitative information about the Company's recurring Level 3 fair value measurements is included below:

Financial assets:	Fair value at the measurement date			
At December 31, 2013	Fair value $M	Valuation technique	Significant unobservable Inputs	Range
Contingent consideration receivable ("CCR")	36.1	Income approach (probability weighted discounted cash flow)	Probability weightings applied to different sales scenarios	10 to 45%
			Future forecast royalties receivable at relevant contractual royalty rates	$40 million to $148 million
			Assumed market participant discount rate	6.2%

Financial liabilities:	Fair value at the measurement date			
At December 31, 2013	Fair value $M	Valuation technique	Significant unobservable Inputs	Range
Contingent consideration payable	405.9	Income approach (probability weighted discounted cash flow)	Cumulative probability of milestones being achieved	18 to 57% (weighted average)
			Assumed market participant discount rate	2.9 to 15% (weighted average)
			Periods in which milestones are expected to be achieved	2014 to 2025
			Forecast quarterly royalties payable on net sales of relevant products	$2.4 to $7.6 million

22. Fair value measurement continued

The Company re-measures the CCR (relating to contingent consideration due to the Company following divestment of one of the Company's products) at fair value at each balance sheet date, with the fair value measurement based on forecast cash flows, over a number of scenarios which vary depending on the expected performance outcome of the product following divestment. The forecast cash flows under each of these differing outcomes have been included in probability weighted estimates used by the Company in determining the fair value of the CCR.

Contingent consideration payable represents future milestones the Company may be required to pay in conjunction with various business combinations and future royalties payable as a result of certain business combinations and licenses. The amount ultimately payable by the Company in relation to business combinations is dependent upon the achievement of specified future milestones, such as the achievement of certain future development, regulatory and sales milestones. The Company assesses the probability, and estimated timing, of these milestones being achieved and re-measures the related contingent consideration to fair value each balance sheet date. The amount of contingent consideration which may ultimately be payable by the Company in relation to future royalties is dependent upon future net sales of the relevant products over the life of the royalty term. The Company assesses the present value of forecast future net sales of the relevant products and re-measures the related contingent consideration to fair value each balance sheet date.

The fair value of the Company's contingent consideration receivable and payable could significantly increase or decrease due to changes in certain assumptions which underpin the fair value measurements. Each set of assumptions and milestones are specific to the individual contingent consideration receivable or payable. The assumptions include, among other things, the probability and expected timing of certain milestones being achieved, the forecast future net sales of the relevant products and related future royalties payable, the probability weightings applied to different sales scenarios of one of the Company's divested products and forecast future royalties receivable under scenarios developed by the Company, and the discount rates used to determine the present value of contingent future cash flows. The Company regularly reviews these assumptions, and makes adjustments to the fair value measurements as required by facts and circumstances.

Assets measured at fair value on a non-recurring basis in the period using significant unobservable inputs (Level 3)
In the second quarter of 2013 the Company reviewed certain IPR&D intangible assets acquired through Movetis for impairment and recognized an impairment charge of $19.9 million, recorded within R&D in the consolidated income statement, to write-down these assets to their fair value. The fair value of these assets was determined using the income approach, which used significant unobservable (Level 3) inputs. These unobservable inputs included, among other things, risk-adjusted forecast future cash flows to be generated by these assets and the determination of an appropriate discount rate to be applied in calculating the present value of forecast future cash flows. The fair value of these assets, determined at the time of the impairment review, was $20.3 million.

On January 16, 2014, the Company sold and transferred certain of the assets relating to the manufacturing, marketing, sale and distribution of DERMAGRAFT to Organogenesis Inc (see Note 9 for details). The Transferred Assets include intellectual property relating to DERMAGRAFT, including patents, trademarks and know-how, regulatory filings and registrations relating to DERMAGRAFT, certain manufacturing plant, equipment and materials relating to the Business, and DERMAGRAFT product inventory and accounts receivable. The Transferred Assets have been measured at their fair value less costs to sell as at December 31, 2013. An impairment charge of $636.9 million was recorded within discontinued operations in the consolidated income statement upon re-measurement of the divested assets to their fair value less costs to sell. The fair value of these assets was determined using the income approach, which used significant unobservable (Level 3) inputs. These unobservable inputs included, among other things, risk-adjusted forecast future cash flows to be generated by the Company following the divestment of these assets and the determination of an appropriate discount rate to be applied in calculating the present value of forecast future cash flows. The fair value of these assets at the date the held-for-sale conditions were met amounted to $31.6 million.

Quantitative information about Non-Recurring Level 3 Fair Value Measurements which occurred in the period is included below:

	Fair value at the measurement date			
At December 31, 2013	Fair value $M	Valuation Technique	Significant unobservable Inputs	Rate used
Movetis-related IPR&D intangible assets	20.3	Income approach (discounted cash flow)	Decline in forecast peak sales since last impairment test	50%
			Assumed market participant discount rate	8.9%
DERMAGRAFT assets held-for-sale	31.6	Income approach (discounted cash flow)	Future forecast milestones to be received	$15 to $95 million
			Assumed market participant discount rate	11.5%

22. Fair value measurement continued

Financial assets and liabilities that are not measured at fair value on a recurring basis

The carrying amounts and estimated fair values as at December 31, 2013 and December 31, 2012 of the Company's financial assets and liabilities which are not measured at fair value on a recurring basis are as follows:

	December 31, 2013		December 31, 2013	
	Carrying amount $'M	Fair value $'M	Carrying amount $'M	Fair value $'M
Financial liabilities:				
Convertible bonds (Level 1)	–	–	1,100.0	1,228.2
Building financing obligation (Level 3)	7.8	10.1	8.0	10.3

Certain estimates and judgments were required to develop the fair value amounts. The fair value amounts shown above are not necessarily indicative of the amounts that the Company would realize upon disposition, nor do they indicate the Company's intent or ability to dispose of the financial instrument.

The following methods and assumptions were used to estimate the fair value of each material class of financial instrument:

Building finance obligations – the fair value of building finance obligations are estimated based on the present value of future cash flows, and an estimate of the residual value of the underlying property at the end of the lease term, associated with these obligations.

