

ViiV Healthcare Finance Limited
(Registered number: 09944107)

Annual Report

for the year ended 31 December 2017



Registered office address:
980 Great West Road
Brentford
Middlesex
TW8 9GS

ViiV Healthcare Finance Limited
(Registered number: 09944107)

Annual Report

for the year ended 31 December 2017

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ViiV Healthcare Finance Limited
(Registered number: 09944107)

Strategic report for the year ended 31 December 2017

The Directors present their Strategic report on ViiV Healthcare Finance Limited (the "Company") for the year ended 31 December 2017.

Principal activities and future developments

The Company is a member of the ViiV Healthcare Group (the "Group").

The principal activities of the Company during the financial year is the provision of financial services to other entities within the Group and managing the liquidity requirements of the Group through investing in short-term securities and using derivative financial instruments to manage the Group's foreign exchange risks.

The Directors do not envisage any changes to the nature of the business in the foreseeable future.

Review of business

The Company made a profit for the financial year of £4,679,000 (2016: loss of £2,635,000), which will be transferred to reserves. 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.

Principal risks and uncertainties

The principal risks and uncertainties, relevant to the Company, are managed at the Group 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 parent company, ViiV Healthcare Limited's, Annual Report and financial statements, which does not form part of this report.

Key performance indicators (KPIs)

The key performance indicators, relevant to the Company, are monitored at the Group level. 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 parent company, ViiV Healthcare Limited's, Annual Report and financial statements, which does not form part of this report.

On behalf of the Board



Ms D Waterhouse
Director
25 April 2018

ViiV Healthcare Finance Limited
(Registered number: 09944107)

Directors' report for the year ended 31 December 2017

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2017.

Results and dividend

The Company's results for the financial year are shown in the income statement on page 7.

The Company has not declared a dividend on the redeemable preference shares and no dividend is proposed to the holders of ordinary shares in respect of the year ended 31 December 2017.

Financial instruments

The Company has entered into foreign currency swaps and foreign exchange forward contracts in order to swap intercompany loans into the Company's reporting currency. The Company has also entered into foreign currency swaps and foreign exchange forward contracts on behalf of entities within the Group to hedge foreign exchange risk arising from various trade payables and receivables balances that are not denominated in the Company's own reporting currency. Details of financial risk management are disclosed in Note 4.

Directors and their interests

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

| | |
|-----------------|-------------------------------|
| Ms K Grainger | (appointed 1 June 2017) |
| Mr G Reinaud | (appointed 31 March 2017) |
| Ms D Waterhouse | (appointed 22 September 2017) |
| Mr D Limet | (resigned 31 March 2017) |
| Mr M Dawson | (resigned 31 May 2017) |
| Mr N Shortman | (resigned 7 June 2017) |
| Mr J Andries | (resigned 30 September 2017) |

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 who are employees of the Group benefits from an indemnity given by a Group undertaking, ViiV Healthcare Limited. This indemnity is in respect of liabilities arising out of third party proceedings to which the Director is a party by reason of her / his engagement in the business of the Company.

Political donations

The Company made no political donations during the year (2016: £nil).

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations.

ViiV Healthcare Finance Limited
(Registered number: 09944107)

Directors' report for the year ended 31 December 2017

Statement of Directors' responsibilities (continued)

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in 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. The Directors 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.

The following items have been included in the Strategic report on page 1:

- principal activities and future developments;
- review of business; and
- principal risks and uncertainties.

Governance

The Company's approach to the Modern Slavery Act 2015 is set by the Group. Each year, as part of their governance arrangements, the Group formally reviews and approves its approach to the Modern Slavery Act 2015 and has confirmed that the approach is still valid for 2017.

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 as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

Following the signing of these accounts, and following the resignation of PricewaterhouseCoopers LLP, Deloitte LLP will be appointed by a board resolution as auditor of the Company for the year ended 31 December 2018.

On behalf of the Board



Ms D Waterhouse
Director
25 April 2018

ViiV Healthcare Finance Limited

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

Report on the audit of the financial statements

Opinion

In our opinion, ViiV Healthcare Finance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 December 2017; the income statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

ViiV Healthcare Finance Limited

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

Reporting on other information (continued)

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on pages 2 and 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

ViiV Healthcare Finance Limited

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

Other required reporting

Companies Act 2006 exception reporting

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

We have no exceptions to report arising from this responsibility.

