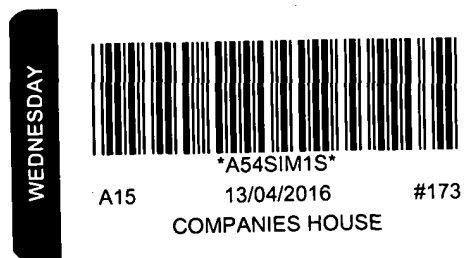




ViiV Healthcare Limited

Annual Report 2015



Registered number: 06876960

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

ViiV Healthcare Limited

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ViiV Healthcare Limited

Strategic report for the year ended 31st December 2015

In this report “ViiV Healthcare” or the “Group” means ViiV Healthcare Limited and its subsidiary undertakings. The “Company” means ViiV Healthcare Limited.

The Directors submit their Strategic Report, Directors’ Report, and the audited consolidated financial statements for ViiV Healthcare for the year ended 31st December 2015.

Review of business

Overview of ViiV Healthcare

ViiV Healthcare is a global specialist HIV company delivering advances in treatment and care for people living with HIV. Established in 2009, and majority-owned by GSK, with Pfizer and Shionogi as the other shareholders, the company focuses 100% on HIV.

Worldwide, 35 million people are living with HIV but only 38% of adults and 24% of children are getting treatment. We are supporting efforts to work towards universal coverage. Our priority is to develop new medicines for HIV/AIDS and ensure they can be accessed by the people who need them most.

Financial highlights

ViiV Healthcare turnover increased by 57% at constant exchange rates (CER), or 59% at actual rates, to £2,330 million (2014: £1,466 million). Growth was driven by the success of Tivicay (dolutegravir) and Triumeq (dolutegravir, abacavir and lamivudine), with combined turnover of £1,331 million (2014: £340 million). ViiV Healthcare’s growth is outpacing the HIV global market growth of 12% (CER). Core operating profit before tax grew by 79% at CER (or 80% at actual rates) to £1,630 million (2014: £911 million). Core profit after tax increased by 84% at CER (or 82% at actual rates) to £1,188 million (2014: £661 million). ViiV Healthcare’s core operating profit includes R&D costs, and excludes non-core items such as the re-measurement of the contingent consideration payable to Shionogi in relation to sales of Tivicay and Triumeq. Core performance is defined in note 1 and a reconciliation of core results to total results is set out on page 16.

The Group Balance Sheet includes an intangible asset related to the value of dolutegravir with net book value £1,585 million (2014: £1,680 million). Under the Group’s accounting policies, the value of this intangible asset has not been re-valued to reflect the latest sales forecasts for Tivicay and Triumeq, unlike the long-term liabilities for contingent consideration and preferential dividends. The Group recorded non-core charges of £3,002 million before tax, mainly related to an increase in long-term liabilities following an increase in the sales forecasts for Tivicay and Triumeq. These re-measurement charges were £1,874 million for future contingent consideration payments to Shionogi, and £981 million for future preferential dividend payments to GSK, Pfizer and Shionogi. These charges contributed to a total reported loss after tax of £1,426 million (2014: loss of £606 million), and a reported net liabilities position of £2,623 million (2014: net liabilities of £515 million). If the latest sales forecasts for Tivicay and Triumeq are achieved, then the Group will generate significantly higher cash flows than are required to meet these long-term liabilities. The Directors are therefore satisfied that the Group’s reported net liabilities position has no impact on the ability of the Group to continue as a going concern.

The Group generated cash from operating activities of £1,097 million (2014: £766 million). This was less than core profit after tax, due to contingent consideration payments, and an increase in net working capital driven by sales growth. The Group returned £778 million (2014: £531 million) to shareholders through ordinary and preferential dividend payments. In addition £160 million (2014: £7 million) was paid to Shionogi in contingent consideration payments as disclosed in note 23. Cash and cash equivalents increased from £906 million to £1,158 million.

The Group’s results for the year can be found on pages 14-19.

ViiV Healthcare Limited
Strategic report for the year ended 31st December 2015

Core results reconciliation to GSK Annual Report

The core results set out in this report for the ViiV group of companies differ in certain respects from the core results for ViiV set out in the GSK Annual Report for 2015, as shown below:

	ViiV Group	GSK Alliance Countries	GSK Mark-ups	Other	GSK Group
	£'m	£'m	£'m	£'m	£'m
Turnover	2,330	(8)	-	-	2,322
Cost of sales	(217)	-	26	-	(191)
Gross profit	2,113	(8)	26	-	2,131
Selling, general and administration	(380)	(16)	11	34	(351)
Research and development	(103)	-	9	-	(94)
Core operating profit	1,630	(24)	46	34	1,686

- GSK Alliance Countries – distributor margin earned by GSK local operating companies in those countries where there is no ViiV local operating company, and timing differences between sales into and out of those GSK companies. In 2015, sales in to the GSK Alliance Countries exceeded sales out, due to building inventory for Tivicay and Triumeq
- GSK Mark-Ups – mark-up earned by GSK companies on services provided to ViiV companies under arm's-length contracts.
- Other – items which are not allocated to the separate business units within GSK, including exchange gains or losses and legal fees.

Non-core comparison with GSK Annual Report

Re-measurement of the following long-term liabilities is treated as non-core:

- Shionogi contingent consideration liability – this item is recognised consistently in the ViiV Annual Report and the GSK Annual Report
- GSK, Pfizer and Shionogi preferential dividend liability – this item is recognised in the ViiV Annual Report. It was not recognised in the GSK Annual Report up to and including 2015. The liabilities to Pfizer and Shionogi will be recognised in the GSK Annual Report for 2016, following a waiver by GSK in Q1 2016 of its ability to withhold consent for dividend payments.
- Pfizer and Shionogi put option liability – under certain circumstances, Pfizer and Shionogi may require GSK to acquire their shareholdings in ViiV. This is a potential liability for GSK rather than ViiV, so is not recognised in the ViiV Annual Report. It was not recognised in the GSK Annual Report up to and including 2015. The liabilities to Pfizer and Shionogi will be recognised in the GSK Annual Report for 2016, following a waiver by GSK in Q1 2016 of its ability to withhold consent for the exercise of the put options.

Operational highlights

Tivicay has been prescribed to more than 105,000 people living with HIV since it was launched in July 2013, and Triumeq to more than 78,000 since August 2014. In the US and many other countries, their performance has now overtaken previously leading third agents. Building on this success, Japan is the first country where ViiV has now established a leadership position as the country's largest HIV company.

Access to our HIV treatments is a major focus and is reflected in the regulatory strategy we are taking for our dolutegravir based regimens. We are seeking regulatory approval of these products in as many countries as possible as well as facilitating the approval process of generic versions of dolutegravir in countries where the need is most pressing, such as in Sub-Saharan Africa. 2015 saw the first filing of a generic dolutegravir by

ViiV Healthcare Limited

Strategic report for the year ended 31st December 2015

Aurobindo, supported by a partnership with the Clinton Health Access Initiative. In 2015, ViiV also signed an innovative manufacturing partnership with Desano Pharmaceuticals to provide competitively priced Tivicay to China and other countries.

By the end of 2015 Tivicay was available in 61 countries and Triumeq in 30.

Group Turnover by Geography

	2015 £m	2014 £m	Growth CER %	Growth £ %
North America	1,365	732	74%	86%
Europe	713	532	44%	34%
International	252	202	32%	25%
	2,330	1,466	57%	59%

Research and Development

Innovative formulations and delivery methods are vital for people living with HIV. ViiV Healthcare is working with Janssen, a pharmaceutical research company, to develop a two-drug single tablet regimen combining dolutegravir and rilpivirine for patients who are already virally suppressed. We are also exploring combining cabotegravir and rilpivirine, two long-acting formulations that could be administered much less frequently than existing medicines, making it easier for people to adhere to treatment. In addition, we are investigating the use of cabotegravir for prevention.

As part of our ongoing research into antiretroviral treatments, we support more than 20 clinical studies involving over 25,000 patients across Africa and Asia. These studies address needs for patients in these regions, including prevention of mother-to-child transmission, TB co-infection, paediatrics and adolescents.

Business Model

The decision to create ViiV Healthcare as a company with a 100% focus on HIV has allowed everyone in the company to be totally dedicated to innovating for and making a difference to people living with HIV. ViiV Healthcare has also maintained a nimble model, through which, while being a specialist organisation focused on its core capabilities, it relies on relationships with its three shareholders, in particular GSK, allowing it to operate in a simplified operating model. Combining this model with a lean management structure globally and locally, the Group has reduced complexity and maximised efficiency. ViiV Healthcare pays for the services provided by the three shareholders under arm's-length contracts. This model extends to how the organisation conducts research in partnership with GSK's HIV Discovery Performance Unit, pharmaceutical and biotech companies, as well as academic researchers.

Developing innovative HIV medicines and maximising access to them delivers direct benefit to patients and wider society. If we do this successfully, it will lead to profitable and sustainable performance. In turn this allows us to generate value and returns for our shareholders and enables us to reinvest in the business so patients continue to benefit.

ViiV Healthcare Limited

Strategic report for the year ended 31st December 2015

Strategy

The Group's strategic goal is to become the leading HIV company, and the partner of choice for all stakeholders involved in HIV treatment. Strategic priorities are:

- Establish the ViiV integrase inhibitor portfolio as the heart of HIV care
- Build on the success of our unique business model, seeking growth and advances through strong, meaningful partnerships – with business partners, academia and the HIV community
- Deliver advances in HIV R&D through a responsive, collaborative, and productive business model that makes ViiV the most innovative HIV company
- Leave no HIV patient behind

Key performance indicators

The key performance indicators for the Group are set out below. These indicators track progress to become the leading HIV company, through driving growth ahead of the wider HIV market, and to establish the ViiV integrase inhibitor portfolio as the heart of care, as this portfolio is now driving the Group's growth.

Key Performance Indicator	2015	2014
Turnover growth (CER)	+57%	+14%
Core operating profit before tax growth (CER)	+79%	+13%
ViiV turnover growth versus HIV market (value growth, CER)	+45% (ViiV +57% versus market +12%)	+2% (ViiV +14% versus market +12%)

Future developments

The Group expects to continue to drive growth through the commercialisation of Tivicay and Triumeq, and to develop new treatments including dolutegravir and cabotegravir in combination with other HIV therapies. ViiV Healthcare, and the wider HIV market, will be affected in future years by the launch of generics as existing treatments lose patent protection, and also by increasing pressure on national healthcare budgets.

In early 2016, the Group acquired Bristol-Myers Squibb's late stage HIV R&D assets and portfolio of preclinical and discovery stage HIV research assets. The acquisitions are expected to strengthen the Group's leadership in HIV, and provide us with further new opportunities for growth.