The carrying amounts of other financial assets and liabilities materially approximate to their fair value because of the short term maturity of these amounts.

23. Shareholders' equity

Authorized common stock

The authorized stock of Shire plc as at December 31, 2013 was 1,000,000,000 Ordinary Shares and 2 subscriber Ordinary Shares.

Dividends

Under Jersey law, Shire plc is entitled to make payments of dividends from its accumulated profits and other distributable reserves. At December 31, 2013 Shire plc's distributable reserves were approximately $10.4 billion.

Treasury stock

The Company records the purchase of its own shares by the EBT and under share buy-back program as a reduction of shareholders' equity based on the price paid for the shares. At December 31, 2013, the EBT held 2.4 million Ordinary Shares (2012: 3.8 million) and 0.4 million ADSs (2012: 1.1 million) and shares held under share buy-back program were 7.1 million Ordinary Shares (2012: 2.7 million) and 0.9 million ADSs (2012: 0.3 million). During the year to December 31, 2013 a total of 4.2 million (2012: 4.5 million) Ordinary Shares and 0.8 million (2012: 0.9 million) ADSs had been purchased for total consideration of $243.8 million (2012: $205.8 million), including stamp duty and broker commission.

Share buy-back program

In 2012 the Company commenced a share buy-back program of up to $500 million through both direct purchases of Ordinary Shares and through the purchase of Ordinary Shares underlying ADRs. The purchases have been made through independent third parties who have made trading decisions independently of, and uninfluenced by, the Company. The independence of the third parties enabled the Company to purchase Ordinary Shares (including Ordinary Shares underlying ADRs) during close periods and other prohibited periods, should they arise. The amount, timing or prices of purchases, varied based on market conditions and other factors. The shares purchased to date are held as treasury shares.

During the year ending December 31, 2013, the Company made on-market repurchases totaling 6,191,965 Ordinary Shares at a cost of $193 million (excluding transaction costs). This represents 1.0% of the issued share capital of the Company as at the end of the quarter. Ordinary Shares purchased may be cancelled or be held as treasury shares, in accordance with the authority renewed by shareholders at the Company's Annual General Meeting ("AGM"). At its AGM on April 24, 2012 the Company was authorized to make market purchases of up to 56,253,208 of its own Ordinary Shares. That authority expired at the AGM held on April 30, 2013 and was renewed. Under the new authority, which expires on the earlier of July 29, 2014 or the conclusion of the 2014 AGM, the Company was authorized to make market purchases of up to 55,741,587 of its own Ordinary Shares.

On November 11, 2013, contemporaneous with Shire's announcement of its acquisition of ViroPharma, the Company's share buyback program was terminated. Since the inception of the share buyback program the Company had purchased $300 million of Ordinary Shares and Ordinary Shares underlying ADRs.

23. Shareholders' equity continued

Conversion of Shire's 2.75% Convertible Bonds

On November 26, 2013, the Company issued an optional redemption notice under the Trust Deed dated May 9, 2007 to holders of the Company's Bonds. Consequently, as of December 31, 2013, Bondholders had voluntarily converted the Bonds into 33,806,464 fully paid Ordinary Shares. See Note 16 for further details.

Income Access Share Arrangements ("IAS Trust")

The Company has put into place income access arrangements which enable ordinary shareholders, other than ADS holders, to choose whether they receive their dividends from the Company, a company tax resident in the Republic of Ireland, or from Shire Biopharmaceutical Holdings ("Old Shire"), a Shire group company tax resident in the UK.

Old Shire has issued one income access share to the Income Access Trust (the "IAS Trust") which is held by the trustee of the IAS Trust (the "Trustee"). The mechanics of the arrangements are as follows:

If a dividend is announced or declared by Shire plc on its Ordinary Shares, an amount is paid by Old Shire by way of a dividend on the income access share to the Trustee, and such amount is paid by the Trustee to ordinary shareholders who have elected (or are deemed to have elected) to receive dividends under these arrangements. The dividend which would otherwise be payable by Shire plc to its ordinary shareholders will be reduced by an amount equal to the amount paid to its ordinary shareholders by the Trustee.

If the dividend paid on the income access share and on-paid by the Trustee to ordinary shareholders is less than the total amount of the dividend announced or declared by Shire plc on its Ordinary Shares, Shire plc will be obliged to pay a dividend on the relevant Ordinary Shares equivalent to the amount of the shortfall. In such a case, any dividend paid on the Ordinary Shares will generally be subject to Irish withholding tax at the rate of 20% or such lower rate as may be applicable under exemptions from withholding tax contained in Irish law.

An ordinary shareholder is entitled to make an income access share election such that he/she will receive his/her dividends (which would otherwise be payable by Shire plc) under these arrangements from Old Shire.

An ordinary shareholder who holds 25,000 or fewer Ordinary Shares at the first record date after he/she first becomes an ordinary shareholder, and who does not make a contrary election, will be deemed to have made an election (pursuant to the Shire plc articles of association) such that he/she will receive his/her dividends under these arrangements from Old Shire.

The ADS Depositary has made an election on behalf of all holders of ADSs such that they will receive dividends from Old Shire under the income access share arrangements. Dividends paid by Old Shire under the income access share arrangements will not, under current legislation, be subject to any UK or Irish withholding taxes. If a holder of ADSs does not wish to receive dividends from Old Shire under the income access share arrangements, he/she must withdraw his/her Ordinary Shares from the ADS program prior to the dividend record date set by the Depositary and request delivery of the Shire plc Ordinary Shares. This will enable him/her to receive dividends from Shire plc (if necessary, by making an election to that effect).

It is the expectation, although there can be no certainty, that Old Shire will distribute dividends on the income access share to the Trustee for the benefit of all ordinary shareholders who make (or are deemed to make) an income access share election in an amount equal to what would have been such ordinary shareholders' entitlement to dividends from Shire plc in the absence of the income access share election. If any dividend paid on the income access share and or paid to the ordinary shareholders is less than such ordinary shareholders' entitlement to dividends from Shire plc in the absence of the income access share election, the dividend on the income access share will be allocated pro rata among the ordinary shareholders and Shire plc will pay the balance to these ordinary shareholders by way of dividend. In such circumstances, there will be no grossing up by Shire plc in respect of, and Old Shire and Shire plc will not compensate those ordinary shareholders for, any adverse consequences including any Irish withholding tax consequences.