Other matter

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
25 April 2018

ViiV Healthcare Finance Limited

**Income statement
for the year ended 31 December 2017**

| | | | For the period from 11 January to 31 December 2016 |
|---|------|---------------|---|
| | Note | 2017 £'000 | 2016 £'000 |
| Turnover | | 10,854 | 2,111 |
| Gross profit | | 10,854 | 2,111 |
| Administrative expenses | | (17) | (1) |
| Finance income | 9 | 118,398 | 98,376 |
| Finance expense | 10 | (99,893) | (83,072) |
| Operating profit | 6 | 29,342 | 17,414 |
| Profit before taxation | | 29,342 | 17,414 |
| Taxation | 11 | (24,663) | (20,049) |
| Profit / (loss) for the financial year | | 4,679 | (2,635) |

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

The Company has no other comprehensive income during either the current year or prior period, and therefore, no separate statement of other comprehensive income has been prepared.

The notes on pages 10 to 19 are an integral part of these financial statements.

ViiV Healthcare Finance Limited

**Balance sheet
as at 31 December 2017**

| | Note | 2017 £'000 | 2016 £'000 |
|---|------|--------------------|--------------------|
| Non-current assets | | | |
| Loans and other receivables | 12 | 1,500,000 | 1,500,000 |
| Total non-current assets | | 1,500,000 | 1,500,000 |
| Current assets | | | |
| Loans and other receivables | 12 | 32,949 | 96,777 |
| Prepayments and accrued income | 13 | 198 | 15 |
| Derivative financial instruments | 17 | 1,427 | 1,311 |
| Cash and cash equivalents | | 736,730 | 70,049 |
| Total current assets | | 771,304 | 168,152 |
| Total assets | | 2,271,304 | 1,668,152 |
| Current liabilities | | | |
| Loans and other payables | 14 | (585,855) | (85,994) |
| Derivative financial instruments | 17 | (1,775) | (1,442) |
| Accruals and deferred income | 15 | (181,630) | (83,351) |
| Total current liabilities | | (769,260) | (170,787) |
| Net current assets / (liabilities) | | 2,044 | (2,635) |
| Non-current liabilities | | | |
| Loans and other payables | 14 | (1,300,000) | (1,300,000) |
| Total non-current liabilities | | (1,300,000) | (1,300,000) |
| Total liabilities | | (2,069,260) | (1,470,787) |
| Net assets | | 202,044 | 197,365 |
| Equity | | | |
| Share capital | 18 | - | - |
| Share premium | | 200,000 | 200,000 |
| Retained earnings / (Accumulated losses) | | 2,044 | (2,635) |
| Shareholders' equity | | 202,044 | 197,365 |

The notes on pages 10 to 19 are an integral part of these financial statements.

The financial statements on pages 7 to 19 were approved by the Board of Directors on 25 April 2018 and signed on its behalf by:



Ms D Waterhouse
Director

ViiV Healthcare Finance Limited

**Statement of changes in equity
for the year ended 31 December 2017**

| | Note | Share capital £'000 | Share premium £'000 | Retained earnings / (Accumulated losses) £'000 | Shareholders' equity £'000 |
|---|------|---------------------------|---------------------------|--|----------------------------------|
| At 11 January 2016 (date of incorporation) | | | | | |
| Ordinary shares issued | 18 | - | 200,000 | - | 200,000 |
| Loss for the financial period | | - | - | (2,635) | (2,635) |
| At 31 December 2016 | | - | 200,000 | (2,635) | 197,365 |
| Profit for the financial year | | - | - | 4,679 | 4,679 |
| At 31 December 2017 | | - | 200,000 | 2,044 | 202,044 |

The notes on pages 10 to 19 are an integral part of these financial statements.

ViiV Healthcare Finance Limited

Notes to the financial statements for the year ended 31 December 2017

1 Presentation of the financial statements

General information

The principal activity of ViiV Healthcare Finance Limited (the "Company") is the provision of financial services to other entities within the ViiV Healthcare Group (the "Group") and managing the liquidity requirements of the Group through investing in short-term securities and using derivative financial instruments to manage the Group's foreign exchange risks.

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, England.

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 Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

These financial statements have been prepared on the going concern basis under the historical cost convention as modified by the revaluation of derivative financial assets and liabilities at fair value through profit or loss and in accordance with the Companies Act 2006.