Enterprise risks and uncertainties

The business is subject to certain risks inherent in the pharmaceutical industry and specific risks associated with being concentrated in a single therapeutic area.

Each year, the ViiV Executive Team reviews the risks facing the Group and agrees a list of most significant risks (referred to as Enterprise risks) that require particular attention from a Group perspective, including those that could cause our actual results to differ materially from expected and historical results. A summary of our Enterprise risks is set out below.

Product Quality and Supply Chain Continuity

- Failure to ensure product quality throughout outsourced manufacturing and distribution processes resulting in a supply interruption and non-compliance with good manufacturing practice (GMP) and regulations.

Patient Safety

- Failure to appropriately collect, review, follow-up, or report adverse events from all potential sources, and to act on any relevant findings in a timely manner.

ViiV Healthcare Limited

Strategic report for the year ended 31st December 2015

Commercialisation

- Failure to manage risks related to commercialisation and business execution; failure to comply with laws related to the marketing and promotion of our products and interactions with HCPs.

Intellectual Property

- Failure to appropriately secure and protect intellectual property rights.

Pricing and Reimbursement

- Increased pricing pressure could lead to significant negative financial impact.

Corrupt Practices

- Failure to comply with applicable local and international anti-bribery and anti-corruption legislation.

Digital Information Protection

- Failure to adequately secure ViiV Healthcare's patient, customer, and employee information obtained through digital platforms.

Bristol-Myers Squibb Deal Integration

- Failure to appropriately integrate Bristol-Myers Squibb development and discovery projects may cause a delay to the development of the assets and failure to deliver on the business case. Further, integration distractions may cause a delay in the delivery of existing ViiV programs.

GSK Change Management

- Failure to meet ViiV Healthcare business needs through current outsourced service arrangements (e.g. service limitations as a result of restructuring within GSK).

Research Practices

- Failure to conduct objective and ethical preclinical and clinical trials, failure to protect and inform our patients taking our medicines or to adequately file, report, and publish human subject data; failure to comply with laws related to scientific engagement and interactions with HCP's.

The enterprise risks listed above are managed and mitigated through an escalation and governance framework, with Risk Management and Compliance Boards operating at ViiV Executive Team level, and also at region, country and function level.

Access and Care

Extending access to HIV treatment and care is a priority, particularly in low-income countries where nearly 90% of people affected by HIV live. ViiV Healthcare's access programmes reach 139 countries worldwide and 16 royalty-free voluntary licences enable generic manufacturers to sell its products to donor agencies and public sector programmes at a significantly reduced price.

Following a 2014 agreement with the Medicines Patent Pool (MPP), a UN-backed organisation that encourages voluntary licencing and patent pooling, ViiV Healthcare has introduced the first ever MPP licence with a tiered royalty system tailored to national GDPs. This strategy extends access to dolutegravir to countries where 93% of adults with HIV in the developing world live, and to paediatric formulations of the drug in the 121 countries where more than 99% of children with HIV live.

We are also helping to improve access by facilitating the approval process for generic versions of dolutegravir. In 2015, our partnership with the Clinton Health Access Initiative enabled Indian pharmaceutical company Aurobindo to file an application to the US FDA for generic approval of dolutegravir. With FDA approval, generic dolutegravir could be supplied through the President's Emergency Plan for AIDS Relief in licensed countries outside of the US. In the US and Europe, Tivicay and Triumeq are available to patients through the relevant national health services.

Stigma remains one of the biggest barriers to people getting tested, disclosing their HIV status and starting treatment. Since 1992, we have supported the HIV community to fight stigma and discrimination, and promote healthcare access by working with more than 350 community based organisations and other stakeholders.

We target our efforts in key affected populations to reach those at the greatest risk of HIV infection. Our programmes include the £25 million Positive Action for Children Fund, support for prevention of mother-to-child transmission; and raising awareness of HIV prevention, testing and care among adolescents, girls, women, men who have sex with men and the transgender community. For example, in 2015 we announced a US\$10 million (£7 million), four-year ACCELERATE! Initiative to catalyse community support for black gay and bisexual men in the US cities hardest hit by HIV.

Antiretroviral treatment coverage is often lower for children than adults. ViiV Healthcare has a dedicated R&D work stream to develop formulations and therapies better suited for infants and children under the age of 15. We developed paediatric taste-masked formulations of abacavir and lamivudine to improve adherence of children to therapy. Since receiving tentative approval from the FDA in 2014, our partners Mylan and the Clinton Health Access Initiative have been working to make it available to countries covered by the license agreement.

In 2015, the Company continued to support more than 350 community projects worldwide through Positive Action, Positive Action for Children Fund, Positive Action Southern Initiative and the Paediatric Innovation Seed Fund. Charitable donations of £15 million (2014: £12 million) were made via the Positive Action for Children Fund and other grants.

On behalf of the Board
D Limet


Director

23rd March 2016

ViiV Healthcare Limited

Directors' report for the year ended 31st December 2015

Principal activities

ViiV Healthcare is a specialist HIV group of companies focused solely on the research, development and commercialisation of HIV medicines. The economic interest in the group is held 78.3% by GSK, 11.7% by Pfizer, and 10.0% by Shionogi.

The Group continues to have ongoing arrangements with GSK, Pfizer and Shionogi as disclosed in Note 22.

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

The Company is domiciled within the UK. The activities of the Company are those of a holding company.

Results and dividends

The Group's results for the financial year are shown in the consolidated income statement on page 14.

The Directors propose an interim ordinary dividend of £453 million in respect of the year ended 31st December 2015 being £51,033 per Class A Share, £17,435 per Class B Share, £16,728 per Class C Share, £81,617 per Class D2 Share and a preferential dividend of £252 million being £33,829 per Class A Share, £2,729 per Class B Share, £2,742 per Class C Share and £15,461 per Class D1 Share.

The Directors proposed and paid one interim ordinary dividend and one preferential dividend during the year ended 31st December 2015. The interim ordinary dividend of £689 million in respect of the year ended 31st December 2014 being £77,425 per Class A Share, £27,036 per Class B Share, £25,963 per Class C Share, £124,184 per Class D2 Share and a preferential dividend of £89 million being £11,080 per Class A Share, £3,418 per Class B Share, £3,435 per Class C Share and £2,774 per Class D1 Share related to 2014 and were paid on the 1st April 2015.

Directors' indemnity

The service contract of each of the Directors of the Group contains an indemnity in respect of liabilities arising out of third party proceedings to which he or she is party by reason of his or her engagement in the business of the Group. In addition, the Company has provided indemnities to those of its employees who serve as directors of certain other Group undertakings. These indemnities are in respect of liabilities arising out of third party proceedings to which the relevant individual is a party by reason of his or her engagement in the business of the Group undertaking. These indemnities were in force during the financial year, and at the date of approval of this Annual Report.

ViiV Healthcare Limited
Directors' report for the year ended 31st December 2015

Directors

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:

D Giordano	
Z Hong	
A Hussain	
J Keller	
D Limet	
A Mackenzie	
I McCubbin	
D Redfern	
P-P Tak	Appointed 22 September 2015
M Stewart	Appointed 8 March 2016
J Shannon	Resigned 3 April 2015
I Tomlinson	Resigned 22 July 2015

Employees

An extensive programme of open, two-way communications stimulates employee engagement in the Group's strategy and day-to-day operations. This includes the publication of regular summary reports from the Group's management meetings, a Group-wide intranet, town hall meetings and video conferences. Live video streaming and video on demand options have been developed as additional means of ensuring employees have access to the most senior levels of management, and as powerful tools for building culture and driving alignment across common goals. The programme also involves consultation with employees on a regular basis so that the views of employees can be taken into account in making decisions that are likely to affect their interests and achieving a common awareness of all employees of the financial and economic factors that affect the Group's performance.

Share ownership schemes encourage participation as shareholders in GlaxoSmithKline plc, the ultimate parent company of the Group, increasing awareness of short and long term business objectives. Global employee opinion surveys allow employees the opportunity to express their views and perspectives on important company issues.

The Group is committed to employment policies free from discrimination against potential or existing staff on the grounds of age, race, ethnic and national origin, gender, sexual orientation, faith or disability.

In particular the Group is committed to offering people with disabilities access to the full range of recruitment and career opportunities. Every effort is made to retain and support staff who become disabled while working for the Group.

Political donations

The Group made no political donations during the year (2014: nil).

Financial risk management

Information regarding the Group's risk exposure to and management of financial instruments is disclosed in Note 25 to the financial statements.

Directors' statement of responsibilities in relation to the Group financial statements

The Directors are responsible for preparing the Annual Report and the Group 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 prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In preparing the Group financial statements, the Directors have also elected to comply with IFRS, as issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing those 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; and
- state whether IFRS as adopted by the European Union and IFRS as issued by the IASB have been followed, subject to any material departures disclosed and explained in the Group financial statements.

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

Disclosure of information to auditors

The Directors in office at the date of this Report have each confirmed that:

- so far as he or she is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Going concern basis

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, despite the Group's reported net liabilities position, as discussed in the Strategic Report. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board


D Limet

Director

23rd March 2016

Report on the group financial statements

Our opinion

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

- give a true and fair view of the state of the group's affairs as at 31 December 2015 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated balance sheet as at 31 December 2015;
- the Consolidated income statement for the year then ended;
- the Consolidated statement of comprehensive income for the year then ended;
- the Core results reconciliation for the year then ended;
- the Consolidated statement of changes in equity for the year then ended; and
- the Consolidated cash flow statement for the year then ended;
- 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 IFRSs as adopted by the European Union, and applicable law.

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 Report and the 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 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. 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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' statement of responsibilities set out on page 11, 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 group'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.

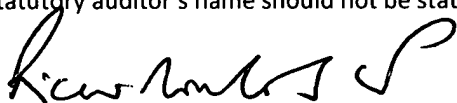
We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report 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.

Other matter

We have reported separately on the company financial statements of ViiV Healthcare Limited for the year ended 31 December 2015.