The Company will be able to suspend or terminate these arrangements at any time, in which case the full Shire plc dividend will be paid directly by Shire plc to those ordinary shareholders (including the Depositary) who have made (or are deemed to have made) an income access share election. In such circumstances, there will be no grossing up by Shire plc in respect of, and Old Shire and Shire plc will not compensate those ordinary shareholders for, any adverse consequences including any Irish withholding tax consequences.

In the year ended December 31, 2013 Old Shire paid dividends totaling $91.1 million (2012: $81.5 million) on the income access share to the Trustee in an amount equal to the dividend Shire ordinary shareholders would have received from Shire.

24. Earnings per share

The following table reconciles net income and the weighted average Ordinary Shares outstanding for basic and diluted earnings per share for the periods presented:

	2013 $'M	2012 $'M
Income from continuing operations, net of taxes	1,419.6	805.7
Loss from discontinued operations[1]	(754.5)	(60.3)
Numerator for basic earnings per share	665.1	745.4
Interest on convertible bonds, net of tax	28.3	31.3
Numerator for diluted earnings per share	693.4	776.7
Weighted average number of shares:	**Millions**	Millions
Basic[(1)]	552.0	555.4
Effect of dilutive shares:		
Share based awards to employees[2]	4.8	4.6
Convertible bonds 2.75% due 2014[3]	33.5	33.5
Diluted	590.3	593.5

1 Excludes shares purchased by the EBT and under the share buy-back program and presented by Shire as treasury stock.
2 Calculated using the treasury stock method.
3 At December 31, 2013, Bondholders had voluntarily converted $1,099,050,000 aggregate principal amount of the Convertible Bonds into 33,806,464 fully paid Ordinary Shares. The remaining outstanding Bonds in an aggregate principle amount of $950,000 were redeemed pursuant to the option redemption notice issued on November 26, 2013. The Company has calculated the impact of the Bonds on diluted EPS from the beginning of the period to the actual date of Bonds conversion using the 'if-converted' method.

Year to December 31,	2013	2012
Earnings per Ordinary Share – basic		
Earnings from continuing operations	257.2c	145.1c
Loss from discontinued operations	(136.7c)	(10.9c)
Earnings per Ordinary Share – basic	120.5c	134.2c
Earnings per Ordinary Share – diluted		
Earnings from continuing operations	245.3c	141.0c
Loss from discontinued operations	(127.8c)	(10.1c)
Earnings per Ordinary Share – diluted	117.5c	130.9c

The share equivalents not included in the calculation of the diluted weighted average number of shares are shown below:

	2013 No. of shares Millions	2012 No. of shares Millions
Share based awards to employees[1]	0.5	6.7

1 Certain stock options have been excluded from the calculation of diluted EPS because (a) their exercise prices exceeded Shire plc's average share price during the calculation period or (b) the required performance conditions were not satisfied as at the balance sheet date.

25. Segmental reporting

Historically the Company had three business units and three reportable segments: Specialty Pharmaceuticals ("SP"), Human Genetic Therapies ("HGT") and Regenerative Medicine ("RM").

On May 2, 2013 the Company announced that there would be a reorganization of the Company's business to integrate the operation of these business units into a simplified One Shire organization in order to drive future growth and innovation. Consequently the SP, HGT and RM segments no longer exist.

Shire now comprises a single operating and reportable segment, consistent with the One Shire approach that underpins the business simplification. This segment is engaged in the research, development, licensing, manufacturing, marketing, distribution and sale of innovative specialist medicines to meet significant unmet patient needs.

This segment is supported by several key functions: a Pipeline group, consisting of R&D and Business Development, will prioritize its activities towards late stage development programs across a variety of therapeutic areas, while focusing its pre-clinical development activities primarily in rare diseases; a Technical Operations group will be responsible for the Company's global supply chain; and an In-line marketed products group will focus on commercialized products. The In-line marketed products group currently consists of four commercial units focused exclusively on commercial delivery to drive optimum performance of currently marketed products. The business is also supported by a simplified, centralized corporate function group. None of these functional groups meets all of the criteria to be an operating segment

The reorganization to a single operating and reportable segment is consistent with the financial information regularly reviewed by the Executive Committee (which is the Company's chief operating decision maker) for the purposes of evaluating performance, allocating resources, and planning and forecasting future periods.

Geographic information

Revenues (based on the geographic location from which the sale originated):

Year to December 31,	2013 $'M	2012 $'M
Ireland	**22.5**	20.6
United Kingdom	**206.7**	207.0
North America	**3,386.2**	3,006.1
Rest of World	**1,318.9**	1,293.7
Total revenues	**4,934.3**	4,527.4

Long-lived assets comprise all non-current assets, (excluding goodwill and other intangible assets, deferred contingent consideration assets, deferred tax assets, investments and financial instruments) based on the geographic location within which the economic benefits arise:

Year to December 31,	2013 $'M	2012 $'M
Ireland	**5.8**	5.2
United Kingdom	**70.3**	72.2
North America	**802.9**	861.0
Rest of World	**13.8**	18.8
Total	**892.8**	957.2

25. Segmental reporting continued

Material customers

In the periods set out below, certain customers, accounted for greater than 10% of the Company's product revenues:

Year to December 31,	2013 $'M	2013 % product	2012 $'M	2012 % product
McKesson Corp.	**902.9**	**19**	835.9	20
Cardinal Health Inc.	**853.7**	**18**	1,035.7	24
AmerisourceBergen Corp	**721.0**	**15**	307.4	7

Amounts outstanding as at December 31, in respect of these material customers were as follows:

December 31,	2013 $'M	2012 $'M
McKesson Corp.	**161.3**	127.4
Cardinal Health Inc.	**149.5**	166.1
AmerisourceBergen Corp	**164.6**	47.4

In the periods set out below, revenues by major product were as follows:

	2013 $'M	2012 $'M
VYVANSE	**1,227.8**	1,029.8
ELAPRASE	**545.6**	497.6
LIALDA/MEZAVANT	**528.9**	399.9
REPLAGAL	**467.9**	497.5
ADDERALL XR	**375.4**	429.0
VPRIV	**342.7**	306.6
INTUNIV	**334.9**	287.8
PENTASA	**280.6**	265.8
FIRAZYR	**234.8**	116.3
FOSRENOL	**183.4**	172.0
XAGRID	**99.4**	97.2
Other product sales	**136.1**	153.4
Total product sales	**4,757.5**	4,252.9

26. Retirement benefits

The Company makes contributions to defined contribution retirement plans that together cover substantially all employees. The level of the Company's contribution is fixed at a set percentage of employee's pay.

