

Eli Lilly and Company Limited

Report and Financial Statements

31 December 2014

Registered No: 00284385

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Eli Lilly and Company Limited
Registered No: 284385

Company Information

Directors

S Pezzack
P Troutt
E Zinn
K Nichols
T Thorp
J Cossery
T Clarke
G Hillier

Secretary

S Pezzack

Auditors

Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
RG1 1YE

Bankers

National Westminster Bank Plc
3 London Street
Basingstoke
Hampshire
RG21 2NS

BNP Paribas
10 Harewood Avenue
London
NW1 6AA

Registered Office

Lilly House
Priestley Road
Basingstoke
Hampshire
RG24 9NL

Strategic report

The directors present their Strategic report for the year ended 31 December 2014.

Review of the business

The principal activities of the company are the production and supply of pharmaceuticals and animal health products to fellow subsidiaries and third parties in the United Kingdom and certain selected areas of the world. The company is a wholly owned subsidiary of Eli Lilly and Company, its US parent company. The UK company manufactures, promotes and supplies products from the Eli Lilly global product portfolio and performs significant research and development in the UK as part of the global research and development programme. (Further details on the current global product portfolio and research pipeline can be obtained from the Eli Lilly and Company annual accounts at the following web address <http://investor.lilly.com/annuals.cfm>).

The key financial performance indicators performance during the year were as follows:

	2014	2013	Change
	£'000	£'000	%
Turnover	702,561	762,478	(7.9)
Operating profit	58,518	78,791	(25.7)
Profit after tax	61,278	87,632	(30.1)
Equity shareholder's funds	611,283	532,651	14.8

The global nature of Eli Lilly and Company's business and associated strategies results in significant intercompany trading, the level of which is driven by third party sales in different geographic markets. Eli Lilly and Company Limited manages its business with reference to UK and Ireland third party sales and control of operating expenditure.

The company turnover decreased by 7.9% in the year which was driven by sales of product from the UK manufacturing site to other group undertakings. Sales of pharmaceuticals and animal health products to third parties, principally in the UK and Republic of Ireland decreased by 4% and were in line with local and global management expectations.

Operating expenses were also in line with expectations although operating profit decreased driven by higher production costs and depreciation charges.


Equity shareholder's funds were increased by £75.7m as a result of the profit for the year and net actuarial gains on the defined benefit pension scheme of £18.1m.

Principal risks and uncertainties

The company faces risks in relation to successful patent challenges by generic manufacturers, failure to obtain approval for new products and license extensions from NICE (National Institute for Health and Clinical Excellence) and/or the Scottish Medicines Consortium (SMG). In Q4 2013, the Department of Health introduced a revised PPRS (Pharmaceutical Price Regulation Scheme) effective 1 January 2014. This new scheme outlines proposed rebate percentages payable to the Department of Health over the next 5 years. However, these proposed rebate percentages beyond 2014 are subject to future variation according to the overall UK DoH medicines bill.

The company does not hedge against foreign currency exposure; this risk is managed by the US parent company on a global basis.

By order of the board



S Pezzack
Secretary

29 June 2015

Directors' report

The Directors present their report for the year ended 31 December 2014.

Directors of the Company

The current directors are shown on page 1 and details of changes in directors are listed below:

S Harper (resigned 1 February 2014)
P Troutt
J Brown (resigned 1 February 2014)
E Zinn
K Ingram (resigned 27 January 2015)
T Thorp
J Cosserly
T Clarke
D Brooks (appointed 1 February 2014, resigned 27 March 2015)
S Pezzack (appointed 1 February 2014)
K Nichols (appointed 27 January 2015)
G Hillier (appointed 27 March 2015)

Research and development

The company continues to invest in research and development in four main areas. These are cardiovascular, neuroscience, oncology and endocrine disorders.

Future developments

The company will continue to provide its customers with innovative medicines, information and exceptional customer service in order to enable people to live longer, healthier, and more active lives.

Going Concern

The company's business activities, the factors likely to affect its future development and its financial position are discussed in the 'Principal risks and uncertainties' section of the Strategic report.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

Employees

It is the policy of this company that disabled persons, whether registered disabled or not, should receive full and fair consideration for all job vacancies, company training and development programmes and promotion opportunities for which these persons are suitable and qualified applicants. Employees who become disabled during their working life with the company will be retrained in employment wherever practicable and will be given reasonable assistance with any necessary retraining.