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
23 March 2016

ViiV Healthcare Limited
Consolidated income statement
For the year ended 31st December 2015

	Notes	2015 £'000	2014 £'000
Turnover	5	2,329,643	1,465,940
Cost of sales		(348,932)	(296,769)
Gross profit		1,980,711	1,169,171
Selling, general and administration		(2,268,879)	(1,081,954)
Research and development		(103,006)	(86,310)
Operating (loss)/profit	6	(391,174)	907
Finance income	8	1,413	2,692
Finance expense	9	(982,277)	(594,001)
Profit/(Loss) before taxation		(1,372,038)	(590,402)
Taxation	10	(54,216)	(15,656)
Profit/(Loss) after taxation for the year		(1,426,254)	(606,058)

Consolidated statement of comprehensive income
For the year ended 31st December 2015

	2015 £'000	2014 £'000
Profit/(Loss) for the year	(1,426,254)	(606,058)
Items that may be subsequently reclassified to income statement:		
Exchange movements on overseas net assets	7,409	8,620
Tax on exchange movements	-	-
Items that will not be reclassified to income statement:		
Actuarial (loss) / gain on defined benefit plans	(473)	(1,403)
Deferred tax on actuarial movements in defined benefit plans	184	434
Other comprehensive income for the year	7,120	7,651
Total comprehensive (expense)/income for the year	(1,419,134)	(598,407)

ViiV Healthcare Limited
Consolidated balance sheet
As at 31st December 2015

	Notes	2015 £'000	2014 £'000
Non-current assets			
Property, plant and equipment		1,657	1,745
Goodwill	12	203,801	202,570
Other intangible assets	13	1,792,896	1,903,581
Deferred tax assets	10	467,256	136,793
Total non-current assets		2,465,610	2,244,689
Current assets			
Inventories	14	29,634	22,685
Current tax recoverable		46,719	40,864
Trade and other receivables	15	385,028	337,109
Derivative financial assets	25	478	1,557
Cash and cash equivalents	16	1,157,608	905,609
Total current assets		1,619,467	1,307,824
Total assets		4,085,077	3,552,513
Current liabilities			
Short-term borrowings and overdrafts		(778)	(1,008)
Trade and other payables	17	(1,151,404)	(752,636)
Derivative financial liabilities	25	(8,281)	(2,501)
Current tax payable		(54,638)	(55,164)
Short-term provisions	18	(3,424)	(3,006)
Total current liabilities		(1,218,525)	(814,315)
Non-current liabilities			
Long-term borrowings		(983)	(1,100)
Deferred tax liabilities	10	-	(22,615)
Other provisions	18	(6,496)	(6,435)
Other non-current liabilities	19	(5,482,205)	(3,222,828)
Total non-current liabilities		(5,489,684)	(3,252,978)
Total liabilities		(6,708,209)	(4,067,293)
Net Assets/(Liabilities)		(2,623,132)	(514,780)
Equity			
Share capital	20	11	11
Share premium		341,000	341,000
Retained earnings		(270,179)	947,115
Merger reserve		(76,963)	(77,914)
Other reserves		(2,617,001)	(1,724,992)
Total equity		(2,623,132)	(514,780)

The financial statements on pages 14 to 62 were approved by the Board of Directors on 23rd March 2016 and signed on its behalf by:

D Limet
Director

ViiV Healthcare Limited
Core results reconciliation
For the year ended 31st December 2015

	Notes	Core Results	Intangible amortisation	Preferential dividend re- measurement	Contingent consideration re- measurement	Litigation costs	Total 2015 results
		£'000	£'000	£'000	£'000	£'000	£'000
Turnover		2,329,643	-	-	-	-	2,329,643
Cost of sales		(216,524)	(132,408)	-	-	-	(348,932)
Gross Profit		2,113,119	(132,408)	-	-	-	1,980,711
Selling, general and administration		(380,262)	-	-	(1,873,517)	(15,100)	(2,268,879)
Research and development		(103,006)	-	-	-	-	(103,006)
Operating profit		1,629,851	(132,408)	-	(1,873,517)	(15,100)	(391,174)
Finance income	8	1,413	-	-	-	-	1,413
Finance expense	9	(1,287)	-	(980,990)	-	-	(982,277)
Profit/(Loss) before taxation		1,629,977	(132,408)	(980,990)	(1,873,517)	(15,100)	(1,372,038)
Taxation		(441,808)	82,424	-	301,368	3,800	(54,216)
Profit/(Loss) after taxation for the year		1,188,169	(49,984)	(980,990)	(1,572,149)	(11,300)	(1,426,254)

ViiV Healthcare Limited
Core results reconciliation
For the year ended 31st December 2014

	Notes	Core Results	Intangible amortisation	Intangible write-off	Preferential dividend re- measurement	Contingent consideration re- measurement	US branded prescription drug fee	Total 2014 results
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover		1,465,940	-	-	-	-	-	1,465,940
Cost of sales		(162,501)	(132,678)	(1,590)	-	-	-	(296,769)
Gross Profit		1,303,439	(132,678)	(1,590)	-	-	-	1,169,171
Selling, general and administration		(306,655)	-	-	-	(767,878)	(7,421)	(1,081,954)
Research and development		(86,310)	-	-	-	-	-	(86,310)
Operating profit		910,474	(132,678)	(1,590)	-	(767,878)	(7,421)	907
Finance income	8	2,692	-	-	-	-	-	2,692
Finance expense	9	(2,309)	-	-	(591,692)	-	-	(594,001)
Profit/(Loss) before taxation		910,857	(132,678)	(1,590)	(591,692)	(767,878)	(7,421)	(590,402)
Taxation		(249,768)	92,368	601	-	140,775	368	(15,656)
Profit/(Loss) after taxation for the year		661,089	(40,310)	(989)	(591,692)	(627,103)	(7,053)	(606,058)

ViiV Healthcare Limited
Consolidated statement of changes in equity
For the year ended 31st December 2015

	Share capital £'000	Retained earnings £'000	Share premium £'000	Merger reserve £'000	Other reserves £'000	Total equity £'000
At 1st January 2014	11	1,485,016	341,000	(78,558)	(1,193,853)	553,616
Loss for the year	-	(606,058)	-	-	-	(606,058)
Other comprehensive (loss)/ income for the year	-	7,007	-	644	-	7,651
Total comprehensive income/(loss) for the year	-	(599,051)	-	644	-	(598,407)
Transfer of finance expense related to preferential dividend	-	591,692	-	-	(591,692)	-
Preferential dividend to shareholders	-	(60,553)	-	-	60,553	-
Ordinary dividends to shareholders	-	(469,989)	-	-	-	(469,989)
At 31st December 2014	11	947,115	341,000	(77,914)	(1,724,992)	(514,780)
Loss for the year	-	(1,426,254)	-	-	-	(1,426,254)
Other comprehensive income for the year	-	6,169	-	951	-	7,120
Total comprehensive income/(loss) for the year	-	(1,420,085)	-	951	-	(1,419,134)
Transfer of finance expense related to preferential dividend	-	980,990	-	-	(980,990)	-
Preferential dividend to shareholders	-	(88,981)	-	-	88,981	-
Ordinary dividends to shareholders	-	(689,218)	-	-	-	(689,218)
At 31st December 2015	11	(270,179)	341,000	(76,963)	(2,617,001)	(2,623,132)

Other reserves largely comprise the cumulative impact of the opening preferential dividend liability and subsequent re-measurement (Note 17 and 19), which is transferred from retained earnings to other reserves. Preferential dividends are then reported as a reduction in retained earnings once paid.

Other reserves do not affect the calculation of the Company's realised profits available for distribution.

ViiV Healthcare Limited
Consolidated cash flow statement
For the year ended 31st December 2015

	Notes	2015 £'000	2014 £'000
Cash flow from operating activities			
Profit/(Loss) after taxation for the year		(1,426,254)	(606,058)
Adjustments reconciling profit after tax to operating cash flows	23	2,950,689	1,564,562
Cash generated from operations		1,524,435	958,504
Taxation paid		(427,526)	(192,693)
Net cash inflow from operating activities		1,096,909	765,811
Cash flow from investing activities			
Purchase of property, plant and equipment		(672)	(1,168)
Proceeds from sale of property, plant and equipment		341	555
Capital expenditure on intangible assets		(27,116)	(33,754)
Payment of contingent consideration liability - investing	23	(37,925)	(7,472)
Interest received		2,294	2,359
Proceeds from disposal of subsidiary, net of cash		-	6,795
Net cash outflow from investing activities		(63,078)	(32,685)
Cash flow from financing activities			
Net repayment of obligation under finance leases		(605)	(489)
Interest paid		(1,906)	(2,249)
Ordinary dividends paid to shareholders		(689,218)	(469,989)
Preferential dividends paid to shareholders		(88,981)	(60,553)
Other financing items		(33,437)	387
Net cash outflow from financing activities		(814,147)	(532,893)
Increase/(Decrease) in cash and bank overdrafts		219,684	200,233
Exchange adjustments		32,592	29,634
Cash and bank overdrafts at beginning of year		905,159	675,292
Cash and bank overdrafts at end of year		1,157,435	905,159
Cash and bank overdrafts at end of year comprise:			
Cash and cash equivalents	16	1,157,608	905,609
Overdrafts		(173)	(450)
		1,157,435	905,159

1. Presentation of the financial statements

Description of business

ViiV Healthcare is a specialist HIV group of companies focused solely on the research, development and commercialisation of HIV medicines. The economic interest in the group is held 78.3% by GSK, 11.7% by Pfizer, and 10.0% by Shionogi.

Compliance with applicable law and IFRS

The financial statements have been prepared in accordance with the Companies Act 2006, Article 4 of the IAS Regulation and International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations, as adopted by the European Union.

The financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board.

Composition of financial statements

The consolidated financial statements are drawn up in Sterling, the functional currency of ViiV Healthcare Limited, and in accordance with IFRS accounting presentation. The financial statements comprise:

- Consolidated income statement
- Consolidated statement of comprehensive income
- Consolidated balance sheet
- Core results reconciliation
- Consolidated statement of changes in equity
- Consolidated cash flow statement
- Notes to the financial statements

Core results reporting

Core results reporting aligns business performance reporting around the underlying trading performance of the Group and its primary growth drivers by removing the volatility inherent in many of the non-core items. Core results reporting is utilised as the basis for internal performance reporting and the core results are presented in the Core results reconciliation as management believes that this approach provides shareholders with a clearer view of the underlying trading performance of the Group. The Core results reconciliation also presents and discusses the total results of the Group. The core results are not defined under IFRS and they may not be directly comparable with other companies' adjusted measures.

Core results exclude the following items from total results: amortisation and impairment of intangible assets (excluding computer software and capitalised development costs), preferential dividend and contingent consideration re-measurement, and litigation costs, together with the tax effects of these items.

In addition, the charge for an additional year of the US Branded Prescription Drug fee, in accordance with the final regulations issued by the IRS during 2014, was recorded as a non-core item in the 2014 core results reconciliation. The normal ongoing charge remains in core results.

Reconciliations of core results to total results are presented on page 16 and 17.

1. Presentation of the financial statements continued

Accounting convention

The financial statements have been prepared using the historical cost convention, as modified by the revaluation of certain items, as stated in the accounting policies and on a going concern basis.

Financial period

These financial statements cover the financial year from 1st January to 31st December 2015, with comparative figures for the financial year from 1st January to 31st December 2014.

Composition of the Group

A list of subsidiary undertakings is given in Note 28, 'Group companies'.