Company contributions to personal defined contribution pension plans totalled $45.7 million and $46.4 million for the years to December 31, 2013 and 2012 respectively, and were charged to operations as they became payable.

27. Taxation

The components of pre tax income from continuing operations are as follows:

Year to December 31,	2013 $'M	2012 $'M
Republic of Ireland	**(47.8)**	(74.7)
UK	**10.9**	30.7
US	**1,153.3**	683.8
Other jurisdictions	**577.2**	368.0
	1,693.6	1,007.8

The provision for income taxes by location of the taxing jurisdiction for the years to December 31, 2013 and 2012 consisted of the following:

Year to December 31,	2013 $'M	2012 $'M
Current income taxes:		
Republic of Ireland	**–**	–
US federal tax	**274.3**	230.0
US state and local taxes	**17.9**	11.3
Other	**63.4**	29.0
Total current taxes	**355.6**	270.3
Deferred taxes:		
US federal tax	**23.8**	(63.8)
US state and local taxes	**(8.3)**	(6.5)
UK corporation tax	**11.5**	13.1
Other	**(104.7)**	(10.0)
Total deferred taxes	**(77.7)**	(67.2)
Total income taxes	**277.9**	203.1

The operating results associated with the DERMAGRAFT business have been classified as discontinued operations for all periods presented.

The Group has determined the amount of income tax expense or benefit allocable to continuing operations using the incremental approach described in ASC 740-20-45-8 and the relevant examples. As a result $9 million of income tax expense associated with the US operations was allocated to income from continuing operations for 2013 based on the primacy of continuing operations, due to changes in circumstances that caused a change in judgment about the realization of deferred tax assets in future years, and in accordance with the rules prescribed under ASC 740-20-45.

The amount of Income tax attributed to discontinued operations is disclosed in Note 9.

27. Taxation continued

The reconciliation of income from continuing operations before income taxes, noncontrolling interests and equity in earnings/(losses) of equity method investees at the statutory tax rate to the provision for income taxes is shown in the table below:

Year to December 31,	2013 $'M	2012 $'M
Income from continuing operations before income taxes and equity in earnings of equity method investees	**1,693.6**	1,007.8
Statutory tax rate[1]	**25.0%**	25.0%
Adjustments to derive effective rate:		
Non-deductable items:		
US R&D credit	**(4.5%)**	(2.6%)
Effect of the convertible bond	**0.5%**	0.8%
Intra-group items[2]	**(9.2%)**	(16.0%)
Recognition of foreign tax credits	**–**	(6.6%)
Other permanent items	**(0.7%)**	0.8%
Other items:		
Change in valuation allowance	**0.9%**	3.4%
Impact of RESOLOR impairment	**–**	4.9%
Difference in taxation rates	**7.8%**	7.6%
Change in provisions for uncertain tax positions	**3.8%**	1.1%
Prior year adjustment	**(3.4%)**	0.8%
Change in fair value of contingent consideration	**(3.6%)**	
Change in tax rates	**(0.2%)**	0.8%
Other	**0.0%**	0.1%
Provision for income taxes on continuing operations	**16.4%**	20.1%

1 In addition to being subject to the Irish Corporation tax rate of 25%, in 2013 the Company is also subject to income tax in other territories in which the Company operates, including: Canada (15%); France (33.3%); Germany (15%); Italy (27.5%); Luxembourg (21.0%; the Netherlands (25%); Belgium (33.99%); Spain (30%); Sweden (22%); Switzerland (8.5%); United Kingdom (23.25%) and the US (35%). The rates quoted represent the statutory federal income tax rates in each territory, and do not include any state taxes or equivalents or surtaxes or other taxes charged in individual territories, and do not purport to represent the effective tax rate for the Company in each territory.

2 Intra-group items principally relate to the effect of intercompany dividends, capital receipts (either taxable or non-taxable) and other intra-territory eliminations, the pre-tax effect of which has been eliminated in arriving at the Company's consolidated income from continuing operations before income taxes, noncontrolling interests and equity in earnings/(losses) of equity method investees.

27. Taxation continued

Provisions for uncertain tax positions

The Company files income tax returns in the Republic of Ireland, the UK, the US (both federal and state) and various other jurisdictions (see footnote (1) to the table above for major jurisdictions). With few exceptions, the Company is no longer subject to income tax examinations by tax authorities for years before 1999. Tax authorities in various jurisdictions are in the process of auditing the Company's tax returns for fiscal periods from 1999; these tax audits cover a range of issues, including transfer pricing, potential restrictions on the utilization of net operating losses, potential taxation of overseas dividends and controlled foreign companies' rules.

While tax audits remain open, the Company also considers it reasonably possible that issues may be raised by tax authorities resulting in increases to the balance of unrecognized tax benefits, however, an estimate of such increase cannot be made.