The company has continued to maintain and develop its policy of involving and communicating with its employees, as appropriate to the various components of its organisation, and has continued its policy of providing annually a detailed report to each employee of its performance and business progress.

Dividends

There was no dividend declared or paid in the year (2013: Nil)

Directors' report (continued)

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the Company.

By order of the Board



S Pezzack
Secretary

29 June 2015

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Eli Lilly and Company Limited

We have audited the financial statements of Eli Lilly and Company Limited for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

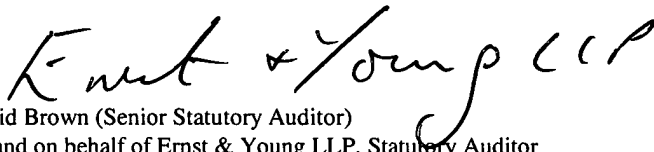
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Eli Lilly and Company Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



David Brown (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading

2-07-2015

Profit and loss account for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Turnover	2	702,561	762,478
Change in stocks of finished goods and work in progress		14,628	(19,861)
Raw materials and consumables		(538,395)	(524,426)
Staff costs	5	(103,602)	(104,383)
Depreciation		(20,456)	(28,848)
Other operating charges		(118,659)	(152,625)
Other operating income		122,441	146,456
		(644,043)	(683,687)
Operating profit	3	58,518	78,791
Exceptional items	7	-	3,343
Interest receivable	8	452	450
Interest payable and similar charges	8	(1,679)	(1,733)
Other finance income	23	16,244	30,002
		73,535	110,853
Profit on ordinary activities before taxation		73,535	110,853
Tax on profit on ordinary activities	9	(12,257)	(23,221)
		61,278	87,632
Profit on ordinary activities after taxation and retained for the financial year	20	61,278	87,632

All income and expenses relate to continuing operations.

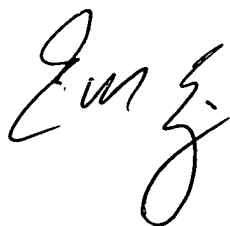
Statement of total recognised gains and losses for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Profit for the financial year		61,278	87,632
Actuarial (loss)/gain recognised on retiree benefits	16	(62)	3,052
Deferred tax on retiree benefits		12	(610)
Actuarial gain/(loss) recognised on pension	22	18,129	(742)
Deferred tax on pension		(3,663)	148
		75,694	89,480
Total recognised gains and losses relating to the year		75,694	89,480

Balance Sheet

at 31 December 2014

	Notes	2014 £000	2013 £000
Fixed assets			
Tangible assets	10	254,446	241,166
Investments	11	9,892	8,228
		<u>264,338</u>	<u>249,394</u>
Current assets			
Stocks	12	292,387	277,032
Debtors	13	382,485	344,478
Cash at bank and in hand		175	446
		<u>675,047</u>	<u>700,356</u>
Creditors : amounts falling due within one year	14	(171,047)	(153,962)
		<u>504,000</u>	<u>546,394</u>
Net current assets			
		<u>768,338</u>	<u>795,788</u>
Total assets less current liabilities			
Creditors : amounts falling due after more than one year	15	(239,264)	(238,580)
Provisions for liabilities and charges			
Other provisions for liabilities and charges	18	(21,526)	(24,557)
		<u>(260,790)</u>	<u>(263,137)</u>
Net assets excluding pension asset		507,548	532,652
Pension asset	22	103,735	78,400
		<u>611,283</u>	<u>532,651</u>
Net assets			
Capital and reserves			
Called up share capital	19	8,202	8,202
Contributed capital	20	85,021	85,021
Profit and loss account	20	518,060	439,428
		<u>611,283</u>	<u>532,651</u>
Equity shareholders' funds	20	<u>611,283</u>	<u>532,651</u>



E Zinn
Director

29 June 2015

Notes to the financial statements

at 31 December 2014

1 Accounting Policies

Basis of preparation

The financial statements of Eli Lilly and Company Limited were approved for issue by the Board of Directors on 29 June 2015.

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Cash flow statement

The company has taken advantage of the dispensation within Financial Reporting Standard No.1 (revised) not to present a cash flow statement. The cash flows of the company have been included in the financial statements of the ultimate parent undertaking.