Accounting principles and policies

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of turnover and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements have been prepared in accordance with the Group's accounting policies approved by the Board and described in Note 2, 'Accounting principles and policies'. Information on the application of these accounting policies, including areas of estimation and judgement is given in Note 3, 'Key accounting judgements and estimates'.

Implementation of new accounting standards

With effect from 1st January 2015, ViiV Healthcare Limited has implemented the following amended accounting standard.

IAS 19 "Defined benefit plans: Employee contribution"

The amendment provides additional guidance on the treatment of contributions to defined benefit plans from employees and third parties and has no material impact on the current period.

Parent company financial statements

The financial statements of the parent company, ViiV Healthcare Limited, have been prepared in accordance with UK GAAP and with UK accounting presentation. The company balance sheet is presented on page 66 and the accounting policies are given on pages 68 and 69.

2. Accounting principles and policies

Consolidation

The consolidated financial statements include the assets and liabilities, and the results and cash flows, of the Company and its subsidiaries.

The financial statements of entities consolidated are made up to 31st December each year.

ViiV Healthcare Limited is a private limited company incorporated in the United Kingdom.

Entities over which the Group has the power to direct the relevant activities so as to affect the returns to the Group, generally through control over the financial and operating policies, are accounted for as subsidiaries.

Interests acquired in entities are consolidated from the date the Group acquires control and interests sold are de-consolidated from the date control ceases.

Transactions and balances between subsidiaries are eliminated and no profit before tax is taken on sales between subsidiaries until the products are sold to customers outside the Group. Deferred tax relief on unrealised intra-Group profit is accounted for only to the extent that it is considered recoverable.

Goodwill arising on the acquisition of interests in subsidiaries, representing the excess of the acquisition cost over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised as a separate item in the case of subsidiaries. Goodwill is denominated in the currency of the operation acquired. Where the cost of acquisition is below the fair value of the net assets acquired, the difference is recognised directly in the income statement.

Business combinations

Business combinations are accounted for using the acquisition accounting method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. The costs of acquisition are charged to the income statement in the period in which they are incurred.

Foreign currency translation

Foreign currency transactions are booked in the functional currency of the Group company at the exchange rate ruling on the date of transaction. Foreign currency monetary assets and liabilities are retranslated into the functional currency at rates of exchange ruling at the balance sheet date. Exchange differences are included in the income statement.

On consolidation, assets and liabilities, including related goodwill, of overseas subsidiaries, are translated into Sterling at rates of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiaries are translated into Sterling using average rates of exchange.

Exchange adjustments arising when the opening net assets and the profits for the year retained by overseas subsidiaries are translated into Sterling are taken to a separate component of equity.

2. Accounting principles and policies continued

Revenue

Revenue is recognised in the income statement when goods or services are supplied or made available to external customers against orders received, 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. Revenue represents 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 contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third party analyses, market research data and internally generated information. Value added tax and other sales taxes are excluded from revenue.

Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. 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 and promotion expenditure is charged to the income statement as incurred. Shipment costs on intercompany transfers are charged to cost of sales; distribution costs on sales to customers are included in selling, general and administrative ("SG&A") expenditure.

Research and development

Research and development ("R&D") expenditure is charged to the income statement in the period in which it is incurred; except that 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.

Pensions and other post-employment benefits

The costs of providing pensions under defined benefit schemes are calculated using the projected unit credit method and spread over the period during which benefit is expected to be derived from the employees' services, consistent with the advice of qualified actuaries. Pension obligations are measured as the present value of estimated future cash flows discounted at rates reflecting the yields of high quality corporate bonds. Pension scheme assets are measured at fair value at the balance sheet date.

The costs of other post-employment liabilities are calculated in a similar way to defined benefit pension schemes and spread over the period during which benefit is expected to be derived from the employees' services, in accordance with the advice of qualified actuaries.

Actuarial gains and losses and the effect of changes in actuarial assumptions, are recognised in the statement of comprehensive income in the year in which they arise.

The Group's contributions to defined contribution plans are charged to the income statement as incurred.

Employee share plans

Incentives in the form of shares in the Group's ultimate parent company, GlaxoSmithKline plc, are provided to employees under share option and share award schemes. These schemes are operated by GSK affiliates. The fair values of these options and awards are calculated at their grant dates using a Black-Scholes option pricing model

2. Accounting principles and policies continued

and charged to the income statement over the relevant vesting periods. At the end of each reporting period, the Group revises its charge based on the number of options expected to vest, where appropriate.

Dividends

Final dividends arising on ordinary shares are recognised upon shareholder approval. Interim dividends arising on ordinary dividends are recognised when paid.

Preferential dividends are contingent on the achievement of certain performance criteria on assets provided by, or acquired from, GSK, Pfizer and Shionogi affiliates. Once earned, preferential dividends are payable in full, prior to the payment of any ordinary dividend. Any amounts that cannot be paid due to insufficient distributable reserves will be carried forward to future years and will be paid in preference to any subsequently declared dividend.

Preferential dividends are recognised as liabilities, reported at amortised cost and re-measured at each reporting date to reflect any changes in expectation of the amounts to be paid. Changes to the carrying value of these liabilities are recognised in the income statement within financial expense.

Leases

Leasing agreements which transfer to the Group substantially all the benefits and risk of ownership of an asset are treated as finance leases, as if the asset had been purchased outright. All other leases are operating leases and the rental costs are charged to the income statement on a straight-line basis over the lease term.

Goodwill

Goodwill is stated at cost less impairments. Goodwill is deemed to have an indefinite useful life and is tested for impairment at least annually.

Other intangible assets

Intangible assets are stated at cost less provisions for amortisation and impairments.

Licences, patents, know-how and marketing rights separately acquired or acquired as part of a business combination are amortised over their estimated useful lives, generally not exceeding 25 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 Group and associated with acquired licences, patents, know-how or marketing rights are written off to the income statement 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.

2. Accounting principles and policies continued

Impairment of non-current assets

The carrying values of all non-current assets are reviewed for impairment, either on a stand-alone basis or as part of a larger cash generating unit, when there is an indication that the assets might be impaired. Additionally, goodwill is tested for impairment annually. Any provision for impairment is charged to the income statement in the year concerned. Impairments of goodwill are not reversed. Impairment losses on other non-current 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.

Inventories

Inventories are included in the financial statements at the lower of cost (including raw materials, direct labour, other direct costs and related production overheads) and net realisable value. Cost is generally determined on a first in, first out basis. Pre-launch inventory is held as an asset when there is a high probability of regulatory approval for the product. Before that point a provision is made against the carrying value to its recoverable amount; the provision is then reversed at the point when a high probability of regulatory approval is determined.

Trade receivables

Trade 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 receivable is determined to be uncollectable it is written off, firstly against any provision available and then to the income statement.

Subsequent recoveries of amounts previously provided for are credited to the income statement. Long-term receivables are discounted where the effect is material.

Trade payables

Trade payables are held at amortised cost which equates to nominal value. Long-term payables are discounted where the effect is material.

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.

Taxation

Current tax is provided at the amounts expected to be paid applying tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date.

2. Accounting principles and policies continued

Derivative financial instruments and hedging

Derivative financial instruments are used to manage exposure to market risks from treasury operations. The principal derivative instruments used by the Group are forward foreign exchange contracts. The Group 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 in 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.

Discounting

Where the time effect of money is material, balances are discounted to current values using appropriate rates of interest. The re-measurement of the discounts is recorded in finance expense (for the preferential dividend liability) and selling, general and administration (for the contingent consideration liability).

New accounting requirements

The following new and amended accounting standards have been issued by the IASB and are likely to affect future Annual Reports. The amendment to IFRS 11 is not expected to have a material impact on the result and financial position of the Group. The impacts of IFRS 15, IFRS 9 and IFRS 16 on the results and financial position of the Group are currently being assessed.

New IFRSs		Effective for periods beginning on or after
IFRS 15	Revenue from contract with customers	1st January 2018
IFRS 9	Financial Instruments	1st January 2018
IFRS 16	Leases	1 st January 2019
Amendments and revisions to IFRSs		
IFRS 11	Joint Arrangements	1 st January 2016

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, turnover 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.

Revenue

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 arrangements and buying groups. These arrangements with purchasing organisations are dependent upon the submission of claims some time after the initial recognition of the sale. Accruals are made at the time of sale for the 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.

The level of accrual is reviewed and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third party analyses, market research data and internally generated information. Future events could cause the assumptions on which the accruals are based to change, which could affect the future results of the Group.

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.

The Group believes that it has made adequate provision for any liabilities likely to arise from assessments by tax authorities. Should issues arise, the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of negotiations with the relevant tax authorities or, if necessary, litigation proceedings.

Preferential dividends

Preferential dividends will vary in line with sales of Tivicay, Triumeq, and other products provided by, or acquired from, GSK, Pfizer and Shionogi affiliates. The Group recognises liabilities in respect of these preferential dividends which are reported at amortised cost and re-measured at each reporting date to reflect any changes in expectation of the amounts to be paid (see Note 9, 17 and 19).

Amounts involved in this re-measurement are estimates of future performance, based on assumptions including peak sales and market share for the relevant products; and therefore may not fully reflect the final amounts paid.

Contingent consideration liability

Contingent consideration for the acquisition of the former Shionogi-ViiV Healthcare joint venture is expected to be paid over several years and will vary in line with the future sales performance of Tivicay, Triumeq, and other products containing dolutegravir or cabotegravir. The Group recognises a liability in respect of this contingent

3. Key accounting judgements and estimates continued

consideration which is reported at fair value and re-measured at each reporting date to reflect any changes in expectation of the timing or amount of consideration to be paid (see Note 17 and 19). Amounts involved in this re-measurement are estimates of future performance, based on assumptions including peak sales and market share for the relevant products, and therefore may not fully reflect the final amounts paid. A post tax interest rate has been used to discount the liability.

Other intangible assets

Where intangible assets are acquired by the Group from third parties the costs of acquisition are capitalised. Licences to compounds in development are amortised from the point at which they are available for use, over their estimated useful lives, which may include periods of non-exclusivity. Estimated useful lives are reviewed annually and impairment tests are undertaken if events occur which call into question the carrying values of the assets.

Both initial valuations and valuations for subsequent impairment tests are based on established market multiples or risk-adjusted future cash flows 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 reviews to change with a consequent adverse effect on the future results of the Group.