The Company is required in certain tax jurisdictions to make advance deposits to tax authorities on receipt of tax assessments. These payments have been offset against the income tax liability within the balance sheet but have not reduced the provision for unrecognized tax benefits.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2013 $'M	2012 $'M
Balance at January 1	**278.7**	265.5
Increases based on tax positions related to the current year	**56.8**	20.5
Decreases based on tax positions taken in the current year	**(0.5)**	–
Increases for tax positions taken in prior years	**34.5**	0.4
Decreases for tax positions taken in prior years	**(0.8)**	(3.3)
Decreases resulting from settlements with the taxing authorities	**–**	(10.6)
Decreases as a result of expiration of the statute of limitations	**(0.6)**	(0.3)
Foreign currency translation adjustments[1]	**(12.9)**	6.5
Other	**–**	–
Balance at December 31[2]	**355.2**	278.7

[1] Recognized within Other Comprehensive Income
[2] The full amount of which would affect the effective rate if recognized

The Company considers it reasonably possible that certain audits currently being conducted will be concluded in the next twelve months, and as a result the total amount of unrecognized tax benefits recorded at December 31, 2013 could decrease by up to approximately $210 million. As at the balance sheet date, the Company believes that its reserves for uncertain tax positions are adequate to cover the resolution of these audits. However, the resolution of these audits could have a significant impact on the financial statements if the settlement differs from the amount reserved.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits within income taxes. During the years ended December 31, 2013 and 2012, the Company recognized $0.4 million and $5.1 million in interest and penalties and the Company had a liability of $112.2 million and $119.6 million for the payment of interest and penalties accrued at December 31, 2013 and 2012 respectively.

27. Taxation continued

Deferred taxes

The significant components of deferred tax assets and liabilities and their balance sheet classifications, as at December 31, are as follows:

	2013 $'M	2012 $'M
Deferred tax assets:		
Deferred revenue	**5.2**	5.5
Inventory & warranty provisions	**48.6**	52.5
Losses carried forward (including tax credits)[1]	**500.6**	425.7
Provisions for sales deductions and doubtful accounts	**151.8**	144.9
Intangible assets	**10.7**	36.7
Share-based compensation	**25.5**	32.7
Excess of tax value over book value of assets	**22.1**	–
Accruals and provisions	**55.1**	44.1
Other	**2.6**	21.6
Gross deferred tax assets	**822.2**	763.7
Less: valuation allowance	**(282.4)**	(268.6)
	539.8	495.1
Deferred tax liabilities:		
Intangible assets	**(586.8)**	(702.7)
Excess of book value over tax value of assets and investments	**(56.9)**	(36.8)
Net deferred tax liabilities	**(103.9)**	(244.4)
Balance sheet classifications:		
Deferred tax assets – current	**315.6**	229.9
Deferred tax assets – non-current	**141.1**	46.5
Deferred tax liabilities – current	**–**	–
Deferred tax liabilities – non-current	**(560.6)**	(520.8)
	(103.9)	(244.4)

[1] Excluding $15.0 million of deferred tax assets at December 31, 2013 (2012: $6.8 million), related to the net operating losses that result from excess stock based compensation and for which any benefit realized will be recorded to stockholders' equity.

At December 31, 2013, the Company had a valuation allowance of $282.4 million (2012: $268.6 million) to reduce its deferred tax assets to estimated realizable value. These valuation allowances related primarily to operating loss, capital loss and tax-credit carry-forwards in Ireland (2013: $78.8 million; 2012: $73.9 million); the US (2013: $60.9 million; 2012: $37.2 million); Germany (2013: $30.8 million; 2012: $96.9 million); and other foreign tax jurisdictions (2013: $111.9 million; 2012: $60.6 million).

Management is required to exercise judgement in determining whether deferred tax assets will more likely than not be realized. A valuation allowance is established where there is an expectation that on the balance of probabilities management considers it is more likely than not that the relevant deferred tax assets will not be realized. In assessing the need for a valuation allowance, management weighs all available positive and negative evidence including cumulative losses in recent years, projection of future taxable income, carry forward and carry back potential under relevant tax law, expiration period of tax attributes, taxable temporary differences, and prudent and feasible tax-planning strategies.

The net increase in valuation allowances of $13.8 million includes (i) increases of $104.5 million primarily in respect of losses and other temporary differences in various jurisdictions where management consider that there is insufficient positive evidence in respect of the factors described above to overcome cumulative losses and therefore it is more likely than not that the relevant deferred tax assets will not be realized in full, and (ii) a decrease of $90.7 million primarily in respect of German tax losses ($67.4m),, which based on the assessment of the factors described above now provides sufficient positive evidence to support that the losses are more likely than not to be realized. The release of this valuation allowance has been recorded in the current period due to changes in the financing of the German subsidiary.

At December 31, 2013, based upon a consideration of the factors described above management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the valuation allowances. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if these factors are revised in the future periods.

27. Taxation continued

The approximate tax effect of NOLs, capital losses and tax credit carry-forwards as at December 31, are as follows:

	2013 $'M	2012 $'M
US federal tax NOLs	**32.2**	26.1
US state tax NOLs	**61.5**	31.4
UK NOLs	**6.7**	20.7
Republic of Ireland NOLs	**78.8**	72.6
Foreign tax jurisdictions	**273.1**	208.8
R&D and other tax credits	**48.3**	66.2

The approximate gross value of NOLs and capital losses at December 31, 2013 is $2,583.7 million (2012: $1,783.5 million). The tax effected NOLs, capital losses and tax credit carry-forwards shown above have the following expiration dates:

	December 31, 2013 $'M
Within 1 year	**0.9**
Within 1 to 2 years	**1.1**
Within 2 to 3 years	**0.7**
Within 3 to 4 years	**2.9**
Within 4 to 5 years	**3.0**
Within 5 to 6 years	**35.6**
After 6 years	**142.7**
Indefinitely	**313.7**

The Company does not provide for deferred taxes on the excess of the financial reporting over the tax basis in our investments in foreign subsidiaries that are essentially permanent in duration. At December 31, 2013, that excess totalled approximately $8.9 billion (2012: $7.8billion). The determination of additional deferred taxes is not practicable and is not provided.

28. Share-based compensation plans

The following table shows the total share-based compensation expense (see below for types of share-based awards) included in the consolidated statements of income:

	2013 $'M	2012 $'M
Cost of product sales	**4.4**	6.3
Research and development	**22.8**	25.8
Selling, general and administrative	**46.9**	55.0
Reorganization costs	**3.3**	–
Total	**77.4**	87.1
Less tax	**(18.1)**	(23.8)
	59.3	63.3

There were no capitalized share-based compensation costs at December 31, 2013 and 2012.

