ViiV Healthcare UK Limited
(Registered number : 06990358)

Directors' report and financial statements

for the year ended 31 December 2015

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ViiV Healthcare UK Limited
(Registered number : 06990358)

Directors' report and financial statements

for the year ended 31 December 2015

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ViiV Healthcare UK Limited
(Registered number: 06990358)

Strategic report for the year ended 31 December 2015

The Directors present their strategic report on ViiV Healthcare UK Limited (the "Company") for the year ended 31 December 2015.

Principal activities

The Company is a member of the ViiV Healthcare Group (the "Group"). The Directors do not envisage any change to the nature of the business in the foreseeable future.

Principal activity of the Company is marketing, distribution and selling of HIV products as well as licensing out rights of HIV products to the Group.

Review of business

The Company made a profit for the financial year of £305,187,000 (2014: profit of £330,358,000). The Directors are of the opinion that the current level of activity and the year end financial position are satisfactory and will remain so in the foreseeable future.

The profit for the year of £305,187,000 will be transferred to reserves (2014: profit of £330,358,000 transferred to reserves).

Principal risks and uncertainties

The Directors of ViiV Healthcare Limited and its subsidiaries manage the risks of the Group at a group level, rather than at an individual business unit level. For this reason, the Company's Directors believe that a discussion of the Group's risks would not be appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's 2015 Annual Report which does not form part of this report.

Key performance indicators (KPIs)

The Directors of the Group manage the Group's operations on a business sector basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The development, performance and position of the Group are discussed in the Group's 2015 Annual Report which does not form part of this report.

First time adoption of FRS 100 and FRS 101

In the current year the Company has adopted Financial Reporting Standard 100 'Application of Financial Reporting Requirements' ("FRS 100") and Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). In previous years the financial statements were prepared in accordance with applicable UK accounting standards.This change in the basis of preparation has altered the recognition and measurement requirements previously applied in accordance with applicable accounting standards. An explanation of the impact of the adoption of FRS 100 and FRS 101 for the first time is included in the notes to the financial statements.

On behalf of the Board

Jerome Andries
Director
22 July 2016

ViiV Healthcare UK Limited
(Registered number: 06990358)

Directors' report for the year ended 31 December 2015

The Directors present their report on the Company and the audited financial statements for the year ended 31 December

Results and dividends

The Company's results for the financial year are shown in the Statement of comprehensive income on page 6.

An interim dividend of £165,500,000 (2014: £163,000,000) per ordinary share amounting to £331,000,000 (2014: £326,000,000) was declared and paid to the holders of ordinary shares on 2 October 2015. A second interim dividend of £76,250,000 per ordinary share amounting to £305,000,000 is proposed to the holders of ordinary shares in respect of the year ended 31 December 2015. (2014: £nil).

Research and development

The Company is responsible for instigating research and development ("R&D") activities, which are carried out by GlaxoSmithKline plc, Pfizer Inc, Shionogi & Co Ltd. and their respective affiliates. The income from these activities includes amounts re-charged to other Group undertakings. In addition the Company has entered into a number of in-licensing initiatives that have strengthened the R&D pipeline, particularly in the later stages.

Directors and their interests

The Directors of the Company who were in the office during the year and up to the date of signing the financial statements were as follows:

Dominique Limet
Jerome Andries
Mark Dawson
Neil Shortman

No Director had, during the year or at the end of the year, any material interest in any contract of significance to the Company's business.

Directors' indemnity

Each of the Directors benefits from an indemnity given by the Company under its articles of association. This indemnity is in respect of liabilities incurred by the Director in the execution and discharge of their duties.

In addition, each of the Directors who is an individual benefits from an indemnity given by another Group Company, ViiV Healthcare Limited. This indemnity is in respect of liabilities arising out of third party proceedings to which the Director is a party by virtue of his or her engagement in the business of the Company.