Going concern

The Group Balance Sheet includes an intangible asset related to the value of dolutegravir with net book value £1,585 million (2014: £1,680 million). Under the Group's accounting policies, the value of this intangible asset has not been re-valued to reflect the latest sales forecasts for Tivicay and Triumeq, unlike the long-term liabilities for contingent consideration and preferential dividends. The Group recorded non-core charges of £3,002 million before tax, mainly related to an increase in long-term liabilities following an increase in the sales forecasts for Tivicay and Triumeq. These re-measurement charges were £1,874 million for future contingent consideration payments to Shionogi, and £981 million for future preferential dividend payments to GSK, Pfizer and Shionogi. These charges contributed to a total reported loss after tax of £1,426 million (2014: loss of £606 million), and a reported net liabilities position of £2,623 million (2014: net liabilities of £515 million). If the latest sales forecasts for Tivicay and Triumeq are achieved, then the Group will generate significantly higher cash flows than are required to meet these long-term liabilities. The Directors are therefore satisfied that the Group's reported net liabilities position has no impact on the ability of the Group to continue as a going concern.

4. Exchange rates

The Group uses the average of exchange rates prevailing during the year to translate the results and cash flows of overseas subsidiaries into Sterling and year end rates to translate the net assets of those undertakings. The currencies which most influence these translations and the relevant exchange rates were:

	2015	2014
Average rates:		
US\$/£	1.53	1.65
Euro/£	1.37	1.24
Yen/£	185	175
 Year end rates:		
US\$/£	1.47	1.56
Euro/£	1.36	1.29
Yen/£	177	187

5. Turnover

Turnover by geography	2015 £'000	2014 £'000
North America	1,364,862	731,459
Europe	712,834	532,432
International	251,947	202,049
	2,329,643	1,465,940

6. Operating profit

	Notes	2015 £'000	2014 £'000
The following items have been included in operating profit:			
Employee costs	7	108,409	83,625
Depreciation of property, plant and equipment		622	560
Amortisation of intangible assets	13	139,048	136,159
Write-off of intangible assets	13	-	1,590
Contingent consideration re-measurement	19	1,885,451	767,878
Net foreign exchange losses/(gains)		18,502	3,916
Inventories:			
Cost of inventories included in cost of sales		157,897	125,842
Operating lease rentals:			
Minimum lease payments		539	542
Contingent rents		275	276
Research and development			
Research and development before capitalisation		130,122	120,064
Capitalised development costs		(27,116)	(33,754)
Research and development net of capitalisation		103,006	86,310
Fees payable to the Company's auditor and its associates			
Audit of parent company and consolidated financial statements		422	394
Audit of Company's subsidiaries		335	337
Audit services		757	731
Taxation advice		270	269
Other assurance services		185	-
All other services		35	-
		1,247	1,000

7. Employee costs

All individuals performing service for the Group are employed and remunerated by Group companies. A management charge from GlaxoSmithKline Services Unlimited includes an element relating to share based payments, as calculated under IFRS 2 "Share Based Payments".

In addition, GSK affiliates operate pension schemes in which the Group's UK and US employees participate. These schemes include defined benefit arrangements where the assets are held independently of the Group's finances and which are funded partly by contributions from members and partly by contributions from the GSK affiliates at rates advised by independent professionally qualified actuaries.

The management fee from GSK affiliates includes an element relating to the pension arrangements for the Group's UK and US employees calculated as if the arrangements were on a defined contribution basis. The underlying assets and liabilities of the schemes cover a number of UK and US undertakings and cannot readily be split between each Group undertaking on a consistent and reliable basis.

Full details of the UK and US pension schemes and employee share schemes can be found in the Annual Report of GlaxoSmithKline plc for the year ended 31st December 2015.

The Group also operates some overseas pension arrangements covering obligations to provide pensions to retired employees. These arrangements have been developed in accordance with local practices in the countries concerned. Pension benefits can be provided by state schemes; by defined contribution schemes, whereby retirement benefits are determined by the value of funds arising from contributions paid in respect of each employee; or by defined benefit schemes, whereby retirement benefits are based on employee pensionable remuneration and length of service.

	2015 £'000	2014 £'000
Wages and salaries	84,045	69,266
Social security costs	13,073	7,653
Other Pension Costs	835	638
Cost of share-based incentive plans	9,247	4,984
Severance costs from integration and restructuring activities	1,209	1,084
	108,409	83,625

	2015	2014
The average number of persons employed by the Group (including Directors) during the year:	664	583

	2015	2014
The monthly average number of employees by region		
Europe	233	218
North America	220	201
International	79	75
Corporate	69	53
R&D	63	36
	664	583

All employees are employed to conduct selling, general and administration, and R&D activities.

The average number of Group employees excludes temporary and contract staff. The average monthly number of persons employed by the Company in 2015 was nil (2014: nil).

7. Employee costs continued

The compensation of the Directors and Senior Management (members of the ViiV Executive Team) in aggregate was as follows:

	2015 £'000	2014 £'000
Wages and salaries	4,032	3,730
Social security costs	683	512
Pension and other post-employment costs	674	571
Cost of share-based incentive plans	1,811	1,569
	7,200	6,382

Only one Director is remunerated by the Group details of which are below.

	2015 £'000	2014 £'000
Aggregate emoluments and benefits	898	936
Social security costs	329	241
Pension	159	154
	1,386	1,331

The 2014 figures in both tables above have been adjusted to reflect social security contributions for one Director, which had been included under Pensions. The Pensions figures in 2014 have been replaced by the actual service cost of the Pension.

Retirement benefits accrued under defined benefit schemes sponsored by sister companies within the GSK Group for one (2014: one) Director.

One (2014: one) Director received share awards under long term incentive plans in respect of qualifying services to the Group. No share options were exercised during the year (2014: 26,800)

8. Finance income

	2015 £'000	2014 £'000
Interest income arising from:		
Cash and cash equivalents	1,240	2,636
Fair value movements on derivatives at fair value through profit or loss	173	56
	1,413	2,692

All derivatives at fair value through profit or loss are classified as held for trading financial instruments under IAS 39.

9. Finance expense

	2015 £'000	2014 £'000
Interest expense arising on:		
Financial liabilities at amortised cost	120	2,285
Fair value movements on derivatives at fair value through profit and loss	153	24
Other finance expense	1,014	-
Re-measurement of preferential dividends liability	980,990	591,692
	982,277	594,001

The re-measurement of preferential dividends liability was higher in 2015, mainly as a result of an increase in sales forecasts for Tivicay and Triumeq (Note 19).

10. Taxation

Taxation charge based on profits for the year	2015 £'000	2014 £'000
UK corporation tax	94,895	61,953
Overseas taxation	308,448	192,372
Current taxation	403,343	254,325
Deferred taxation	(349,127)	(238,669)
	54,216	15,656

Reconciliation of the taxation rate on Group profits	2015 %	2015 £'000	2014 %	2014 £'000
UK statutory rate of taxation	20.3	(277,760)	21.5	(126,942)
Differences in overseas taxation rates	(11.1)	152,707	(2.1)	12,237
Changes in tax rates	(1.9)	25,996	0.5	(2,876)
Benefit of intellectual property incentives	4.4	(60,735)	6.1	(35,751)
Revaluation of preference dividend obligation	(14.5)	198,650	(21.5)	127,189
Other permanent differences	(0.5)	7,530	(0.0)	(30)
Prior year items	(0.7)	7,828	(7.1)	41,829
Tax rate	(4.0)	54,216	(2.6)	15,656

The Group operates in countries where the tax rate differs from the UK tax rate and the taxable profits earned and tax rates in those countries vary from year to year. The impact of these overseas taxes on the overall rate of tax is shown above.

The Group is required under IFRS to create a deferred tax asset in respect of unrealised intercompany profit arising on inventory held by the Group at the year-end by applying the tax rate of the country in which the inventory is held.

No provision has been made for taxation which would arise on the distribution of profits retained by overseas subsidiaries. The unprovided deferred tax on unremitted earnings at 31st December 2015 is estimated to be nil (2014: £nil). UK legislation relating to company distributions provides exemption from tax for most repatriated profits, subject to certain exceptions. The aggregate amount of these unremitted profits at the balance sheet date was approximately £504 million (2014: £259 million).

Tax on items charged to equity and statement of comprehensive income	2015 £'000	2014 £'000
Deferred taxation		
Defined benefit plans	184	434
	184	434
Total credit/(charge) to equity and statement of comprehensive income	184	434

All of the above items have been credited/(charged) to the statement of comprehensive income.

ViiV Healthcare Limited
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For the year ended 31st December 2015

10. Taxation continued

Movement in deferred tax assets and liabilities	Accelerated capital allowances	Intangibles	Contingent consideration liability	Intra-group profit	Tax losses	Other net temporary differences	Offset within countries	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Deferred tax assets at 1st January 2015	331	-	405,165	36,180	10,056	40,359	(355,298)	136,793
Deferred tax liabilities at 1st January 2015	(11)	(377,791)	-	-	-	(111)	355,298	(22,615)
At 1st January 2015	320	(377,791)	405,165	36,180	10,056	40,248	-	114,178
Exchange adjustments	(5)	(474)	-	4,239	(47)	54	-	3,767
Credit/(charge) to income statement	395	80,489	247,282	18,216	(10,009)	12,754	-	349,127
Credit/(charge) to statement of comprehensive income	-	-	-	-	-	184	-	184
At 31st December 2015	710	(297,776)	652,447	58,635	-	53,240	-	467,256
Deferred tax assets at 31st December 2015	713	-	652,447	58,635	-	53,766	(298,305)	467,256
Deferred tax liabilities at 31st December 2015	(3)	(297,776)	-	-	-	(526)	298,305	-

The deferred tax credit to income relating to changes in tax rates is £26 million (2014: £3 million). This reflects the change to the UK statutory rate to 18% with effect from 1 April 2020, as well as a reduced US tax rate due to the mix of activities carried on in the states with differing tax rates. All other deferred tax movements arise from the origination and reversal of temporary differences. Other net temporary differences include accrued expenses and other provisions.

At 31st December 2015, the Group had recognised a deferred tax asset of £nil (2014: £10 million) in respect of income tax losses of approximately £nil (2014: £26 million). There are no tax losses for which a deferred tax asset has not been recognised. The Group had no capital losses at 31st December 2015. Deferred tax assets are recognised in respect of tax losses where it is probable that future taxable profit will be available to utilise the losses.

At 31st December 2015, the net deferred tax asset expected to be recovered within 12 months was £140 million (2014: £69 million).

For 2015, the presentation of the Group's deferred tax has been amended to show the amounts relating to the contingent consideration and intangible assets separately.

Factors affecting the tax charge in future years

As a global organisation there are many factors which could affect the future effective tax rate of the Group. The mix of profits across different territories, transfer pricing and other disputes with tax authorities can all have a significant impact on the Group's effective tax rate, as could changes in the tax rate or other changes to tax legislation in the jurisdictions in which the group operates.

11. Dividends

The Directors propose an interim ordinary dividend of £453 million in respect of the year ended 31st December 2015 being £51,033 per Class A Share, £17,435 per Class B Share, £16,728 per Class C Share, £81,617 per Class D2 Share and a preferential dividend of £252 million being £33,829 per Class A Share, £2,729 per Class B Share, £2,742 per Class C Share and £15,461 per Class D1 Share.