At December 31, 2013 $97.0 million (2012: $102.3 million) of total unrecognized compensation cost relating to non-vested awards is expected to be recognized over a period of three years.

At December 31, 2013 $90.3 million (2012: $74.6 million) of total unrecognized compensation cost relating to non-vested in the money awards (based on the average share price during the year) is expected to be recognized over a weighted average period of 1.7 years (2012: 1.7 years). The total fair value of in the money awards vested during the year to December 31, 2013 was $70.5 million (2012: $113.9 million).

28. Share-based compensation plans continued

Share-based compensation plans

The Company grants stock-settled share appreciation rights ("SARs") and performance share awards over Ordinary Shares and ADSs to Executive Directors and employees under the Shire Portfolio Share Plan (Parts A and B). The SARs and PSAs granted under the Shire Portfolio Share Plan (Part A & B) to Executive Directors are exercisable subject to performance and service criteria.

The principal terms and conditions of SARs and PSAs are as follows: (i) the contractual life of SARs is seven years, (ii) the vesting period of SARs and PSAs granted to employees below the level of Executive Vice President allows for graded vesting, and (iii) awards granted to Executive Directors contain performance conditions based on growth in adjusted return on invested capital ("Adjusted ROIC") and earnings before interest, taxation, depreciation and amortization ("Non-GAAP EBITDA").

The Company also operates an Employee Share Purchase Plan and a Sharesave Scheme.

The following awards were outstanding as at December 31, 2013:

	Compensation type	Number of awards*	Expiration period from date of issue	Vesting period
Portfolio Share Plan – Part A	**SARs**	**14,083,748**	**5 to 7 years**	**3 years cliff or graded vesting, subject to market or performance criteria for Executive Directors only**
Sharesave Scheme	**Stock options**	**243,783**	**6 months after vesting**	**3 or 5 years**
Stock Purchase Plan	**Stock options**	**568,828**	**On vesting date**	**1 to 5 years**
Legacy Plans	**Stock options**	**132,823**	**7 to 10 years**	**3-10 years, subject to market or performance criteria**
Stock-settled SARs and stock options		**15,029,182**		
Portfolio Share Plan – Part B	**Performance share awards**	**2,701,299**	**3 years**	**3 years cliff or graded vesting, subject to market or performance criteria for Executive Directors only**
Performance share awards		**2,701,299**		

* Number of awards are stated in terms of Ordinary Share equivalents.

Stock settled SARs and stock options

(a) Portfolio Share Plan – Part A

Stock-settled share appreciation rights granted under the Portfolio Share Plan – Part A are exercisable subject to performance and service criteria.

In respect of any award made to Executive Directors performance criteria are based on Non-GAAP EBITDA and Adjusted ROIC targets. These performance measures provide increased alignment to the core activities and strategy of the Company.

Awards granted to employees below Executive Director level are not subject to performance conditions and are only subject to service conditions.

Once awards have vested, participants will have until the seventh anniversary of the date of grant to exercise their awards.

(b) Shire Sharesave Scheme (Sharesave Scheme)

Options granted under the Sharesave Scheme are granted with an exercise price equal to 80% and 75% of the mid-market price on the day before invitations are issued to UK and Ireland employees, respectively. Employees may enter into three or five year savings contracts. No performance conditions apply.

(c) Shire Employee Stock Purchase Plan (Stock Purchase Plan)

Under the Stock Purchase Plan, options are granted with an exercise price equal to 85% of the fair market value of a share on the enrolment date (the first day of the offering period) or the exercise date (the last day of the offering period), whichever is the lower. Employees agree to save for a period up to 12 months. No performance conditions apply.

28. Share-based compensation plans continued

(d) Legacy plans – principally the Shire 2000 Executive Share Option Scheme

Options granted under this scheme were subject to certain performance criteria, which were based on the Company's share price or diluted EPS growth compared to a fixed growth rate. At December 31, 2013 all stock options outstanding under this scheme had met the required conditions and were exercisable.

A summary of the status of the Company's SARs and stock options as at December 31, 2013 and of the related transactions during the period then ended is presented below:

Year to December 31, 2013	Weighted average exercise price £	Number of shares*	Intrinsic Value $'M
Outstanding as at beginning of period	16.66	18,536,947	
Granted	20.05	6,914,026	
Exercised	22.09	(8,302,740)	
Forfeited	18.30	(2,119,051)	
Outstanding as at end of period	18.88	15,029,182	143.9
Exercisable as at end of period	15.67	3,670,446	46.9

* Number of awards are stated in terms of Ordinary Share equivalents

The weighted average grant date fair value of SARs and stock options granted in the year ended December 31, 2013 was £3.37.

SARs and stock options outstanding as at December 31, 2013 have the following characteristics:

Number of awards outstanding*	Exercise prices £	Weighted average remaining contractual term (Years)	Weighted average exercise price of awards outstanding £	Number of awards exercisable	Weighted average exercise price of awards exercisable
104,658	3.38-7.00	1.1	5.56	104,658	5.56
810,822	7.01-14.00	2.8	11.27	804,402	11.25
14,113,702	14.01-28.00	4.9	18.07	2,761,386	17.34
15,029,182				3,670,446	

* Number of awards are stated in terms of Ordinary Share equivalents

28. Share-based compensation plans continued

Performance shares

Portfolio Share Plan – Part B

Performance share awards granted to Executive Directors under the Portfolio Share Plan – Part B are exercisable subject to certain market, performance and service criteria.

In respect of any award granted to Executive Directors, the performance criteria are based on Non-GAAP EBITDA and Adjusted ROIC targets.

Awards granted to employees below Executive Director level are not subject to performance conditions and are only subject to service conditions.

A summary of the status of the Company's performance share awards as at December 31, 2013 and of the related transactions during the period then ended is presented below:

Performance share awards	Number of shares*	Aggregate intrinsic value £'M	Weighted average remaining life
Outstanding as at beginning of period	3,518,138		
Granted	1,508,631		
Exercised	(1,826,648)		
Forfeited	(498,822)		
Outstanding as at end of period	2,701,299	76.9	5.5
Exercisable as at end of period	–	N/A	N/A

* Number of awards are stated in terms of Ordinary Share equivalents

The weighted-average grant date fair value of performance share awards granted in the year to December 31, 2013 is £19.71.