Preparation of group financial statements

The company is exempt from the obligation to prepare group financial statements by virtue of section 401 of the Companies Act 2006. Consequently these financial statements present the results of the company as an individual undertaking and not of its group.

The results of the Company are included in the consolidated financial statements of Eli Lilly and Company, which is incorporated in the United States of America.

Revenue recognition

Revenue is recognised from sales of products, net of VAT and rebates payable, at the point the products are delivered to the customer.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment provisions. Depreciation is provided on all tangible fixed assets, other than freehold land and assets in the course of construction, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life, as follows:

Freehold buildings	-	over 40 to 50 years
Plant and equipment	-	over 3 to 20 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Investments

Investments are valued at cost. The carrying values of investments in subsidiary undertakings are reviewed for impairment if events indicate that the carrying value may not be recoverable.

Notes to the financial statements

at 31 December 2014

1 Accounting Policies (continued)

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value as follows:

Raw materials	-	purchase cost on a first-in, first-out basis
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads and production variances based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Provision for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less tax, with the following exceptions:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.
- Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Research and development

Research and development expenditure is written off as incurred.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pensions

The company operates a defined benefit pension scheme for certain employees. The assets of the scheme are held separately from those of the company.

Pension scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme assets are measured using market values at the balance sheet date.

Any pension scheme surplus is recognised, to the extent that it is recoverable, on the balance sheet. The deferred tax relating to a surplus is offset against the surplus and not included with other deferred tax assets or liabilities.

Any pension scheme deficit is recognised in full on the balance sheet. The deferred tax relating to a benefit liability is offset against the benefit liability and not included with other deferred tax assets or liabilities.

Notes to the financial statements

at 31 December 2014

1 Accounting Policies (continued)

Pensions (continued)

A credit representing the expected return on assets of the scheme is included within interest payable and similar charges. This is based on the market value of the assets at the start of the financial year. A charge representing the expected increase in the liabilities of the scheme during the year is included within interest payable and similar charges. This arises from the liabilities of the scheme being one year closer to retirement. Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses, together with the impact of changes in assumptions.

The company provides healthcare benefits to certain retired employees. Payments are made to beneficiaries when claimed. The cost of the scheme and associated liabilities have been fully recognised on an actuarially determined basis.

The company also operates a defined contribution pension scheme. Contributions are recognised in the profit and loss account in the period in which they become payable.

Share-based payments

FRS 20 'Share based payment' requires the recognition of the fair value of share-based compensation within the company's operating expenses, and a corresponding entry is made through equity. Share based payments comprise performance awards, shareholder value awards and restricted stock units; all received in shares of the ultimate parent company Eli Lilly and Company. Grants are accounted for at the fair value (determined using an appropriate pricing model) at the date of grant and recognised evenly over the vesting period. Where employer national insurance liabilities arise on the issuance of share awards, this liability is accrued.

2 Turnover

Turnover, which is stated net of value added tax, represents the amounts invoiced less trade discounts.

The turnover and pre-tax profit is attributable to one activity, the production and supply of pharmaceuticals, animal health products and associated research and development. All turnover is derived from activities undertaken in the United Kingdom and Republic of Ireland.

An analysis of turnover by destination is given below:

	<i>2014</i> <i>£000</i>	<i>2013</i> <i>£000</i>
Third party sales to United Kingdom and Republic of Ireland	341,094	355,751
Sales to group undertakings	361,467	406,727
	<u>702,561</u>	<u>762,478</u>

3 Operating Profit

This is stated after charging/(crediting):

	<i>2014</i> <i>£000</i>	<i>2014</i> <i>£000</i>	<i>2013</i> <i>£000</i>	<i>2013</i> <i>£000</i>
Auditors' remuneration (see note 4)		135		126
Depreciation of owned fixed assets (see note 10)	26,955		22,017	
Depreciation of assets held under finance leases and hire purchase (see note 10)	<u>2,480</u>		<u>2,724</u>	
	29,435		24,741	
Depreciation capitalised in inventory	<u>(8,979)</u>		<u>4,107</u>	
Depreciation		20,456		28,848
Loss on disposal of fixed assets		4		352
Research and development expenditure written off		123,755		148,096
Operating lease rentals		395		275
- plant and machinery				275
- land and buildings		393		373
Research and development expenditure recharged		(121,093)		(144,903)
Royalties received		(40,476)		(46,770)
Exchange (gain)/loss		<u>(110)</u>		<u>1,447</u>

Notes to the financial statements

at 31 December 2014

4 Auditors' Remuneration

The remuneration of the auditors is further analysed as follows:

	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
Audit of the financial statements *	132	116
Other fees to auditors	3	10
	<u>135</u>	<u>126</u>

* Included in these fees are the financial statement audits of Eli Lilly Holdings Limited and Eli Lilly Group Limited.