ViiV Healthcare UK Limited
(Registered number: 06990358)

Directors' report for the year ended 31 December 2015

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, 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), including FRS 101 'Reduced disclosure framework' ("FRS 101") 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 of 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

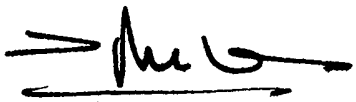
Disclosure of information to auditors

As far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and the Directors have taken all the steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP are willing to continue in office as auditors and resolutions dealing with their reappointment and remuneration will be proposed at a General Meeting of the Company.

On behalf of the Board



Jerome Andries
Director
22 July 2016

ViiV Healthcare UK Limited
(Registered number: 06990358)

Independent auditors' report to the members of ViiV Healthcare UK Limited

Report on the financial statements

Our opinion

In our opinion, ViiV Healthcare UK Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs at 31 December 2015 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.

What we have audited

The financial statements, included within the Directors' report and financial statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 December 2015;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" and applicable law, (United Kingdom Genrally Accepted Accounting Practise).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of ViiV Healthcare UK Limited

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' resposibilities, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Directors' 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.

The Company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the senior statutory auditor's name should not be stated.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 July 2016

ViiV Healthcare UK Limited
(Registered number: 06990358)

Statement of comprehensive income for the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Turnover	4	**473,855**	463,948
Cost of sales		**(78,006)**	(22,943)
Gross profit		**395,849**	441,005
Selling and distribution costs		**(6,666)**	(4,392)
Administrative expenses		**(72,125)**	(53,476)
Research and development expenditure		**(18,677)**	(16,335)
Other operating income	5	**59,260**	20,378
Operating profit	6	**357,641**	387,180
Finance expense	7	**(107)**	(955)
Profit on ordinary activities before income tax		**357,534**	386,225
Income tax expense on profit on ordinary activities	9	**(52,347)**	(55,867)
Profit for the financial year		**305,187**	330,358

The results disclosed above for both the current year and prior year relate entirely to continuing operations.

There is no difference in either the current year or prior year between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

The Company has no comprehensive income during either the current year or prior year other than those included in the results above and therefore no separate statement of other comprehensive income has been presented.

ViiV Healthcare UK Limited
(Registered number: 06990358)

Balance sheet
as at 31 December 2015

	Notes	2015 £'000	2014 £'000
Fixed assets			
Intangible assets	11	**1,935**	1,485
Investments	12	**3,017,500**	1,690,000
Total fixed assets		**3,019,435**	1,691,485
Current assets			
Trade and other receivables	13	**656,593**	658,058
Cash and cash equivalents		**-**	776
Total current assets		**656,593**	658,834
Creditors: amounts falling due within one year	14	**(484,145)**	(460,127)
Net current assets		**172,448**	198,707
Net assets		**3,191,883**	1,890,192
Capital and reserves			
Called up share capital	15	**-**	-
Share premium account		**-**	378,000
Other reserves		**663,504**	1,181,000
Retained earnings		**2,528,379**	331,192
Total Shareholder's funds		**3,191,883**	1,890,192

The financial statements on pages 6 to 20 were approved by the Board of Directors on 20 July 2016 and were signed on its behalf by:

Jerome Andries
Director

ViiV Healthcare UK Limited
(Registered number: 06990358)

Statement of changes in equity
for the year ended 31 December 2015

	Called up share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total shareholder's funds £'000
At 1 January 2014	-	378,000	517,000	326,835	**1,221,835**
Profit and total comprehensive income for the financial year	-	-	-	330,358	**330,358**
Dividends to shareholders	-	-	-	(326,000)	**(326,000)**
Revaluation of investment in subsidiaries	-	-	664,000	-	**664,000**
At 31 December 2014	-	**378,000**	**1,181,000**	**331,193**	**1,890,193**
Profit and total comprehensive income for the financial year	-	-	-	305,187	**305,187**
Dividends to shareholders	-	-	-	(331,000)	**(331,000)**
Revaluation of investment in subsidiaries	-	-	1,327,504	-	**1,327,504**
Transfer of reserves to Share premium account	-	1,845,000	(1,845,000)	-	-
Capital Reduction	-	(2,223,000)	-	2,223,000	-
At 31 December 2015	-	-	**663,504**	**2,528,380**	**3,191,884**