Exercises of employee share-based awards

The total intrinsic values of share-based awards exercised for the years to December 31, 2013, 2012 and 2011 were $298.3 million, $224.1 million and $189.3 million, respectively. The total cash received from employees as a result of employee share option exercises for the period to December 31, 2013, 2012 and 2011 was approximately $17.2 million, $16.2 million and $13.4 million, respectively. In connection with these exercises, the tax benefit credited to additional paid-in capital for the years to December 31, 2013, 2012 and 2011 was $11.9 million, $40.1 million and $29.4 million respectively.

The Company will settle future employee share award exercises with either newly listed common shares or with shares held in the EBT. The number of shares to be purchased by the EBT during 2013 will be dependent on the number of employee share awards granted and exercised during the year and Shire plc's share price. At December 31, 2013 the EBT held 2.4 million Ordinary Shares and 0.4 million ADSs.

28. Share-based compensation plans continued

Valuation methodologies

The Company estimates the fair value of its share-based awards using a Black-Scholes valuation model. Key input assumptions used to estimate the fair value of share–based awards include the grant price of the award, the expected stock-based award term, volatility of the Company's share price, the risk-free rate and the Company's dividend yield. The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in estimating the fair values of Shire's stock-based awards. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company under guidance issued by the FASB on share-based payment transactions.

The fair value of share awards granted was estimated using the following assumptions:

Period ended December 31,	2013 $'M	2012 $'M
Risk-free interest rate[1]	0.1-0.9%	0.2-1%
Expected dividend yield	0.4-0.6%	0-0.6%
Expected life	1-4 years	1-4 years
Volatility	23-26%	24-32%
Forfeiture rate	5-9%	5-7%

[1] Risk free interest rate is for UK and US grants

The following assumptions were used to value share-based awards:

- risk-free interest rate – for awards granted over ADSs, the US Federal Reserve treasury constant maturities rate with a term consistent with the expected life of the award is used. For awards granted over Ordinary Shares, the yield on UK government bonds with a term consistent with the expected life of the award is used;
- expected dividend yield – measured as the average annualized dividend estimated to be paid by the Company over the expected life of the award as a percentage of the share price at the grant date;
- expected life – estimated based on the contractual term of the awards and the effects of employees' expected exercise and post-vesting employment termination behaviour;
- expected volatility – measured using historical daily price changes of the Company's share price over the respective expected life of the share-based awards at the date of the award; and
- the forfeiture rate is estimated using historical trends of the number of awards forfeited prior to vesting.

29. Principal Subsidiaries as at December 31, 2013

Subsidiary/undertaking	Jurisdiction of incorporation
3829359 Canada Inc.	Canada
Advanced Biohealing Corp	US
FerroKin BioSciences, Inc.	United States
Jerini Holding Limited	Malta
Jerini Ophthalmic Holding GmbH	Germany
Jerini Ophthalmic, Inc.	United States
Jerini Trading Limited	Malta
JPT Peptide Technologies, Inc.	United States
Lotus Tissue Repair Inc	US
Monmouth Pharmaceuticals Limited	United Kingdom
Movetis GmbH	Germany
Movetis Limited	United Kingdom
Pharma International Insurance Limited	Ireland
Rybar Laboratories Limited	United Kingdom
Premacure AB	Luxembourg/Sweden
Premacure Uppsala AB	Sweden
SARcode Bioscience Inc	US
SHGT Executive Services, Inc.	United States
Shire (Shanghai) Pharmaceuticals Consultancy Co. Ltd	China
Shire 2005 Investments Limited	Cayman Islands
Shire Acquisition, Inc.	Canada
Shire Australia Pty Limited	Australia
Shire Belgium BVBA	Belgium
Shire Biopharmaceuticals Holdings	United Kingdom
Shire Biopharmaceuticals Holdings Ireland Limited	Jersey
Shire Biopharmaceuticals Ireland Limited	Ireland
Shire Brandywine LLC	United States
Shire Canada, Inc.	Canada
Shire Colombia S.A.S.	Colombia
Shire Czech S.R.O.	Czech Republic
Shire Denmark ApS	Denmark
Shire Deutschland GmbH	Germany
Shire Deutschland Investments GmbH	Germany
Shire Development, LLC.	United States
Shire Europe Finance	United Kingdom
Shire Europe Limited	United Kingdom
Shire Executive Services LLC	United States
Shire Farmacêutica Brasil LTDA	Brazil
Shire Finance Limited	Cayman Islands
Shire Finland Oy	Finland
Shire France S.A.	France
Shire Global Finance	United Kingdom
Shire GmbH	Germany
Shire Hellas Pharmaceuticals Import Export and Marketing S.A.	Greece