5 Staff Costs

	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
Wages and salaries	72,074	77,451
Social security costs	8,954	9,326
Other pension costs	19,337	17,481
Share based payment - Cost of performance awards issued	3,238	125
	<u>103,602</u>	<u>104,383</u>

The average monthly number of employees during the year was made up as follows:

	<i>2014</i>	<i>2013</i>
	<i>No.</i>	<i>No.</i>
Manufacturing	484	479
Other	759	845
	<u>1,243</u>	<u>1,324</u>

6 Directors' Remuneration

	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
Aggregate remuneration in respect of qualifying services	<u>2,965</u>	<u>2,678</u>
	<i>2014</i>	<i>2013</i>
	<i>No.</i>	<i>No.</i>
Number of directors accruing benefits under defined benefit schemes	<u>4</u>	<u>4</u>
	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
In respect of the highest paid director:		
Aggregate remuneration	778	607
Accrued pension at the end of the year	-	152

Notes to the financial statements

at 31 December 2014

7 Exceptional items

	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
Income associated with sale of intangible assets	-	(3,343)

8 Interest

	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
Interest receivable:		
Bank interest	-	16
Group Deposits	452	434
	<u>452</u>	<u>450</u>
Interest payable and similar charges:		
Group loans	1,401	1,436
Finance charges payable under finance leases and hire purchase contracts	278	297
	<u>1,679</u>	<u>1,733</u>

Notes to the financial statements

at 31 December 2014

9 Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2014 £000	2013 £000
<i>Current tax:</i>		
UK Corporation tax at 21.5% (2013: 23.25%)	14,279	21,074
Adjustments in respect of previous periods	(1,755)	(16)
Foreign withholding tax	6	-
Total current tax (note 9(b))	12,530	21,058
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(273)	8,651
Effect of decreased tax rate on deferred tax balance	-	(6,488)
Tax on profit on ordinary activities	12,257	23,221

(b) Factors affecting the current tax charge

The tax for the period is lower (2013: Lower) than the standard effective rate of corporation tax in the UK of 21.5% (2013: 23.25%).
The differences are reconciled below:

	2014 £000	2013 £000
Profit on ordinary activities before tax	73,535	110,853
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.5% (2013: 23.25%)	15,810	25,773
Non deductible expenses	137	171
Capital allowances for period (in excess of) /less than depreciation	(814)	1,876
Other short term timing differences	2,020	298
Adjustment in respect of prior periods	(1,755)	(16)
Pension contribution greater than charge	(2,873)	(6,311)
R&D tax credits	-	(733)
Foreign withholding tax	6	-
Total current tax (note 9(a))	12,530	21,058

(c) Factors that may affect future tax charges

The rate of corporation tax was reduced to 21% effective from 1 April 2014 and a further rate reduction to 20% is to be effective 1 April 2015.

Notes to the financial statements

at 31 December 2014

10 Tangible Fixed Assets

	<i>Land & Buildings Freehold £000</i>	<i>Plant & machinery £000</i>	<i>Construction in progress £000</i>	<i>Total £000</i>
Cost:				
At 1 January 2014	154,428	317,782	33,599	505,809
Additions	-	3,738	40,706	44,444
Transfers from construction in progress	10,018	17,705	(27,723)	-
Disposals	-	(7,494)	-	(7,494)
At 31 December 2014	164,446	331,731	46,582	542,759
Depreciation:				
At 1 January 2014	44,049	220,594	-	264,643
Provided during the year	7,189	22,246	-	29,435
Disposals	-	(5,765)	-	(5,765)
At 31 December 2014	51,238	237,075	-	288,313
Net book value:				
At 31 December 2014	113,208	94,656	46,582	254,446
At 1 January 2014	110,379	97,188	33,599	241,166

The net book value of tangible fixed assets above includes an amount of £6,499,000 (2013: £6,932,000) in respect of assets held under finance leases and hire purchase contracts.