On 17th November 2015, the Company capitalised Other Reserves by issuing one share with no economic entitlement to its parent at a Share Premium of £1,845,000,000. On the same date, the Company completed a capital reduction to reduce Share Premium and increase Retained Earnings by £2,223,000,000.

ViiV Healthcare UK Limited
(Registered number: 06990358)

Notes to the financial statements for the year ended 31 December 2015

1 Presentation of the financial statements

General information
Principal activity of ViiV Healthcare UK Limited (the "Company") is marketing, distribution and selling of HIV products as well as licensing out rights of HIV products to the ViiV Healthcare Group (the "Group").

The Company is a private company and is incorporated and domiciled in the UK (England). The address of the registered office is 980 Great West Road, Brentford, Middlesex TW8 9GS.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with FRS 100 and FRS 101. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared on the going concern basis under the historical cost convention, and in accordance with the Companies Act 2006.

First time application of FRS 100 and 101

In the current year the company has adopted Financial Reporting Standard 100 'Application of Financial Reporting Requirements' ("FRS 100") and Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). In previous years the financial statements were prepared in accordance with applicable UK accounting standards.

This change in the basis of preparation has altered the recognition and measurement requirements previously applied in accordance with applicable accounting standards. An explanation of the impact of the adoption of FRS 100 and FRS 101 for the first time is included in note 16.

The change in basis of preparation has enabled the company to take advantage of all of the available disclosure exemptions permitted by FRS 101 in the financial statements, the most significant of which are summarised below. There have been no other material amendments to the disclosure requirements previously applied in accordance with applicable accounting standards.

Disclosure exemptions adopted

In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payments' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7, 'Financial instruments: disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  (i) paragraph 79(a) (iv) of IAS 1;
  (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
  (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period);
- The following paragraphs of IAS 1,'Presentation of financial statements':
  - 10(d), (statement of cash flows)
  - 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or make a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements,)
  - 16 (statement of compliance with all IFRS),
  - 38A (requirements for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 40A-D (requirements for a third balance sheet),
  - 111 (cash flow statement information), and

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- 134 - 136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation);
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group.

The financial statements of ViiV Healthcare Limited can be obtained as described in note 2(b).

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(b) Consolidation

The Company is a wholly owned subsidiary of the Group and as such has taken advantage of the exemption from preparing group financial statements under section 400 of the Companies Act 2006. GlaxoSmithKline plc, a company registered in England and Wales, is the Company's ultimate parent undertaking and controlling party. The smallest group of undertakings for which group financial statements are presented and which include the results of the Company, are the consolidated financial statements of ViiV Healthcare Limited. The largest group of undertakings for which group financial statements are prepared and which include the results of the Company, are the consolidated financial statements of GlaxoSmithKline plc. Copies of the ViiV Healthcare Limited consolidated financial statements can be obtained from the Company Secretary, ViiV Healthcare Limited, 980 Great West Road, Brentford, Middlesex TW8 9GS. The immediate parent undertaking is ViiV Healthcare Limited. These financial statements are separate financial statements.

(c) Foreign currency

Foreign currency transactions are booked in functional currency of the company at the exchange rate ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into functional currency at rates of exchange ruling at the balance sheet date. Exchange differences are included in the statement of comprehensive income. The functional and presentation currency of the Company is Pounds Sterling.

(d) Turnover

Turnover is recognised in the Statement of comprehensive income when goods or services are supplied or made available, to external customers or other Group subsidiaries against orders received, title and risk of loss is passed to the customer, reliable estimates can be made of the relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete.