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:

- Paragraph 38 of IAS 1 "Presentation of financial statements" comparative information requirements in respect of:
 - paragraph 79(a) (iv) of IAS 1;
- The following paragraphs of IAS 1 "Presentation of financial statements":
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirements for minimum of two primary statements, including cash flow statements); and
 - 111 (cash flow statement information);
- 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); and
- The requirements in IAS 24 "Related party disclosures" to disclose related party transactions entered into between two or more wholly members of a group.

The consolidated financial statements of GlaxoSmithKline plc 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) Ultimate and immediate parent undertaking

The Company is a subsidiary of the ultimate parent company. GlaxoSmithKline plc, a company registered in England and Wales, is the Company's ultimate parent undertaking and controlling party. The largest and smallest 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 consolidated financial statements can be obtained from the Company Secretary, GlaxoSmithKline plc, 980 Great West Road, Brentford, Middlesex TW8 9GS. The immediate parent undertaking is ViiV Healthcare UK (No.3) Limited. These financial statements are separate financial statements.

(c) Foreign currency transactions

Foreign currency transactions are booked in the 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 the functional currency at rates of exchange ruling at the balance sheet date. Exchange differences are included in the income statement. The functional and presentation currency of the Company is Pounds Sterling.

(d) Turnover

Turnover represents trading margins from derivative financial instruments used to manage the Group's foreign exchange risks. Details of financial risk management are disclosed in Note 4. Turnover is recognised in the income statement on the settlement date of the foreign exchange contract.

ViiV Healthcare Finance Limited

Notes to the financial statements for the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

(e) Finance income and expense

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

(f) Financial assets

Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables represent intercompany balances with other Group undertakings, which are carried at amortised cost using the effective interest method.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date, being the date which the Company commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investment have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within finance income or expense in the period in which they arise.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

(h) Loans and other payables

Loans and other payables are initially recognised at fair value and then held at amortised cost using the effective interest method. Long-term payables are discounted where the effect is material.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

(i) Taxation

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

(j) Derivative financial instruments and hedging

Derivative financial instruments are used to manage exposure to market risks. The principal derivative instruments used by the Company are foreign currency swaps and foreign exchange forward contracts. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are classified as held-for-trading and are carried on the balance sheet at fair value.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement. No derivative financial instruments are designated as hedging instruments by the Company.

ViiV Healthcare Finance Limited

Notes to the financial statements for the year ended 31 December 2017

3 Key accounting judgements 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) Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

4 Financial risk management

GlaxoSmithKline plc's Corporate Treasury is employed as a service provider under policies and procedures approved by the GlaxoSmithKline plc's Board of Directors to manage and monitor the Group's external and internal funding requirements and financial risks, covering foreign exchange, interest rate, liquidity, and credit risks, in support of the Group's strategic objectives.

A Treasury meeting, chaired by the ViiV Healthcare Limited's Chief Financial Officer, takes place on a monthly basis to review Treasury activities and its members receive management information relating to Treasury activities.

(a) Market risk

(i) Foreign exchange risk

Foreign currency exposures arise from the translation of financial assets and liabilities, which are not held in the functional currency of the Company.

The Company uses derivative financial instruments to manage the foreign exchange risks arising from these financing activities. These derivatives, principally comprising foreign currency swaps and foreign exchange forward contracts, are used to swap intercompany loans, deposits and other receivables and payables into the Company's functional currency in order to manage the exposure to changes in foreign exchange rates. On this basis, as all of the Company's intercompany loans, deposits and other receivables and payables were fully hedged to maturity using foreign currency swaps and foreign exchange forward contracts, foreign exchange risk is not considered material and the Company has not prepared a sensitivity analysis.

(ii) Interest rate risk

The Company earns interest income on its cash and cash equivalents and short-term intercompany balances and pays interest on intercompany deposits placed with the Company. All interest earned and paid on these is on a floating rate basis. In addition, the Company has long-term intercompany balances that are on fixed rates and expose the Company to fair value interest rate risks.

The table below hypothetically shows the Company's sensitivity to interest rates on its floating rate Sterling financial assets and liabilities. If interest rates applicable to floating rate financial assets and liabilities were to have increased by 1% (100 basis points), and assuming all other variables had remained constant, it is estimated that the Company's finance income for 2017 would have increased by approximately £2,365,000 (2016: £1,009,000). A 1% (100 basis points) movement in interest rates is not deemed to have a material effect on equity.