The Directors proposed and paid one interim ordinary dividend and one preferential dividend during the year ended 31st December 2015. The interim ordinary dividend of £689 million in respect of the year ended 31st December 2014 being £77,425 per Class A Share, £27,036 per Class B Share, £25,963 per Class C Share, £124,184 per Class D2 Share and a preferential dividend of £89 million being £11,080 per Class A Share, £3,418 per Class B Share, £3,435 per Class C Share and £2,774 per Class D1 Share related to 2014 and were paid on the 1st April 2015.

12. Goodwill

	2015 £'000	2014 £'000
Cost at 1st January	202,570	203,733
Exchange adjustments	1,231	(1,163)
Cost at 31st December	203,801	202,570
Net book value at 1st January	202,570	203,733
Net book value at 31st December	203,801	202,570

Goodwill predominantly relates to the acquisition of the Pfizer HIV business in 2009.

Goodwill is allocated to cash generating units which are tested for impairment at least annually. The cash generating units to which the goodwill is allocated are as follows: North America £105 million (2014: £99 million), Europe £98 million (2014: £102 million) and International £1 million (2014: £1 million).

The recoverable amounts of the cash generating units are assessed using a fair value less costs of disposal model. The valuation methodology uses significant inputs which are not based on observable market data; therefore, this valuation technique is classified as level 3 in the fair value hierarchy. Fair value is calculated using a discounted cash flow model based on the Group's acquisition valuation model. A post-tax discount rate of 8.5% (2014: 10.0%) is applied to the projected risk-adjusted post-tax cash flows and terminal value (derived using a 1% terminal growth rate). The period of specific forecast cash flows used in the valuation model is 5 years.

Key assumptions include the sales growth rates (determined by internal forecasts, based on internal and external market information), profit margins (determined by past experience and adjusted for expected changes), discount rates (based on Group WACC), and terminal growth rate based on management's estimate of future long-term average growth rates.

No impairment of goodwill was identified in 2015. The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

13. Other intangible assets

	Computer software £'000	Licences, patents etc. £'000	Total £'000
Cost at 1st January 2014	5,620	2,152,906	2,158,526
Exchange adjustments	(20)	2,924	2,904
Additions	-	33,754	33,754
Disposals and write-offs	(5,600)	(3,916)	(9,516)
Cost at 31st December 2014 and 1st January 2015	-	2,185,668	2,185,668
Exchange adjustments	-	3,027	3,027
Additions	-	27,116	27,116
Disposals and write-offs	-	-	-
Cost at 31st December 2015	-	2,215,811	2,215,811
Accumulated amortisation at 1st January 2014	(4,959)	(146,622)	(151,581)
Exchange adjustments	17	(1,688)	(1,671)
Charge for the year	(57)	(136,102)	(136,159)
Disposals and write-offs	4,999	2,325	7,324
Accumulated amortisation at 31st December 2014 and 1st January 2015	-	(282,087)	(282,087)
Exchange adjustments	-	(1,780)	(1,780)
Charge for the year	-	(139,048)	(139,048)
Disposals and write-offs	-	-	-
Accumulated amortisation at 31st December 2015	-	(422,915)	(422,915)
Impairments at 1st January 2014	(558)	-	(558)
Exchange adjustments	3	-	3
Disposals and write-offs	555	-	555
Impairments at 31st December 2014 and 1st January 2015	-	-	-
Exchange adjustments	-	-	-
Charge for the year	-	-	-
Impairment at 31st December 2015	-	-	-
Net book value at 31st December 2014	-	1,903,581	1,903,581
Net book value at 31st December 2015	-	1,792,896	1,792,896

Amortisation of licences and patents on marketed products has been charged through cost of sales in the income statement. Additions include £27 million in relation to capitalised development costs for maraviroc (*Selzentry/Celsentri TM*) and dolutegravir (*Tivicay & Triumeq TM*).

The net book values of material assets are analysed as follows:

Asset description	End of amortisation period	2015 £'000	2014 £'000
Dolutegravir	2037	1,584,989	1,680,362
Maraviroc	2031	207,907	223,219
		1,792,896	1,903,581

14. Inventories

	2015 £'000	2014 £'000
Work in progress	-	10,597
Finished goods	29,634	12,088
	29,634	22,685

15. Trade and other receivables

	2015 £'000	2014 £'000
Trade receivables with third parties	316,157	219,681
Trade receivables with GSK entities	49,018	82,759
Other prepayments	1,711	2,541
Interest receivable	259	316
Employee loans and advances	311	388
Indirect tax and other receivables	17,572	31,424
	385,028	337,109
Bad and doubtful debt provision		
At 1st January	(6,613)	(7,030)
Exchange adjustments	195	352
Charge for the year	(78)	(453)
Subsequent recoveries of amounts provided for	557	564
Utilised	(4)	(46)
At 31st December	(5,943)	(6,613)

16. Cash and cash equivalents

	2015 £'000	2014 £'000
Cash at bank and in hand	41,738	64,221
Short-term deposits	1,115,870	841,388
	1,157,608	905,609

17. Trade and other payables

	2015 £'000	2014 £'000
Trade payables with third parties	77,634	75,546
Trade payables with GSK entities	199,843	259,457
Wages and salaries	25,386	16,065
Social security	3,383	1,733
Indirect tax and other payables	4,510	10,611
Customer return and rebate accruals	213,097	158,814
Other accruals	76,837	37,327
Contingent consideration due within one year	298,663	104,102
Preferential dividends due within one year	252,051	88,981
	1,151,404	752,636

18. Other provisions

	Employee related provisions £'000	Other provisions £'000	Total £'000
At 1st January 2014	6,666	4,701	11,367
Exchange adjustments	(431)	(229)	(660)
Charge for the year	612	1,468	2,080
Utilised	(1,716)	(2,933)	(4,649)
Increase in pensions obligations	1,350	-	1,350
Other movements	(46)	(1)	(47)
At 31st December 2014	6,435	3,006	9,441
Exchange adjustments	(358)	(181)	(539)
Charge for the year	521	599	1,120
Utilised	(539)	-	(539)
Increase in pensions obligations	437	-	437
At 31st December 2015	6,496	3,424	9,920
To be settled within one year	-	3,424	3,424
To be settled after one year	6,496	-	6,496
At 31st December 2015	6,496	3,424	9,920

Employee related provisions include a variety of benefits accruing to employees under state pension schemes, small country specific pension schemes, severance costs, jubilee awards and other long-service benefits.

19. Other non-current liabilities

	Preferential dividends £'000	Contingent consideration £'000	Total £'000
As at 1st January 2015 – non-current	1,643,401	1,579,427	3,222,828
As at 1st January 2015 – current	88,981	104,102	193,083
As at 1st January 2015 - total	1,732,382	1,683,529	3,415,911
Payments	(88,981)	(160,452)	(249,433)
Re-measurement	980,990	1,885,451	2,866,441
As at 31st December 2015 - total	2,624,391	3,408,528	6,032,919
Transfer to trade and other payables – current	(252,051)	(298,663)	(550,714)
As at 31st December 2015 – non-current	2,372,340	3,109,865	5,482,205

Preferential dividends are contingent on the achievement of certain performance criteria on assets provided by, or acquired from, GSK, Pfizer and Shionogi affiliates. The Group recognises liabilities in respect of these preferential dividends which are reported at amortised cost and re-measured at each reporting date to reflect any changes in expectation of the amounts to be paid (above and Note 17). The expected liability has increased during the year mainly due to an increase in sales forecasts for Tivicay and Triumeq, and a corresponding charge of £981 million has been recorded for the year ending 31st December 2015 within Finance Expense (Note 9). The amount falling due within one year is £252 million, which has been transferred to Trade and Other Payables (Note 17). Preferential dividends of £89 million were paid during 2015, reducing the liability.

Contingent consideration for the acquisition of the former Shionogi-ViiV Healthcare joint venture is expected to be paid over several years and will vary in line with sales of Tivicay, Triumeq, and other products containing dolutegravir or cabotegravir. The Group recognises a liability in respect of this contingent consideration which is reported at fair value and re-measured at each reporting date to reflect any changes in expectation of the timing or amount of consideration to be paid (above and Note 17). The expected liability has increased during the year, due to an increase in sales forecasts for Tivicay and Triumeq, impacts of the revisions to the discount rate and tax rate in the year, and a corresponding charge of £1,885 million has been recorded for the year ending 31st December 2015 within Selling, General and Administration (core charge £11 million, non-core charge £1,874 million). The amount falling due within one year is £299 million, which has been transferred to Trade and Other Payables (Note 17). Contingent consideration of £160 million (£122 million was recognised in cash flows from operating activities and £38 million was recognised in purchases of businesses within investing cash flows) was paid during 2015, reducing the liability.

If the latest sales forecasts for Tivicay and Triumeq are achieved, then the Group will generate significantly higher cash flows than are required to meet these long-term liabilities. The Directors are therefore satisfied that the Group's reported net liabilities position has no impact on the ability of the Group to continue as a going concern. Further disclosures relating to these liabilities are included in Note 25.

20. Share Capital

	Class A shares		Class B shares		Class C Shares		Class D1 & D2 Shares		Total	
	Number	£'000	Number	£'000	Number	£'000	Number	£'000	Number	£'000
At 1st January 2014	6,950	7	2,798	3	252	-	1,112	1	11,112	11
At 31st December 2014	6,950	7	2,798	3	252	-	1,112	1	11,112	11
At 31st December 2015	6,950	7	2,798	3	252	-	1,112	1	11,112	11

Holders of Class A, B and C Shares are entitled to both preferential dividends and ordinary dividends. Class D shares are split into Class D1 and Class D2. Class D1 are entitled to Shionogi preferred ordinary dividends and Class D2 are entitled to ordinary dividends. Preferential dividends are based on the performance of certain assets and are payable in full prior to any ordinary dividend. Any amounts that cannot be paid due to insufficient distributable reserves will be carried forward to future years and will be paid in preference to any subsequently declared dividend.

Voting rights and ordinary dividend rights are in line with the share of equity points as defined in the Shareholders Agreement, subject to certain extraordinary corporate matters, which require prior written approval of Pfizer and/or Shionogi.