Turnover represents the net invoice value after the deduction of discounts and allowances given and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in the light of historical information and past experience. Value added tax and other sales taxes are excluded from turnover.

(e) Other operating income and expense

Royalty income is recognised in other operating income on an accruals basis in accordance with the terms of the relevant licensing agreements.

(f) Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. A provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Advertising expenditure is charged to the statement of comprehensive income as incurred. Shipment costs on inter-company transfers are charged to cost of sales. Distribution costs on sales to customers are included in selling and distribution costs in the Statement of comprehensive income.

(g) Dividends paid and received

Interim dividends received are included in the statement of comprehensive income in the year in which they are received. Interim dividends paid are included in reserves in the year in which they are paid. Final dividends are recorded in the reserves upon shareholder approval. Dividends in specie are recognised at their fair value at the date of receipt.

2 Summary of significant accounting policies (continued)

(h) Research and development

Research and development expenditure is charged to the Statement of comprehensive income in the year in which it is incurred. Development expenditure is capitalised when the criteria for recognising an asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

(i) Finance income and expense

Finance income and expenses are recognised on an accruals basis using the effective interest method.

(j) Employee share plans

Incentives in the form of shares are provided to employees under share option and share award schemes. The fair values of these options and awards are calculated at their grant dates using a Black-Scholes option pricing model and charged to the statement of comprehensive income over the relevant vesting period.

(k) Intangible assets

Intangible assets are stated at cost less a provision for amortisation and impairment.

Licences, patents, know-how and marketing rights separately acquired are amortised over their estimated useful lives generally not exceeding 20 years, using the straight-line basis, from the time they are available for use. The estimated useful lives for determining the amortisation charge take into account patent lives, where applicable, as well as the value obtained from periods of non-exclusivity. Asset lives are reviewed, and where appropriate adjusted, annually. Any development costs incurred by the Company and associated with acquired licences, patents, know-how or marketing rights are written off to the statement of comprehensive income when incurred, unless the criteria for recognition of an internally generated intangible asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

(l) Investment in subsidiaries

Investments in subsidiaries are held at fair value with remeasurement gains recognised directly in reserves. Reductions in value are initially adjusted against reserves, to the extent that they relate to previously recognised remeasurement gains. Any excess impairments are recognised in the statement of comprehensive income. On disposal of investment in subsidiary, the accumulated fair value adjustments previously taken to reserves are included in the statement of comprehensive income.

(m) Impairment of non-financial assets

The carrying values of all non-financial assets are reviewed for impairment, either on a standalone basis or as part of a larger cash generating unit, when there is an indication that the assets might be impaired. Any provision for impairment is charged to the statement of comprehensive income in the year concerned.

Impairment losses on other non-financial assets are only reversed if there has been a change in estimates used to determine recoverable amounts and only to the extent that the revised recoverable amounts do not exceed the carrying values that would have existed, net of depreciation or amortisation, had no impairments been recognised.

(n) Trade and other receivables

Trade and other receivables are carried at original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When a trade or other receivable is determined to be uncollectable it is written off, firstly against any provisions available and then to the income statement.

Subsequent recoveries of amounts previously provided for are credited to the income statement.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions and highly liquid investments with maturities of three months or less. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and then held at amortised cost using the effective interest method.

2 Summary of significant accounting policies (continued)

(q) Taxation

Current tax is provided at the amounts expected to be paid applying the rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date.

3 Key accounting judgments and estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported in the financial statements. Actual amounts and results could differ from those estimates. The following are considered to be the key accounting judgements and estimates made.

(a) Turnover

Revenue is recognised when title and risk of loss is passed to the customer, reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete.

Gross turnover is reduced by rebates, discounts, allowances and product returns given or expected to be given, which vary by product arrangement and buying groups. These arrangements with purchasing organisations are dependant upon the submission of claims some time after the initial recognition of the sale. Accruals are made at the time of sale for estimated rebates, discounts or allowances payable or returns to be made, based on available market information and historical experience.