ViiV Healthcare Finance Limited

Notes to the financial statements for the year ended 31 December 2017

4 Financial risk management (continued)

(ii) Interest rate risk (continued)

Income statement impact of interest rate movements

| | 2017 Increase in income £'000 | For the period from 11 January to 31 December 2016 Increase in income £'000 |
|---|--|---|
| 1% (100 basis points) increase in Sterling interest rates | 2,365 | 1,009 |

(b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and arises from cash and cash equivalents, derivative financial instruments and deposits placed with banks and financial institutions and amounts owed by Group undertakings. GlaxoSmithKline plc sets global counterparty limits for each of its banking and investment counterparties based on long-term credit ratings from Standard and Poor's and Moody's Investor Services ("Moody's"). GlaxoSmithKline plc's Corporate Treasury actively manages its exposure to credit risk, reducing surplus cash balances wherever possible. The Group's usage of these limits is monitored daily by GlaxoSmithKline plc's Corporate Compliance Officer who operates independently from GlaxoSmithKline plc's Corporate Treasury.

The Company considers its maximum exposure to credit risk at 31 December 2017, without taking into account any collateral held or other credit enhancements, to be £2,271,304,000 (2016: £1,668,152,000) which is the total of the Company's financial assets. This represents £736,730,000 (2016: £70,049,000) of cash and cash equivalents, amounts owed by Group undertakings of £1,532,949,000 (2016: £1,596,777,000), £1,427,000 (2016: £1,311,000) of derivative financial assets and £198,000 (2016: £15,000) of accrued income.

The Company has maintained a conservative approach to counterparty risk throughout the year. The aggregate credit risk in respect of financial assets that the Company may have with one counterparty is limited by reference to the long term credit ratings assigned for that counterparty by Standard and Poor's and Moody's. The table below sets out the exposure by credit rating category for financial assets held by the Company. The gross asset position on each derivative contract is considered for the purpose of this table, although, under International Swaps and Derivatives Association (ISDA) agreements, the amount at risk is the net position with each counterparty.

| 2017 | AAA/Aaa £'000 | AA-/Aa3 £'000 | A £'000 | Unrated £'000 | Total £'000 |
|-----------------------------------|------------------|------------------|---------------|------------------|------------------|
| Bank balances | - | 130 | 37,601 | - | 37,731 |
| Liquidity funds | 699,196 | - | - | - | 699,196 |
| Third party financial derivatives | - | 37 | 49 | - | 86 |
| Amounts owed by Group undertaking | - | - | - | 1,534,291 | 1,534,291 |
| Total | 699,196 | 167 | 37,650 | 1,534,291 | 2,271,304 |
| 2016 | AAA/Aaa £'000 | AA-/Aa3 £'000 | A £'000 | Unrated £'000 | Total £'000 |
| Liquidity funds | 70,014 | 50 | - | - | 70,064 |
| Third party financial derivatives | - | 613 | - | 698 | 1,311 |
| Amounts owed by Group undertaking | - | - | - | 1,596,777 | 1,596,777 |
| Total | 70,014 | 663 | - | 1,597,475 | 1,668,152 |

The credit ratings in the above tables are assigned by Standard and Poor's and Moody's respectively. Where the opinion of the two rating agencies differs, the lower rating of the two is assigned to the counterparty.

The Company's greatest concentration of credit risk is £1,500,000,000 (2016: £1,500,000,000) with ViiV Healthcare UK Limited (unrated).

There are no financial assets that are past due or impaired as at 31 December 2017.

The Company did not hold any collateral as security or obtained other credit enhancements as at 31 December 2017.

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Notes to the financial statements for the year ended 31 December 2017

4 Financial risk management (continued)

(c) Liquidity risk

The Group benefits from strong positive cash flow from operating units and has substantial cash and cash equivalents, which are managed by the Company.

5 Capital management

The Group manages its capital to ensure that entities in the Group are able to operate as going concerns whilst availing themselves of intercompany funding where appropriate.

The capital structure of the Company consists of shareholders' equity of £202,044,000 (2016: £197,365,000) (see Statement of changes in equity).