Included in construction in progress is £21.4m for the building of a new animal health production plant in Speke.

Notes to the financial statements

at 31 December 2014

11 Investments

	<i>Venture capital fund £000</i>	<i>Subsidiary Undertakings £000</i>	<i>Total £000</i>
Cost:			
At 1 January 2014	-	8,228	8,228
Investments made in the year	1,664	-	1,664
At 31 December 2014	<u>1,664</u>	<u>8,228</u>	<u>9,892</u>

Eli Lilly & Company Limited invested in Epidarex Capital II LP in the year, a venture capital fund which invests in early stage life science companies.

Details of the investments in which the company (unless indicated) holds 20% or more of the nominal value of a class of share capital are as follows:

Eli Lilly and Company Limited own 100% of the ordinary share capital of the following subsidiaries all of which are registered in England and Wales:

Dista Products Limited *
Elanco Products Limited *
Lilly Industries Limited *
Eli Lilly (Basingstoke) Limited *
Eli Lilly Leasing Limited*
Eli Lilly Property Limited *
Eli Lilly Resources Limited *
Greenfield Pharmaceuticals Limited *
Lilly Property Limited *
Lilly Research Centre Limited *
Lilly Resources Limited *

* The subsidiaries have no trading activities. Apart from the amounts loaned, without any terms specified, to Eli Lilly & Company Limited, the subsidiaries have no other assets and liabilities.

In the opinion of the directors the value of investments in subsidiary undertakings is not less than the amounts stated above.

12 Stocks

	<i>2014 £000</i>	<i>2013 £000</i>
Raw materials and consumables	7,847	7,120
Work in progress	240,390	234,205
Finished goods and goods for resale	44,150	35,707
	<u>292,387</u>	<u>277,032</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Notes to the financial statements

at 31 December 2014

13 Debtors

	2014 £000	2013 £000
Trade debtors	71,933	69,156
Amounts owed by group undertakings	101,836	106,097
Advances to affiliates	184,709	159,910
Other debtors	13,220	1,775
Prepayments and accrued income	4,943	5,487
Corporation tax	5,844	2,053
	382,485	344,478

14 Creditors: amounts falling due within one year

	Notes	2014 £000	2013 £000
Obligations under finance leases and hire purchase contracts	17	6,499	2,576
Trade creditors		26,708	17,717
Amounts owed to group undertakings		92,902	90,546
Other taxes and social security costs		3,503	3,479
Other creditors		5,869	8,839
Accruals		35,566	30,805
		171,047	153,962

There are no repayment terms for, or interest payable on, the amounts shown above.

Obligations under finance leases and hire purchase contracts are secured against the respective assets acquired.

15 Creditors: amounts falling due after more than one year

	Notes	2014 £000	2013 £000
Loans from group undertakings		190,092	190,092
Obligations under finance leases and hire purchase contracts	17	-	4,356
Medical costs of retirees	16	44,400	42,300
Liabilities under disability scheme		1,861	1,832
Deferred income		2,911	-
		239,264	238,580

Included within loans from group undertakings is £187,979,000 from Kinsale Financial Services repayable within 10 years from 1 February 2005 at LIBOR plus 18.75 basis points.

Notes to the financial statements

at 31 December 2014

16 Retiree medical costs

Employees and former employees who joined before 1 January 1997 are provided with post retirement benefits in the form of cover for medical costs. The net present value of the liability was assessed with the advice of independent qualified actuaries at 1 January 2013 and updated using the following main assumptions.

Discount rate 4.45%

Medical expense inflation 6.0%

	<i>£000</i>
Liability as at 1 January 2014	42,300
Service Cost	530
Interest on liability	1,884
Amortisation of actuarial loss	675
Employer's contribution	(1,051)
Actuarial loss	62
	<hr/>
Liability as at 31 December 2014	44,400 <hr/>

17 Obligations under leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts:

	<i>2014</i> <i>£000</i>	<i>2013</i> <i>£000</i>
Amounts payable:		
Within one year	6,499	2,576
Within two to five years	-	4,356
	<hr/>	<hr/>
	6,499 <hr/>	6,932 <hr/>

Annual commitment under non-cancellable operating leases are as follows:

	<i>2014</i>		<i>2013</i>
	<i>Land and</i>	<i>Plant and</i>	<i>Land and</i>
	<i>buildings</i>	<i>machinery</i>	<i>buildings</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:			
Within two to five years	-	341	-
In over five years	444	-	444
	<hr/>	<hr/>	<hr/>
	444 <hr/>	341 <hr/>	444 <hr/>
	<hr/>	<hr/>	<hr/>
	444 <hr/>	341 <hr/>	162 <hr/>

Notes to the financial statements

at 31 December 2014

18 Provisions for liabilities and charges

Provision for deferred taxation

	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
Deferred taxation	21,526	24,557

The movements in deferred taxation during the current year are as follows:

	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
At 1 January	24,557	25,110
Charge for the year	(3,019)	2,508
Rate change (2013: 23% to 20%)	-	(3,671)
Actuarial gain on retiree benefits	(12)	610
At 31 December	21,526	24,557

Full provision has been made for deferred taxation at 20% (2013: 20%) as follows:

	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
Capital allowances in advance of depreciation	24,503	26,348
Intrinsic value of share based payments	(1,173)	-
Other short term timing differences	(1,804)	(1,791)
	21,526	24,557
Total provisions for liabilities and charges	21,526	24,557

Notes to the financial statements

at 31 December 2014

19 Authorised and issued share capital

Authorised, allotted, called up and fully paid

	2014	2013	2014	2013
	No.	No.	£000	£000
Ordinary shares of £1 each	8,202,196	8,202,196	8,202	8,202

20 Reconciliation of shareholders' funds and movements on reserves

	<i>Share capital</i>	<i>Contributed capital</i>	<i>Profit and loss account</i>	<i>Total</i>
	£000	£000	£000	£000
At 1 January 2013	8,202	85,021	350,217	443,440
Profit for the year	-	-	87,632	87,632
Actuarial gain on pension and retiree benefits	-	-	2,310	2,310
Deferred tax on actuarial gain	-	-	(462)	(462)
Share based payments charge from parent	-	-	(394)	(394)
Share based payments FRS20 credit	-	-	125	125
At 1 January 2014	8,202	85,021	439,428	532,651
Profit for the year	-	-	61,278	61,278
Actuarial gain on pension and retiree benefits	-	-	18,067	18,067
Deferred tax on actuarial loss	-	-	(3,651)	(3,651)
Share based payments charge from parent	-	-	(300)	(300)
Share based payments FRS20 charge	-	-	3,238	3,238
At 31 December 2014	8,202	85,021	518,060	611,283

21 Capital commitments

	2014	2013
	£000	£000
Amounts contracted but not provided for in the financial statements	755	719

Notes to the financial statements

at 31 December 2014

22 Retirement Benefits

The company operates a defined contribution pension scheme for certain employees. Contributions in the year amounted to £4,383,000 (2013: £3,368,000)

The company operates a defined benefit pension scheme for certain employees. The assets of the scheme are held separately from those of the company.

Pension scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme assets are measured using market values at the balance sheet date.

Asset allocations are intended to achieve a total asset return target over the long term. Expected rates of return detailed below are based on historical data and future long-term expectations. The assumed rate of return on pension scheme assets is consistent with the scheme's long-term investment return objective.

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2014	2013
Rate of return on investments	5.70%	7.70%
Rate of increase in salaries	3.00%	3.40%
Rate of pension increases		
- for pensions accrued before 5 April 1997, on excess over GNP	NIL	NIL
- for pensions accrued from 6 April 1997	2.85%	3.10%
- for pensions accrued from 6 April 2005	1.85%	2.00%
Rate of pension increases for in-deferment pensions		
- for pensions accrued before 5 April 2009, on excess over GMP	2.00%	2.40%
- for pension accrued from 6 April 2009	2.00%	2.40%
Discount rate	3.70%	4.45%
Inflation assumption - RPI	3.00%	3.40%
Inflation assumption - CPI	2.00%	2.40%
Longevity at age 65 for pensioners:		
- Men	23.40	23.40
- Women	24.50	24.70

These mortality figures have been based upon the following assumptions:

	2014	2013
- before retirement	105% of S2PMA_L and 105% of S2PFA_L	AMC00/ AFC00
- after retirement (actives/deferreds)	105% of S2PMA_L and 105% of S2PFA_L (with 2013 CMI projections and 1.5% long-term improvement rate)	110% of SINMA_L/SINFA_L (with 2013 CMI projections and 1.5% long-term improvement rate)
- pensioners	105% of S2PMA_L and 105% of S2PFA_L (with 2013 CMI projections and 1.5% long-term improvement rate)	110% of SINMA_L/SINFA_L (with 2013 CMI projections and 1.5% long-term improvement rate)

Notes to the financial statements

at 31 December 2014

22 Retirement Benefits (continued)

Employee benefit obligations

The amounts recognised in the balance sheet are as follows:

	2014	2014	2013	2013
	Main Plan	Supplementary	Main Plan	Supplementary
	£000	scheme	£000	scheme
	£000	£000	£000	£000
Present value of funded obligations	(949,000)	(6,200)	(839,000)	(5,000)
Fair value of plan assets	1,084,869	-	942,000	-
Overall surplus/(deficit)	135,869	(6,200)	103,000	(5,000)
Related deferred tax (liability)/asset	(27,174)	1,240	(20,600)	1,000
Net Asset/(Liability)	108,695	(4,960)	82,400	(4,000)
Amounts in the balance sheet				
Liabilities	-	(4,960)	-	(4,000)
Assets	108,695	-	82,400	-
Net Asset/(Liability)	108,695	(4,960)	82,400	(4,000)

The amounts recognised in profit or loss are as follows:

	2014	2014	2013	2013
	Main Plan	Supplementary	Main Plan	Supplementary
	£000	scheme	£000	scheme
	£000	£000	£000	£000
Employer's current service cost	16,300	580	16,300	556
Total operating charge	16,300	580	16,300	556

The operating charge above reflects the total charge for the pension scheme. A total of £5,317,000 (2013: £4,424,000) was recharged to other group companies.

Notes to the financial statements

at 31 December 2014

22 Retirement Benefits (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2014	2014	2013	2013
	Main Plan	Supplementary	Main Plan	Supplementary
	£000	£000	£000	£000
Benefit obligation, beginning of year	839,000	5,000	768,000	4,600
Current service cost	16,300	580	16,300	556
Interest cost	37,393	-	35,140	-
Actuarial loss	86,307	796	43,560	40
Benefits paid	(30,000)	(176)	(24,000)	(196)
Benefit obligation, end of year	949,000	6,200	839,000	5,000

Changes in the fair value of plan assets are as follows:

	2014	2013
	Main Plan	Main Plan
	£000	£000
Fair value, beginning of year	942,000	844,000
Expected return	53,637	65,142
Actuarial gain	105,232	42,858
Employer contribution	14,000	14,000
Benefits paid	(30,000)	(24,000)
	1,084,869	942,000

The Company expects to contribute £750,000 to its defined benefit pension plan in 2015.

The major categories of plan assets as a percentage of total plan assets are as follows:

	2014	2013
Equities	36%	44%
Bonds	28%	25%
Other	36%	31%

Analysis of the amount credited to other finance income

	2014	2013
	Main Plan	Main Plan
	£000	£000
Expected return on pension plan assets	53,637	65,142
Interest on pension liabilities	(37,393)	(35,140)
Net return	16,244	30,002

Notes to the financial statements

at 31 December 2014

22 Retirement Benefits (continued)

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)

	2014	2014	2013	2013
	Main Plan	Supplementary	Main Plan	Supplementary
	£000	scheme	£000	scheme
		£000		£000
Actual return less expected return on plan assets	105,232	(796)	42,858	(40)
Experience losses arising on the plan's liabilities	-	-	-	-
Changes in assumptions underlying the plan liabilities	(86,307)	-	(43,560)	-
	<u>18,925</u>	<u>(796)</u>	<u>(702)</u>	<u>(40)</u>
Actuarial gain/(loss) recognised in the STRGL	18,925	(796)	(702)	(40)

RECOGNITION OF SURPLUS/(DEFICIT)

Movement during the year

	2014	2014	2013	2013
	Main Plan	Supplementary	Main Plan	Supplementary
	£000	scheme	£000	scheme
		£000		£000
Surplus/(deficit) in plan at beginning of the year	103,000	(5,000)	76,000	(4,600)
Movement in year:				
Employer's current service cost	(16,300)	(404)	(16,300)	(360)
Employer's contributions	14,000	-	14,000	-
Other finance income	16,244	-	30,002	-
Actuarial loss	18,925	(796)	(702)	(40)
	<u>135,869</u>	<u>(6,200)</u>	<u>103,000</u>	<u>(5,000)</u>
Surplus/(deficit) in plan at end of the year	135,869	(6,200)	103,000	(5,000)