Because the amounts are estimated they may not fully reflect the final outcome, and the amounts are subject to change dependent upon, amongst other things, the types of buying group and product sales mix.

(b) Taxation

Current tax is provided at the amounts expected to be paid, and deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts, at the rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised, based on management's assumptions relating to the amounts and timing of future taxable profits.

(c) Impairment of intangible assets

Impairment tests on intangible assets are undertaken if events occur which call into question the carrying values of the assets. Where brands and other intangible assets which are not yet available for use are not amortised, they are subject to annual impairment tests. Valuations for impairment tests are based on established market multiples or risk-adjusted future cash flows over the estimated useful life of the asset, where limited, discounted using appropriate interest rates.

The assumptions relating to future cash flows, estimated useful lives and discount rates are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment tests to change with a consequent adverse effect on the future results of the Company.

4 Turnover

Analysis of turnover by category:

	2015	2014
	£'000	£'000
Pharmaceuticals	**473,855**	463,948

The Company operates only in one geographical segment, United Kingdom.

5 Other operating income

	2015 £'000	2014 £'000
Third party royalties	(5,271)	(9)
Royalties & other income from Group undertakings	855	1,389
Other operating income	63,677	18,998
	59,260	20,378

During the year, the Company bore head office costs on behalf of the Group and charged a management fee to other Group companies for these services. Other operating income consists of intercompany HQ recharges of £110,390k (2014: £55,216k), Service agreement charges of £-9,352k (2014: £-4,113k), Cost shared royalty of £-11,309k (2014: £-11,832k) and other general business expenses of £-26,052k (2014: £-20,273k).

6 Operating profit

	2015 £'000	2014 £'000
The following items have been charged/(credited) in operating profit:		
Exchange loss/(gain) on foreign currency transactions	1,548	(3,253)
Amortisation of intangible assets	115	61
Cost of stocks included in cost of sales	77,891	22,642
Write-down of inventories	-	301
Audit Fees	27	36

7 Finance expense

	2015 £'000	2014 £'000
On loans with Group undertakings	(107)	(955)

8 Employees

Employee costs	2015 £'000	2014 £'000
Wages and salaries	23,786	19,054
Social security costs	1,170	1,070
Share based payments	6,272	2,459
	31,228	22,583

The average number of persons employed by the Company (including Directors) during the year

	2015	2014
Selling, general and administration	134	107

9 Taxation

Income tax expense on ordinary activities	2015 £'000	Restated 2014 £'000
Current tax:		
UK corporation tax	**48,572**	55,412
Adjustments in respect of prior periods	**3,221**	274
Total current tax expense	**51,793**	55,686
Deferred tax:		
Origination and reversal of timing differences	**620**	42
Adjustments in respect of prior periods	**(64)**	203
Effect of tax rate changes	**(2)**	(64)
Total deferred tax expense	**554**	181
Total tax expense for the year	**52,347**	55,867

The tax assessed for the year is lower (2014: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2015 of 20.25% (2014: 21.49%). The differences are explained below:

Reconciliation of total tax charge	2015 £'000	Restated 2014 £'000
Profit on ordinary activities before tax	**357,534**	386,233
Tax on ordinary activities at the UK statutory rate 20.25% (2014: 21.49%)	**72,388**	83,011
Effects of:		
Patent Box deduction	**(24,269)**	(28,017)
Other permanent differences	**1,073**	460
Adjustments in respect of prior periods	**3,157**	477
Impact of changes in tax rate	**(2)**	(64)
Total tax expense for the year	**52,347**	55,687

Factors that may affect future tax charges:
Reductions in the UK corporation tax rate from 21% to 20% (effective 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will impact the Company's future current tax charge accordingly. In addition, from 1 April 2013 the UK Government introduced the Patent Box regime which provides that profits arising from qualifying intellectual property are taxed at a reduced rate of 10%. The regime is being phased in from 2013-2018. The deferred tax liability at 31 December 2015 has been calculated based on the rate of 10.5% (2014: 12.19%) which is a blend of the main corporation tax rate and the Patent Box rate which have been substantively enacted at the balance sheet date.