6 Operating profit

| | 2017 £'000 | For the period from 11 January to 31 December 2016 £'000 |
|---|---------------|--|
| The following items have been charged in operating profit: | | |
| Bank charges | (17) | (1) |

The auditors' remuneration of £4,500 (2016: £4,500) has been borne by other Group companies and is not recharged.

7 Turnover

Turnover of £10,854,000 (2016: £2,111,000) is not analysed by segment because the Company operates within one business sector (finance sector) and geographical sector (United Kingdom).

8 Employees

The Company has no employees. All personnel are remunerated by other GlaxoSmithKline group companies and receive no remuneration from the Company. A management fee has not been charged by GlaxoSmithKline Services Unlimited for services provided to the Company.

9 Finance income

| | 2017 £'000 | For the period from 11 January to 31 December 2016 £'000 |
|--|----------------|--|
| Interest income arising from: | | |
| Cash and cash equivalents | 746 | 46 |
| Loans with Group undertakings | 117,407 | 98,303 |
| Derivatives at fair value through profit or loss | 245 | 27 |
| Total finance income | 118,398 | 98,376 |

10 Finance expense

| | 2017 £'000 | For the period from 11 January to 31 December 2016 £'000 |
|--|-----------------|--|
| Interest expense arising on: | | |
| Bank borrowings | (5) | - |
| Loans with Group undertakings | (99,037) | (82,879) |
| Derivatives at fair value through profit or loss | (616) | (58) |
| Fair value adjustments on derivatives at fair value through profit or loss | (235) | (135) |
| Total finance expense | (99,893) | (83,072) |

ViiV Healthcare Finance Limited

Notes to the financial statements for the year ended 31 December 2017

11 Taxation

| | 2017 £'000 | For the period from 11 January to 31 December 2016 £'000 |
|---|-----------------|--|
| Income tax expense on profit | | |
| Current tax: | | |
| UK corporation tax at 19.25% (2016: 20.00%) | (24,663) | (20,049) |
| Total current tax | (24,663) | (20,049) |
| Total tax charge for the year | (24,663) | (20,049) |

The tax assessed for the year is higher (2016: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20.00%). The differences are explained below:

| | 2017 £'000 | For the period from 11 January to 31 December 2016 £'000 |
|--|-----------------|--|
| Reconciliation of total tax charge | | |
| Profit on ordinary activities before tax | 29,342 | 17,414 |
| Profit on ordinary activities at the UK statutory rate 19.25% (2016: 20.00%) | (5,647) | (3,483) |
| Effects of: | | |
| Non-deductible preference dividend | (19,016) | (16,566) |
| Total tax charge for the year | (24,663) | (20,049) |

Factors that may affect future tax charges:

The UK tax rate for the year ended 31 December 2017 is 19.25%. A further reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was enacted as part of the Finance Act 2016 on 15 September 2016. This will reduce the Company's future tax charge accordingly.

12 Loans and other receivables

| | 2017 £'000 | 2016 £'000 |
|---|------------------|------------------|
| Amounts due within one year | | |
| Amounts owed by Group undertakings | 32,949 | 96,777 |
| | 32,949 | 96,777 |
| Amounts due after more than one year | | |
| Amounts owed by Group undertakings | 1,500,000 | 1,500,000 |
| | 1,500,000 | 1,500,000 |
| | 1,532,949 | 1,596,777 |

Amounts due within one year are balances with Group undertakings which are unsecured, repayable on demand and earn a market rate of interest (based on LIBOR plus 0.25%) that is consistent with the Group's policy.

Amounts due after more than one year is an unsecured loan to ViiV Healthcare UK Limited earning fixed interest of 7.8% per annum and repayable at maturity in 2026.

13 Prepayments and accrued income

| | 2017 £'000 | 2016 £'000 |
|-----------------------------|---------------|---------------|
| Amounts due within one year | 198 | 15 |

Amounts due within one year relate to accrued interest from short-term deposits and investments in liquidity funds.