29. Principal Subsidiaries as at December 31, 2013 continued

Subsidiary/undertaking	Jurisdiction of incorporation
Shire Holdings Europe B.V.	Netherlands
Shire Holdings Europe Limited	United Kingdom
Shire Holdings Europe No.2 S.a.r.l.	Luxembourg
Shire Holdings Ireland	Ireland
Shire Holdings Ireland No.2 Limited	Ireland
Shire Holdings Limited	Bermuda
Shire Holdings Luxembourg S.a r.l.	Luxembourg
Shire Holdings UK Canada Limited	United Kingdom
Shire Holdings UK Limited	United Kingdom
Shire Holdings US AG	United States
Shire Human Genetic Therapies (Canada) Inc.	Canada
Shire Human Genetic Therapies AB	Sweden
Shire Human Genetic Therapies Limited	United Kingdom
Shire Human Genetic Therapies S.A.	Argentina
Shire Human Genetic Therapies Securities Corporation	United States
Shire Human Genetic Therapies UK Limited	United Kingdom
Shire Human Genetic Therapies, Inc.	United States
Shire Incorporated	United States
Shire Intellectual Property 2 SRL	Barbados
Shire Intellectual Property Ireland Limited	Ireland
Shire Intellectual Property SRL	Barbados
Shire International GmbH	Switzerland
Shire International Licensing BV	Netherlands
Shire Investement Inc	United States
Shire Investments & Finance (U.K.) Company	United Kingdom
Shire IP Services Corporation	Canada
Shire Ireland Finance Limited	Ireland
Shire Italia S.p.A.	Italy
Shire Ireland Investement Limited	Ireland
Shire Ireland Premacure Investment	Ireland
Shire Japan KK	Japan
Shire Jersey Limited	Jersey
Shire LLC	United States
Shire Luxembourg Finance S.a.r.l.	Luxembourg
Shire Luxembourg Intellectual Property No.2 S.a r.l.	Luxembourg
Shire Luxembourg Intellectual Property No.3 S.a.r.l.	Luxembourg
Shire Luxembourg Intellectual Property S.a r.l.	Luxembourg
Shire Luxembourg S.a r.l.	Luxembourg
Shire-Movetis NV	Belgium
Shire North America Group Inc.	United States
Shire Norway AS	Norway
Shire Orphan Therapies GmbH	Germany
Shire Orphan Therapies, Inc.	United States
Shire Orphan and Rare Diseases GmbH	Switzerland
Shire Pharma Korea Yuhan Hoesa	Korea

29. Principal Subsidiaries as at December 31, 2013 continued

Subsidiary/undertaking	Jurisdiction of incorporation
Shire Pharmaceutical Contracts Limited	United Kingdom
Shire Pharmaceutical Development Limited	United Kingdom
Shire Pharmaceutical Development, Inc.	United States
Shire Pharmaceutical Holdings Ireland Limited	Ireland
Shire Pharmaceutical Investment Holdings Limited	Malta
Shire Pharmaceutical Investment Limited	Malta
Shire Pharmaceutical Investment Trading Ireland	Ireland
Shire Pharmaceutical Investments 2008	Ireland
Shire Pharmaceuticals Group	United Kingdom
Shire Pharmaceuticals Iberica S.L.	Spain
Shire Pharmaceuticals International	Ireland
Shire Pharmaceuticals Investments (British Virgin Islands) Limited	Virgin Islands, British
Shire Pharmaceuticals Investments 2007	Ireland
Shire Pharmaceuticals Ireland Limited	Ireland
Shire Pharmaceuticals Limited	United Kingdom
Shire Pharmaceuticals LLC	United States
Shire Pharmaceuticals Mexico SA de CV	Mexico
Shire Pharmaceuticals Portugal, Lda	Portugal
Shire Pharmaceuticals Services Limited	United Kingdom
Shire Pharmaceuticals Trading Limited Company	Turkey
Shire Polska Sp. z o. o.	Poland
Shire Properties US	United States
Shire Regulatory, Inc.	United States
Shire Regenerative Medicine, Inc.	United States
Shire Rus Limited Liability Company	Russia
Shire Supplies U.S. LLC	United States
Shire Sinagpore Pte. Ltd	Singapore
Shire Sweden AB	Sweden
Shire Sweden Holdings S.a.r.l.	Sweden
Shire UK Investments Limited	United Kingdom
Shire US Holdings, Inc.	United States
Shire US Investments	United Kingdom
Shire US Manufacturing, Inc.	United States
Shire US, Inc.	United States
Sparkleflame Limited	United Kingdom
Tanaud International BV	Netherlands
Tanaud Ireland Inc.	Ireland
The Endocrine Centre Limited	United Kingdom
TKT Argentina S.R.L.	Argentina
Venus NewCo Inc	United States

All subsidiary undertakings of Shire plc are beneficially owned (directly or indirectly) as to 100% and are all consolidated in the consolidated financial statements of Shire plc.

30. Auditor remuneration

The Audit, Compliance & Risk Committee reviews the scope and results of the audit and non-audit services, including tax advisory and compliance services, provided by the Company's Independent Registered Public Accountants, Deloitte LLP, and the cost effectiveness and the independence and objectivity of the Registered Public Accountants. In recognition of the importance of maintaining the independence of Deloitte LLP, a process for pre-approval has been in place since July 1, 2002 and has continued through to the end of the period covered by this Annual Report.

The following table provides an analysis of the amount paid to the Company's Independent Registered Public Accountants, Deloitte LLP, all fees having been pre-approved by the Audit, Compliance & Risk Committee.

Year to December 31,	2013 $'M	2012 $'M
Audit of the Company	**3.5**	2.5
Audit of the Company's subsidiaries	**0.5**	0.5
Total audit fee[1]	**4.0**	3.0
Tax compliance services (i.e. related to assistance with corporate tax returns)	**0.2**	0.2
Total services relating to taxation[2]	**0.2**	0.2
Other non-audit services[3]	**0.4**	0.3
Total non-audit services	**0.6**	0.5
Total fees	**4.6**	3.5

1 Audit fees consisted of audit work only the Independent Registered Public Accountant can reasonably be expected to perform, such as statutory audits.
2 Tax fees consisted principally of assistance with matters related to compliance, planning and advice in various tax jurisdictions.
3 Other non-audit services consist of work generally only the Independent Registered Public Accountant can reasonably be expected to perform, such as procedures relating to regulatory filings.

31. Aggregate Directors' remuneration

The following table gives details of the aggregate remuneration paid to Executive Directors and Non-Executive Directors including the value of the exercise of options, SAR Awards and vesting of PSA Awards:

Year to December 31,	2013 $'000	2012 $'000
Emoluments	**7,343**	5,595
Money purchase pension contributions	**505**	571
Sub-total of annual emoluments	**7,848**	6,166
Other income arising from release/exercise of long term incentives[1]		
Gains on exercise of share options and SAR Awards and release of PSA Awards	**10,481**	20,447
Gains on the release of EAIP Awards	**1,447**	1,515
Total Emoluments and other income arising from long term incentives[2]	**19,776**	28,128

1 Includes the value of shares that were released under long term plans and gains realised in these years.
2 For the purpose of this table amounts denominated in Pounds sterling have been converted to US dollar amounts at the average exchange rate for the year ended December 31, 2013 of £1:$1.5643 and for 2012 of £1:$1.5869.