The Chancellor also proposed changes in the Budget on 13 March 2016 to further reduce the main rate of UK corporation tax from 18% to 17% (from 1 April 2020). These changes have not yet been substantively enacted and therefore are not included in the figures above.

Movement in deferred tax assets

	Accelerated capital allowances £'000
At 1 January 2015	**607**
Charge to income statement	**(554)**
At 31 December 2015	**53**

9 Taxation (continued)

	2015 £'000	2014 £'000
Deferred tax assets	**53**	607
	53	607

10 Dividends paid

	£ per share	£ '000
Dividends paid in 2015		
2 October 2015 - interim dividend paid	165,500,000	**331,000**
Dividends paid in 2014		
10 November 2014 - interim dividend paid	163,000,000	**326,000**

11 Intangible assets

	Licences, patents,etc. £'000
Cost	
At 1 January 2015	**1,485**
Additions	**565**
Amortisation	**(115)**
At 31 December 2015	**1,935**

Intangible asset amortisation is recorded within cost of sales in the statement of comprehensive income.

12 Investments

	Subsidiary undertakings £'000
Fair value	
At 1 January 2014	**1,026,000**
Increase in fair value during the year	**664,000**
At 31 December 2014	**1,690,000**
Increase in fair value during the year	**1,327,500**
At 31 December 2015	**3,017,500**

Details of the principal subsidiary undertakings of the Company as at 31 December 2015 are given in Note 20.
Fixed asset investment comprises investment of 60.34% shares (2014 : 60.34%) in ViiV Healthcare UK (No.3) Limited with a cost of £509m (2014: £509m).

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

13 Trade and other receivables

	2015 £'000	2014 £'000
Trade debtors	**24,035**	13,171
Amounts owed by Group undertakings	**615,320**	611,835
Amounts owed by GlaxoSmithKline Group undertakings	**10,373**	23,577
Other receivables	**6,812**	8,868
	656,540	657,451
Amounts due after more than one year		
Deferred tax	**53**	607
	656,593	658,058

The amounts owed by Group undertakings and GlaxoSmithKline Group undertakings are unsecured, interest free and repayable on demand.

14 Creditors

	2015 £'000	2014 £'000
Creditors - Amounts falling due within one year		
Bank loans and overdrafts	**98**	-
Trade payables	**15,257**	15,788
Amounts owed to Group undertakings	**328,718**	267,611
Amounts owed to GlaxoSmithKline Group undertakings	**71,483**	133,979
Corporation tax	**43,606**	27,535
Other payables	**5,947**	1,999
Accruals	**19,035**	13,215
	484,145	460,127

The amounts owed to group undertakings include call account balance with ViiV Healthcare Trading Services UK Limited which is unsecured with interest charged at 0.02% per annum and repayable on demand.
The corporation tax creditor contains amounts which will be paid to fellow Group companies.

15 Called up share capital

	2015 Number of shares	2014 Number of shares	2015 £	2014 £
Authorised				
Ordinary Shares of £1 each (2014: £1 each)	**100**	100	**100**	100
Issued and fully paid				
Ordinary Shares of £1 each (2014: £1 each)	**3**	2	**3**	2

On 17th November 2015, the Company capitalised Other Reserves by issuing one share with no economic entitlement to its parent at a Share Premium of £1,845,000,000. On the same date, the Company completed a capital reduction to reduce Share Premium and increase Retained Earnings by £2,223,000,000.