ViiV Healthcare Finance Limited

Notes to the financial statements for the year ended 31 December 2017

14 Loans and other payables

| | 2017 £'000 | 2016 £'000 |
|---|--------------------|--------------------|
| Amounts falling due within one year | | |
| Amounts owed to Group undertakings | (541,159) | (65,946) |
| Corporation tax | (44,696) | (20,048) |
| | (585,855) | (85,994) |
| Amounts falling due after more than one year | | |
| Amounts owed to Group undertakings | (1,300,000) | (1,300,000) |
| | (1,300,000) | (1,300,000) |
| | (1,885,855) | (1,385,994) |

Amounts falling due within one year are balances with Group undertakings, which are unsecured and repayable on demand with interest charged based on LIBOR minus 0.125% that is consistent with the Group's policy.

The corporation tax creditor contains amounts, which will be paid to fellow Group companies under Group relief.

Amounts falling due after more than one year is a loan from ViiV Healthcare UK (No.3) Limited in the form of redeemable preference shares fixed at 7.6% per annum with a redemption date of 2031.

15 Accruals and deferred income

| | 2017 £'000 | 2016 £'000 |
|--|------------------|-----------------|
| Amounts falling due within one year | (181,630) | (83,351) |

Amounts falling due within one year relate to accrued interest on the loan from ViiV Healthcare UK (No.3) Limited.

16 Financial instruments

(a) Fair value of financial assets and liabilities

The fair values of the financial assets and liabilities are included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents – approximates to the carrying amount;
- Short-term loans with Group undertakings – approximates to the carrying amount;
- Foreign currency swaps and foreign exchange forward contracts – based on the present value of contractual cash flows using market sourced data (exchange rates);
- Receivables and payables – approximates to the carrying value; and
- Long-term loans with Group undertakings - based on market sourced data (interest rates) at the balance sheet date.

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Notes to the financial statements for the year ended 31 December 2017

16 Financial instruments (continued)

(a) Fair value of financial assets and liabilities (continued)

The carrying amounts and the fair values of the Company's financial assets and liabilities at 31 December 2017 are illustrated below.

| | 2017 | | 2016 | |
|---|----------------------------|---------------------|----------------------------|---------------------|
| | Carrying value £'000 | Fair value £'000 | Carrying value £'000 | Fair value £'000 |
| Cash and cash equivalents | 736,730 | 736,730 | 70,049 | 70,049 |
| Prepayments and accrued income | 198 | 198 | 15 | 15 |
| Loans and receivables: | | | | |
| Amounts owed by Group undertakings - due within one year | 32,949 | 32,949 | 96,777 | 96,777 |
| Amounts owed by Group undertakings - due after more than one year | 1,500,000 | 1,484,271 | 1,500,000 | 1,493,745 |
| Financial assets at fair value through profit or loss: | | | | |
| Derivatives classified as held for trading | 1,427 | 1,427 | 1,311 | 1,311 |
| Total financial assets | 2,271,304 | 2,255,575 | 1,668,152 | 1,661,897 |
| Financial liabilities measured at amortised cost: | | | | |
| Amounts owed to Group undertakings - due within one year | (541,159) | (541,159) | (65,946) | (65,946) |
| Amounts owed to Group undertakings - due after more than one year | (1,300,000) | (1,281,278) | (1,300,000) | (1,288,185) |
| Accruals and deferred income | (181,630) | (181,630) | (83,351) | (83,351) |
| Financial liabilities at fair value through profit or loss: | | | | |
| Derivatives classified as held for trading | (1,775) | (1,775) | (1,442) | (1,442) |
| Total financial liabilities | (2,024,564) | (2,005,842) | (1,450,739) | (1,438,924) |
| Net financial assets | 246,740 | 249,733 | 217,413 | 222,973 |

Long-term loans with Group undertakings are measured at amortised cost and financial assets and liabilities at fair value through profit or loss are derivative financial instruments, of which the fair value is disclosed in the table above. These are categorised as Level 2, where the fair value is determined using valuation techniques that are based on observable market sourced data (interest rates and exchange rates). All other financial assets and liabilities approximate to the carrying amount.