Amounts for the current and previous four periods are as follows:

	2014	2013	2012	2011	2010
	£000	£000	£000	£000	£000
Defined benefit obligation	(955,200)	(844,000)	(772,600)	(697,800)	(637,200)
Plan assets	1,084,869	942,000	844,000	795,000	684,000
Surplus/(Deficit)	129,669	98,000	71,400	97,200	46,800
Experience adjustments on plan liabilities	-	-	(3,136)	11,265	1,110
Experience adjustments on plan assets	104,436	42,818	(3,030)	22,388	46,517

Notes to the financial statements

at 31 December 2014

23 Share-based payments

FRS 20 'Share based payment' requires the recognition of the fair value of share-based compensation within the company's operating expenses. Share based payments comprise performance awards, shareholder value awards and restricted stock units and are all received in shares of the ultimate parent company Eli Lilly and Company.

Performance awards

Performance awards are granted to directors and key employees and are payable in shares of the ultimate parent company; these vest at the end of the financial year following the year of grant. The number of shares actually issued, if any, varies depending on the achievement of certain pre-established earnings-per-share targets over a 2 year period. Performance awards are accounted for at fair value based upon the closing stock price on the date of grant and are spread equally across the vesting period. The fair values of performance awards granted during the year ended 31 December 2014 was \$48.81 (2013: \$50.19). Approximately 44,000 performance awards were granted in 2014 (2013: 40,000)

Shareholder value awards

Shareholder value awards are granted to directors and key employees and are payable in shares of the ultimate parent company; these vest across a three year period from the date of grant. The number of shares actually issued, if any, varies depending on the share price at the end of the three year vesting period compared to pre-established target share prices. The corresponding expense for shareholder value awards is accounted for at fair value and spread evenly over the vesting period. We measure the fair value of the shareholder value awards on the grant date using a Monte Carlo simulation model. The Monte Carlo Simulation model uses multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model are based on implied volatilities from traded options on our stock, historical volatility of our stock price, and other factors. Similarly, the dividend yield is based on historical experience and our estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The weighted-average fair values of the shareholder value awards granted during the year ended 31 December 2014 was \$41.97 (2013: \$45.17). The following assumptions were used to calculate the fair values:

	2014	2013
Expected dividend yield	3.50%	3.50%
Risk-free interest rate	0.08-0.71	0.08-0.43
Range of volatilities	18.87-21.56	18.95-22.37

Approximately 31,000 shareholder value awards were granted in 2014 (2013: 27,000)

Restricted Stock Units

Restricted stock units are granted to certain employees and are payable in shares of the ultimate parent company. Restricted stock units are accounted for at fair value based upon the closing stock price on the date of grant. The corresponding expense is spread evenly over the vesting period, typically 3 years. The fair values of restricted stock units granted during the year ended 31 December 2014 was \$48.81 (2013: \$54.10). Approximately 35,000 restricted stock units were granted in 2014 (2013: 42,000)

The total expense recognised in the profit and loss account for the year ended 31 December 2014 is £3,238,000 (2013: £125,000)

Notes to the financial statements

at 31 December 2014

24 Ultimate Parent Undertaking and Related Party Transactions

The ultimate parent undertaking is Eli Lilly & Company which is incorporated in the United States of America. The consolidated financial statements of Eli Lilly & Company are those of the smallest and largest group of which the company is a member and for which consolidated financial statements are prepared. The consolidated financial statements can be obtained from Eli Lilly & Company, Lilly Corporate Center, Indianapolis, Indiana, USA.

The immediate parent undertaking is Eli Lilly Group Limited which is incorporated in the United Kingdom.

The company has utilised the exemption under Financial Reporting Standard No. 8 as a 100% owned subsidiary undertaking not to disclose transactions with other entities that are wholly owned subsidiaries of the Eli Lilly & Company Group.

25 Post balance sheet event

In January 2015, the company completed the acquisition of certain trade and intangible assets relating to a portfolio of animal health products from a fellow group undertaking. The acquisition price was £168,000,000 which was funded by way of an inter-company loan.