21. Movements in equity

Retained earnings, merger reserve and other reserves, amounted to (£2,964) million at 31st December 2015 (2014: (£856) million). The analysis of other comprehensive income is shown below:

	Retained earnings £'000	Merger Reserve £'000	Total £'000
At 1st January 2014	(30,532)	1,386	(29,146)
Exchange movements on overseas net assets	7,976	644	8,620
Actuarial gain/(loss) on defined benefit plans	(1,403)	-	(1,403)
Deferred tax on actuarial movements in defined benefit plans	434	-	434
At 31st December 2014	(23,525)	2,030	(21,495)
Exchange movements on overseas net assets	6,458	951	7,409
Actuarial (loss)/gain on defined benefit plans	(473)	-	(473)
Deferred tax on actuarial movements in defined benefit plans	184	-	184
At 31st December 2015	(17,356)	2,981	(14,375)

22. Related party transactions

The economic interest in the Group is 78.3% owned by GlaxoSmithKline Mercury Limited (a wholly owned subsidiary of the GlaxoSmithKline plc group of companies), 10.7% by PHIVCO Luxembourg Sarl and 1.0% by PHIVCO Corp. (both members of the Pfizer Inc. group of companies) and 10.0% by Shionogi & Co., Ltd. During the year the Group undertook significant transactions with entities from within each of the GSK, Pfizer and Shionogi groups of companies.

Entities from within the GSK group of companies supplied goods to and purchased goods from the Group during the year. The Group supplies goods to companies within the GSK group under Distribution Agreements in those countries where ViiV Healthcare does not have its own local operating company. In addition, entities from within the GSK group of companies were engaged to provide support function services to the Group under Support Services Agreements including: regulatory and safety services; financial management and reporting; human resources; payroll services; IT support; property management; legal services; contract manufacturing; management of the Group's UK and US pension schemes; and management of the Group's employee share schemes. In addition, the Group operates separate agreements with GSK affiliates for the provision of research and development and for toll-manufacturing services.

Entities from within the Pfizer group of companies supplied goods to and purchased goods from the Group during the year. The Group operates separate agreements with Pfizer affiliates for the provision of research and development and for toll-manufacturing services.

Entities from within the Shionogi group of companies provided research and development services to the Group during the year under a Services Agreement and a Research and Development Agreement. In addition there is an API Supply Agreement under which entities from within the Shionogi group of companies supply goods to the Group, and a Royalty Rights Agreement under which the Group pays contingent consideration to Shionogi for the acquisition of the former Shionogi-ViiV Healthcare joint venture. Amounts included within the balance sheet for the expected payments to Shionogi are included in the table below. The table includes the value of API initially supplied by Shionogi to a GSK group company for conversion into finished goods, which were then supplied to ViiV Healthcare.

During the formation of the Group, and on the subsequent acquisition of the former Shionogi-ViiV Healthcare joint venture, arrangements were entered into for the payment of preferential dividends to GSK, Pfizer and Shionogi subject to achieving agreed sales targets and development milestones. Once the preferential dividends become payable they are to be paid prior to the payment of an ordinary dividend to the Group's shareholders. Amounts included within the balance sheet for the expected payments to each party are included in the table below.

The Group also recognises net economic benefit payments receivable from GSK group companies, reported within selling, general and administration expenditure. These payments arise where GSK group companies initially make profits on HIV products which then need to be transferred to ViiV Healthcare under the Shareholders' Agreement.

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

22. Related party transactions continued

	GlaxoSmithKline group of companies		Pfizer group of companies		Shionogi group of companies	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Sale of goods	223,544	172,795	4,053	8,469	-	-
Purchase of goods	155,955	141,222	7,602	18,848	20,853	7,131
Research and Development services	122,876	104,962	17,279	20,888	206	391
Support services	57,257	52,245	-	-	-	-
Net economic benefit income/(expense)	2,787	(3,948)	-	-	-	-
Co-promotion expense	-	-	-	-	(1,316)	(1,604)
Trade receivable at 31st December	49,018	82,759	5,053	-	-	-
Trade payable at 31st December	(199,843)	(259,457)	(1,052)	(5,595)	(807)	(55)
Disposal of subsidiary	-	7,397	-	-	-	-
Contingent consideration liability	-	-	-	-	(3,408,528)	(1,683,529)
Contingent consideration payment	-	-	-	-	160,452	7,472
Preferential dividend liability	(2,473,399)	(1,583,518)	(21,076)	(77,892)	(129,916)	(71,031)
Preferential dividend payment	77,007	48,191	10,429	12,266	1,545	96
Ordinary dividend payment	538,107	361,950	82,189	61,040	68,922	46,999

Only one Director is remunerated by the Group, details of which can be found in Note 7, Employee Costs.

23. Adjustments reconciling Profit/(Loss) after tax to operating cash flows

	2015 £'000	2014 £'000
Profit/(Loss) after tax	(1,426,254)	(606,058)
Add back:		
Tax on profits	54,216	15,656
Finance expense net of finance income	980,864	591,309
Re-measurement of contingent consideration	1,885,451	767,878
Depreciation	622	560
Amortisation of intangible assets	139,048	136,159
Asset write-off	18	1,590
Profit on sale of property, plant and equipment	(155)	(248)
Decrease/(Increase) in inventories	2,176	(4,005)
(Increase) in trade receivables third party	(84,203)	(3,520)
Decrease/(Increase) in trade receivables GSK	33,746	(83,199)
Decrease in other receivables	14,343	2,817
Increase/(Decrease) in trade payables third party	12,306	(15,968)
(Decrease)/Increase in trade payables GSK	(50,631)	130,403
Increase in other payables	84,943	26,658
Increase/(Decrease) in pension and other provisions	548	(2,578)
Payment of contingent consideration liability - operating	(122,527)	-
Other	(76)	1,050
	2,950,689	1,564,562
Cash generated from operations	1,524,435	958,504

The total cash payments to Shionogi in relation to the ViiV Healthcare contingent consideration liability in 2015 were £160 million, of which £122 million was recognised in cash flows from operating activities and £38 million was recognised in purchases of businesses within investing cash flows.

24. Commitments

	2015 £'000	2014 £'000
Commitments under non-cancellable leases and other contracts		
Payments due within one year	482	512
Payments due between one and five years	480	513
Total commitments	962	1,025

25. Financial instruments and related disclosures

The Group reports in Sterling and pays dividends out of Sterling profits. GSK's Treasury function is employed as a service provider to manage and monitor the Group's external and internal funding requirements and financial risks in support of the Group's strategic objectives. Treasury activities are governed by policies approved by the Group Board of Directors, most recently on 10th December 2015.

The Group operates on a global basis, through a number of subsidiary companies and the existing sales networks of GSK.

A Treasury meeting, chaired by the ViiV Healthcare Chief Financial Officer (CFO), takes place on a monthly basis to review Treasury activities. Its members receive management information relating to Treasury activities. GSK's internal auditors review the Treasury internal control environment regularly as part of their review of GSK's Treasury function.

The Group may use a variety of financial instruments to finance its operations and derivative financial instruments to manage risks from these operations. These derivatives, principally comprising forward foreign currency contracts and currency swaps, are used to manage exposure to funding risks from changes in foreign exchange rates. The Group does not hold or issue derivatives for speculative purposes and our Treasury policies specifically prohibit such activity.

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 Group consists wholly of shareholders' equity (see "Consolidated statement of changes in equity" on page 18). The Board reviews the Group's annual dividend policy which is established in accordance with parameters set in the Shareholders Agreement between GSK, Pfizer and Shionogi.

Selling margins are sufficient to cover normal operating costs and our operations are cash generative.

Operating cash flow is used to fund investment in research and development of new products. It is also used to make routine outflows of capital expenditure, tax, contingent consideration and dividends. In 2015, ViiV Healthcare returned £778 million to shareholders in dividends.

Liquidity risk

The Group benefits from strong positive cash flow from operating units and has substantial cash and cash equivalents, which amounted to £1,158 million at 31st December 2015 (2014: £906 million).

Market risk

Interest rate risk management

The Group has no significant external debt and therefore its interest expense is not significantly exposed to changes in interest rates. The Group earns interest income on its cash and therefore benefits from an increase in interest rates. The impact of a decrease in interest rates is limited (see interest rate sensitivity).

Foreign exchange risk management

Foreign currency transaction exposures arising on external trade flows are generally not hedged. The Group's main foreign currency transaction exposures on internal trade flows are hedged on a rolling basis.

25. Financial instruments and related disclosures continued

The Group's objective is to minimise the exposure of overseas operating subsidiaries to transaction risk by matching local currency income with local currency costs where possible and by maintaining intercompany payment terms of 30 days or less. Foreign currency cash flows may be hedged selectively as approved by the CFO. Cash surpluses or borrowing requirements of subsidiary companies are usually managed centrally using forward contracts to hedge future repayments back into the originating currency.

Derivative financial instruments

The principal amount on foreign exchange contracts of £676 million (2014: £385 million) is the gross total of outstanding positions at the balance sheet date. All contracts are for periods of 12 months or less. At 31st December 2015, the Group held outstanding foreign exchange contracts consisting primarily of currency swaps with a total net asset fair value of £1 million (2014: £1 million) and a total net liability fair value of £8 million (2014: £1 million) which represent hedges of intercompany loans and deposits, but are not designated as accounting hedges. Changes in fair value are taken to profit and loss in the period to offset the exchange gains and losses on the related intercompany lending and borrowing.

Credit risk

The Group considers its maximum credit risk to be £1,536 million (2014: £1,224 million) which is the total of the Group's financial assets. This represents £1,158 million of cash and cash equivalents and £378 million of trade and other receivables and derivative financial assets. See page 47 for details on the Group's total financial assets.

Treasury-related credit risk

The aggregate credit risk in respect of financial instruments that the Group may have with one counterparty is limited by reference to the long-term credit ratings assigned for that counterparty by Moody's Investors Service ("Moody's") and Standard and Poor's. The table below sets out the credit ratings of counterparties for cash and cash equivalents. The derivatives held by the Group are not significant.

	Credit rating of counterparty				Total £'000
	AAA/Aaa £'000	AA/Aa £'000	A/A £'000	BBB/Baa £'000	
2015					
Bank balances and deposits	-	444,258	53,508	36,080	533,846
US Treasury & Treasury repo only money market funds	623,762	-	-	-	623,762
Total	623,762	444,258	53,508	36,080	1,157,608
2014					
Bank balances and deposits	-	542,347	109,847	-	652,194
US Treasury & Treasury repo only money market funds	253,414	-	-	-	253,414
Total	253,414	542,347	109,847	-	905,609

The 2014 table has been restated to include further detail regarding counterparty credit ratings.

The credit ratings in the above tables are as assigned by Moody's and Standard and Poor's respectively. Where the opinion of the two rating agencies differs, the lower rating of the two is assigned to the counterparty. Our centrally managed cash reserves amounted to £1,107 million at 31st December 2015, all available within three months. The Group invests centrally managed liquid assets in AAA/Aaa US Treasury and Treasury repo only money market funds and bank deposits with a minimum short-term credit rating of A-1/P-1.

25. Financial instruments and related disclosures continued

The remaining cash balances are used by subsidiary entities in funding their working capital requirements.