(b) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet where there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. There are also arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The following tables set out the financial assets and liabilities that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2017 and 31 December 2016. The column "net" shows the impact on the Company's balance sheet if all set-off rights were exercised.

| | Gross financial assets / (liabilities) £'000 | Gross financial assets / (liabilities) offset £'000 | Net financial assets / (liabilities) per balance sheet £'000 | Related amounts not offset in the balance sheet £'000 | Net £'000 |
|----------------------------------|---|---|---|---|--------------|
| 2017 | | | | | |
| Derivative financial assets | 1,427 | - | 1,427 | (134) | 1,293 |
| Derivative financial liabilities | (1,775) | - | (1,775) | 134 | (1,641) |
| 2016 | | | | | |
| Derivative financial assets | 1,311 | - | 1,311 | (613) | 698 |
| Derivative financial liabilities | (1,442) | - | (1,442) | 613 | (829) |

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Notes to the financial statements for the year ended 31 December 2017

16 Financial instruments (continued)

(b) Offsetting of financial assets and liabilities (continued)

Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party. As there is presently not a legally enforceable right of set-off, these amounts have not been offset in the balance sheet, but have been presented separately in the table above.

(c) Contractual cash flows for non-derivative financial liabilities and derivative instruments

The following table provides an analysis of the anticipated contractual cash flows including interest payable for the Company's non-derivative financial liabilities on an undiscounted basis. Cash flows in foreign currencies are translated using spot rates at 31 December.

| | 2017 | | 2016 | |
|-------------------------------------|--------------------|------------------------------|--------------------|------------------------------|
| | Debt £'000 | Interest on debt £'000 | Debt £'000 | Interest on debt £'000 |
| Due in less than one year | (541,159) | (190,022) | (65,946) | (98,801) |
| Between one and five years | - | (395,200) | - | (395,200) |
| Between five and ten years | - | (494,000) | - | (494,000) |
| Greater than ten years | (1,300,000) | (402,779) | (1,300,000) | (494,000) |
| Gross contractual cash flows | (1,841,159) | (1,482,001) | (1,365,946) | (1,482,001) |

Interest on debt includes interest accrued at 7.6% on the £1,300,000,000 redeemable preference shares, payable on 31 January each year; if no declaration is made, interest will continue to accrue to the next declaration date. No declaration has been made since issuance on 29 February 2016 to 31 December 2017. For the purposes of the above table, interest is shown as being cash settled at each declaration date.

The table below provides an analysis of the anticipated contractual cash flows for the Company's derivative financial instruments using undiscounted cash flows. Cash flows in foreign currencies are translated using spot rates at 31 December. The gross cash flows of foreign exchange contracts are presented for the purposes of this table although, in practice, the Company uses standard settlement arrangements to reduce its liquidity requirements on these instruments.

| | 2017 | | 2016 | |
|--|----------------------|-------------------|----------------------|-------------------|
| | Receivables £'000 | Payables £'000 | Receivables £'000 | Payables £'000 |
| Gross contractual cash flows due in less than one year | 545,502 | (545,863) | 281,406 | (281,896) |

17 Derivative financial instruments

The Company has foreign currency swaps and foreign exchange forward contracts with the following fair values at the end of the year:

| | 2017 | | 2016 | |
|--|-----------------|----------------------|-----------------|----------------------|
| | Assets £'000 | Liabilities £'000 | Assets £'000 | Liabilities £'000 |
| Foreign currency swaps and foreign exchange forward contracts - held-for-trading | 1,427 | (1,775) | 1,311 | (1,442) |

The notional principal amounts of the outstanding derivative instruments at 31 December 2017 were £546,278,000 (2016: £225,783,000).

The Company uses derivative financial instruments to mitigate exposure to foreign exchange transactional risks. The derivative financial instruments are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The valuations of derivative financial instruments are based on the present value of contractual cash flows using market sourced data (exchange rates).

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18 Share capital

| | 2017 Number of shares | 2017 £ | 2016 Number of shares | 2016 £ |
|------------------------------|-----------------------------|-----------|-----------------------------|-----------|
| Issued and fully paid | | | | |
| Ordinary shares of £1 each | 2 | 2 | 2 | 2 |

On 11 January 2016, the Company allotted one ordinary share with a nominal value of £1. The consideration for the allotment was £1.

On 29 February 2016, the Company allotted one ordinary share with a nominal value of £1. The consideration for the allotment was £200,000,000.

On 29 February 2016, the Company allotted thirteen redeemable preference shares with a nominal value of £100,000,000. The consideration for the allotment was £1,300,000,000. The preference shares are mandatorily redeemable on a specific date and, therefore, classified as liabilities (Note 14).

19 Directors' remuneration

During the year, the Directors of the Company were remunerated as executives of the GlaxoSmithKline plc group. They received no remuneration in respect of their services to the Company (2016: £nil).