16 First-time adoption of FRS 101

The following tables and explanatory notes outline the impact of the first-time adoption of FRS 101 on the Company. Under FRS 101, the date of transition is 1 January 2014, being the beginning of the earliest reported financial year in the financial statements. The impact on equity as at the date of transition is summarised below:

Reconciliation of capital and reserves at 1 January 2014	Called up share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total shareholders funds £'000
As at 1 January 2014 as previously reported under UK GAAP	-	378,000	-	326,835	704,835
Revaluation of Investments in Subsidiaries	-	-	517,000	-	517,000
As at 1 January 2014 in accordance with FRS 101	**-**	**378,000**	**517,000**	**326,835**	**1,221,835**

Notes to the reconciliation of capital and reserves at 1 January 2014:

On transition to FRS 101, the Company adopted an accounting policy to recognise investments in subsidiaries at fair value at each reporting date. A transitional adjustment is included to increase the carrying value of investments in subsidiaries from previously reported cost to fair value

Reconciliation of total comprehensive income for the year ended 31 December 2014:

	Under previous GAAP 2014 £'000	Effect of transition to FRS 101 £'000	FRS 101 2014 £'000
Turnover	**463,948**	**-**	**463,948**
Cost of sales	**(22,943)**	**-**	**(22,943)**
Gross profit	**441,005**	**-**	**441,005**
Selling and distribution costs	**(4,392)**	**-**	**(4,392)**
Administrative expenses	**(53,476)**	**-**	**(53,476)**
Research and development expenditure	**(16,335)**	**-**	**(16,335)**
Other operating income	**20,378**	**-**	**20,378**
Operating profit	**387,180**	**-**	**387,180**
Finance expense	**(955)**	**-**	**(955)**
Profit on ordinary activities before income tax	**386,225**	**-**	**386,225**
Income tax expense on profit on ordinary activities	**(55,867)**	**-**	**(55,867)**
Profit for the financial year	**330,358**	**-**	**330,358**

16 First-time adoption of FRS 101 (continued)

Reconciliation of equity at 31 December 2014:

	Under previous GAAP 31 Dec 2014 £'000	Effect of transition to FRS 101 £'000	FRS 101 31 Dec 2014 £'000
Fixed assets			
Intangible assets	**1,485**	-	**1,485**
Investments	**509,000**	**1,181,000**	**1,690,000**
Total fixed assets	**510,485**	**1,181,000**	**1,691,485**
Current assets			
Trade and other receivables	**658,058**	-	**658,058**
Cash and cash equivalents	**776**	-	**776**
Total current assets	**658,834**	-	**658,834**
Creditors: amounts falling due within one year	**(460,127)**	-	**(460,127)**
Net current assets	**198,707**	-	**198,707**
Net assets	**709,192**	**1,181,000**	**1,890,192**
Capital and reserves			
Called up share capital	-	-	-
Share premium account	**378,000**	-	**378,000**
Other reserves	-	**1,181,000**	**1,181,000**
Retained earnings	**331,192**	-	**331,192**
Total shareholders' funds	**709,192**	**1,181,000**	**1,890,192**

Notes to the reconciliation of equity at 31 December 2014:
On transition to FRS 101, the Company adopted an accounting policy to recognise investments in subsidiaries at fair value at each reporting date. Under previous GAAP, investments in subsidiaries were carried a cost. A transitional adjustment was included to increase the carrying value of investments in subsidiaries to reflect growth in value during the year ended 31 December 2014.

17 Directors' remuneration

During the year the Directors of the Company were remunerated as executives of the Group. They received no remuneration in respect of their services to the Company (2014: £nil).

18 Employee Share Schemes

Incentives in the form of shares in the Group's ultimate parent company, GlaxoSmithKline plc ("GSK"), are provided to employees under the following share option and share award schemes.

Share option plan

Options are granted to employees to acquire shares at the grant price. In GSK Grants are normally exercisable between three and ten years from the date of grant but may, under certain circumstances, vest earlier as set out within the various scheme rules. Options are granted at the market price ruling at the date of grant. The granting of restricted share awards has replaced the granting of options to certain employees as the cost of the scheme more readily equates to the potential gain to be made by the employee. Grants of restricted shares are normally exercisable at the end of the three year vesting/performance period.

Performance share award plan

The Group operates a Performance Share Plan whereby share awards are granted to senior executives at no cost. The percentage of each award that vests is based upon the performance of the GSK and ViiV Healthcare Groups over a three year measurement period. Grants of Performance Share Plan awards normally vest at the end of the three year vesting and performance period and are available for sale at that time.

18 Employee Share Schemes (continued)

Share value award plan

The Group operates a Share Value Plan whereby awards are granted to employees to acquire shares or American Depositary Shares (listed on the New York Stock Exchange representing 2 ordinary shares) in GSK at no cost after a three year vesting period. There are no performance criteria attached. Grants of Share value awards are normally exercisable at the end of the three year vesting period.

The share based compensation charge for the above schemes has been recorded in the statement of comprehensive income as administrative expenses of £6.3 million (2014: £2.5 million) and is considered immaterial for further disclosure.

19 Related party transactions

The Company is a wholly owned subsidiary of ViiV Healthcare Limited which is operated as a collaborative venture, 78.3% owned by GlaxoSmithKline Mercury Limited (a member of the GlaxoSmithKline Group of companies), 10.76% by PHIVCO Luxembourg Sarl., 0.94% by PHIVCO Corp. (both members of the Pfizer Inc. group of companies) and 10.0% by Shionogi Limited. During the year, the Company undertook significant transactions with entities within the Group and the GlaxoSmithKline group of companies.

Entities from within the GlaxoSmithKline Group of companies were engaged to provide support function services to the Company under 'Support Services Agreements' including: financial management and reporting; human resources; payroll services; IT support; property management; legal services; contract manufacturing; management of the Group's UK pension schemes; and management of the Group's employee share schemes. In addition, the Company operates separate agreements with GlaxoSmithKline affiliates for the provision of research and development and for toll-manufacturing services.

The table below outlines the amounts of the significant relevant transactions and significant outstanding amounts at the end of the financial year.

	GlaxoSmithKline Group of companies	GlaxoSmithKline Group of companies
	2015	2014
	£'000	£'000
Purchase of Goods and Services		
GlaxoSmithKline Research & Development Limited	**123,432**	72,124
GlaxoSmithKline UK Limited	**77**	89
GlaxoSmithKline Services Unlimited	**15,548**	2,095
Glaxo Group Limited	**-**	82
Payable to related parties		
GlaxoSmithKline Research & Development Limited	**38,499**	92,461
GlaxoSmithKline Services Unlimited	**18,189**	26,354
GlaxoSmithKline UK Limited	**-**	-
Receivables from related parties		
GlaxoSmithKline UK Limited	**3,995**	23,359

20 Subsidiaries and associated undertakings

The subsidiaries and associated undertakings of the Company as at 31 December 2015 are as follows:

Company	Effective ownership	Class of shares held	% of direct share class held	% of indirect share class held	Country of incorporation
ViiV Healthcare UK (No.3) Limited	60.34%	Ordinary	60.34%	-	England & Wales
ViiV Healthcare Finance 1 Limited	60.34%	Ordinary	-	60.34%	England & Wales
ViiV Healthcare Finance Limited	60.34%	Ordinary	-	60.34%	England & Wales
ViiV Healthcare Finance Limited	60.34%	Redeemable Preference Shares	-	60.34%	England & Wales
Shionogi - ViiV Healthcare LLC	60.34%	Common Interests		60.34%	United States

ViiV Healthcare Finance Limited was incorporated on 11 January 2016 and hence was not a subsidiary of ViiV Healthcare UK Limited as on 31 December 2015. Shionogi - ViiV Healthcare LLC is a dormant company.

On 29 February 2016 shareholding in VHUK3 changed from 60% to 68.61% as part of a project to implement an intra-group financing structure