The Group's greatest concentration of credit risk in 2015 is £319 million deposited in a BlackRock US Treasury and Treasury repo only money market fund (AAA/Aaa). In 2014, the Group's greatest concentration of credit risk was £305 million deposited with HSBC (Aa3/AA-).

Global counterparty limits are assigned to each of the Group's banking and investment counterparties based on long-term credit ratings from Moody's and Standard and Poor's. The Group's usage of these limits is monitored daily by GSK's Corporate Compliance Officer ("CCO") who operates independently from GSK Treasury. Any breach of these limits would be reported to the CFO immediately. The CCO also monitors the credit rating of these counterparties and, when changes in ratings occur, notifies GSK's Treasury so that changes can be made to investment levels or authority limits as appropriate.

Wholesale and retail credit risk

The Group employs GSK as a service provider to monitor credit risk relating to key wholesalers. These activities include a review of their quarterly financial information and Standard & Poor's credit ratings, development of internal risk ratings, and the establishment and periodic review of credit limits. The results of these reviews are submitted to ViiV Healthcare's local management to support the risk management process.

Outside the USA, no customer accounts for more than 5% of the Group's trade receivables balance. In the USA, in line with other pharmaceutical companies, the Group sells its products to a small number of wholesalers in addition to hospitals, pharmacies, physicians and other groups. Sales to the three largest wholesalers amount to approximately 91% of the Group's US sales. At 31st December 2015, the Group had trade receivables due from these three wholesalers totalling £193 million (2014: £112 million). The Group is exposed to a concentration of credit risk in respect of these wholesalers such that, if one or more of them encounters financial difficulty, it could materially and adversely affect the Group's financial results. However, the Group believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful debts (see Note 15, 'Trade and other receivables').

Fair value of financial assets and liabilities

The table on page 47 presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 31st December 2015 and 31st December 2014. 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 and overdrafts - approximates to the carrying amount because of the short maturity of these instruments
- Forward exchange contracts - based on present value of contractual cash flows using market sourced data (exchange rates)
- Receivables and payables - approximates to the carrying amount
- Preferential dividends - approximates to the carrying amount
- Contingent consideration for business acquisitions – based on present values of expected future contractual cash flows.

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25. Financial instruments and related disclosures continued

Financial assets and financial liabilities

	2015 Carrying value and Fair value £'000	2014 Carrying value and Fair value £'000
Cash and cash equivalents	1,157,608	905,609
Loans and receivables:		
Trade and other receivables and certain other non-current assets in scope of IAS 39	377,744	316,838
Financial assets at fair value through profit or loss:		
Derivatives classified as held for trading under IAS 39	478	1,557
Total financial assets	1,535,830	1,224,004
Financial liabilities measured at amortised cost:		
Borrowings:		
Bank loans and overdrafts	(174)	(450)
Obligations under finance leases	(1,587)	(1,658)
Total borrowings	(1,761)	(2,108)
Trade and other payables and certain other non-current liabilities in scope of IAS 39	(587,959)	(554,658)
Preferential dividend liability in scope of IAS 39	(2,624,391)	(1,732,382)
Financial liabilities at fair value through profit or loss:		
Trade and other payables and certain other non-current liabilities in scope of IAS 39	(3,408,528)	(1,683,529)
Derivatives classified as held for trading under IAS 39	(8,281)	(2,501)
Total financial liabilities	(6,630,920)	(3,975,178)
Net financial liabilities	(5,095,090)	(2,751,174)

Held for trading derivatives comprise foreign exchange contracts.

Financial assets and liabilities held at fair value are categorised by the valuation methodology applied in determining their fair value. Where possible, quoted prices in active markets are used (Level 1). Where such prices are not available, the asset or liability is classified as Level 2, provided all significant inputs to the valuation model used are based on observable market data. If one or more of the significant inputs to the valuation model is not based on observable market data, the instrument is classified as Level 3.

25. Financial instruments and related disclosures continued

At 31st December 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value				
Financial assets at fair value through profit and loss				
Derivatives classified as held for trading under IAS 39	-	478	-	478
	-	478	-	478
Financial liabilities at fair value				
Financial liabilities at fair value through profit and loss				
Contingent consideration – current	-	-	(298,663)	(298,663)
Contingent consideration – non-current	-	-	(3,109,865)	(3,109,865)
Derivatives classified as held for trading under IAS 39	-	(8,281)	-	(8,281)
	-	(8,281)	(3,408,528)	(3,416,809)
At 31st December 2014				
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value				
Financial assets at fair value through profit and loss				
Derivatives classified as held for trading under IAS 39	-	1,557	-	1,557
	-	1,557	-	1,557
Financial liabilities at fair value				
Financial liabilities at fair value through profit and loss				
Contingent consideration – current	-	-	(104,102)	(104,102)
Contingent consideration – non-current	-	-	(1,579,427)	(1,579,427)
Derivatives classified as held for trading under IAS 39	-	(2,501)	-	(2,501)
	-	(2,501)	(1,683,529)	(1,686,030)

Movements in the year for financial instruments measured using Level 3 valuation methods are presented below:

	2015 £'000	2014 £'000
At 1st January	(1,683,529)	(923,123)
Re-measurement of contingent consideration	(1,885,451)	(767,878)
Payment of contingent consideration liabilities	160,452	7,472
At 31st December	(3,408,528)	(1,683,529)

25. Financial instruments and related disclosures continued

Re-measurement of contingent consideration of £1,885 million (2014: £768 million) attributable to Level 3 financial instruments held at 31st December 2015 was reported in Selling, general and administration expenses during the year.

The liability position in respect of financial instruments measured using Level 3 valuation methods at 31st December consists of £3,409 million (2014 – £1,684 million) in respect of contingent consideration payable for the acquisition in 2012 of the former Shionogi-ViiV Healthcare joint venture. The increase in fair value included the impacts of revisions to the discount rate and tax rate in the year. This consideration is expected to be paid over several years and will vary in line with the future sales performance of Tivicay, Triumeq, and other products containing dolutegravir or cabotegravir. The table below shows on an indicative basis the income statement and balance sheet sensitivity to reasonably possible changes in key inputs to the valuation of this liability.

Increase/(decrease) in financial liability and loss/(gain) in Income statement from change in key inputs	2015 £'000
10% increase in sales forecasts	340,204
10% decrease in sales forecasts	(340,204)
1% increase in market interest rates	(179,980)
1% decrease in market interest rates	196,102

Trade and other receivables and other non-current assets in scope of IAS 39

The following table reconciles financial assets within Trade and other receivables and other non-current assets which fall within the scope of IAS 39 to the relevant balance sheet amounts. The financial assets are predominantly non-interest earning. Other assets include tax receivables, pension assets and prepayments, which are outside the scope of IAS 39.

	Notes	2015 £'000	2014 £'000
Trade and other receivables	15	385,028	337,109
Other non-current assets		-	-
		385,028	337,109
Analysed as:			
Financial assets in scope of IAS 39		377,744	316,838
Other assets		7,284	20,271
		385,028	337,109

The following table shows the age of such financial assets which are past due and for which no provision for bad or doubtful debts has been made, which are all included within Trade Receivables with third parties:

	2015 £'000	2014 £'000
Past due by 1-30 days	2,392	6,674
Past due by 31-90 days	8,604	10,606
Past due by 91-180 days	1,358	17,479
Past due by 181-365 days	333	3,298
Past due by more than 365 days	1	116
	12,688	38,173

25. Financial instruments and related disclosures continued

Trade and other payables and other non-current liabilities in scope of IAS 39

The following table reconciles financial liabilities within Trade and other payables and other non-current liabilities which fall within the scope of IAS 39 to the relevant balance sheet amounts. Accrued wages and salaries are included within financial liabilities. Other liabilities include payments on account and tax and social security payables, which are outside the scope of IAS 39.

	Notes	2015 £'000	2014 £'000
Trade and other payables	17	1,151,404	752,636
Other non-current liabilities	19	5,482,205	3,222,828
		6,633,609	3,975,464
Analysed as:			
Financial liabilities in scope of IAS 39 – at amortised cost		3,212,351	2,287,040
Financial liabilities in scope of IAS 39 – at fair value through profit or loss		3,408,528	1,683,529
Other liabilities		12,730	4,895
		6,633,609	3,975,464

Offsetting of financial assets and liabilities

The Group has no financial assets and financial liabilities which are set off in the Group's balance sheet. For Derivative financial assets and liabilities, amounts not offset in the balance sheet but which could be offset under certain circumstances are set out below.

	Gross financial assets/ (liabilities)	Gross financial (liabilities)/ assets set off	Net financial assets/ (liabilities) per balance sheet	Related amounts not set off in the balance sheet	Net
At 31st December 2015	£'000	£'000	£'000	£'000	£'000
Derivative financial assets	478	-	478	(478)	-
Derivative financial liabilities	(8,281)	-	(8,281)	478	(7,803)

	Gross financial assets/ (liabilities)	Gross financial (liabilities)/ assets set off	Net financial assets/ (liabilities) per balance sheet	Related amounts not set off in the balance sheet	Net
At 31st December 2014	£'000	£'000	£'000	£'000	£'000
Derivative financial assets	1,557	-	1,557	(1,083)	474
Derivative financial liabilities	(2,501)	-	(2,501)	1,083	(1,418)

25. Financial instruments and related disclosures continued

Sensitivity analysis

The sensitivity analysis has been prepared on the assumption that the amount of net cash (cash and cash equivalents less overdrafts and borrowings), the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant. Financial instruments affected by market risk include borrowings, cash and deposits and derivative financial instruments. The following analyses are intended to illustrate the sensitivity of such financial instruments to changes in relevant foreign exchange and interest rates.

Foreign exchange sensitivity

Foreign currency exposures arise from the translation of non Sterling financial assets and liabilities (cash and cash equivalents, bank loans and overdrafts, inter-company loans and deposits, other receivables and payables) and derivative financial instruments. The Group is primarily exposed to foreign exchange risk in relation to Sterling against movements in US dollar and Euro. Based on the Group's net financial assets and liabilities as at 31 December, a weakening of Sterling against these currencies, with all other variables held constant, is illustrated in the table below. The table excludes financial instruments that expose the Group to foreign exchange risk where this risk is fully hedged with another financial instrument. Intercompany loans which are fully hedged to maturity with a currency swap have also been excluded from this analysis.

	2015 Increase/ (decrease) in income £'000	2014 Increase / (decrease) in income £'000
Income statement impact of non-functional currency foreign exchange exposures		
10 cent appreciation of the US dollar (2014: 10 cent)	3,473	180
10 cent appreciation of the Euro (2014: 10 cent)	2,717	5,049

An equivalent depreciation in the above currencies would cause the following increase/(decrease) in income £(3) million and £(2) million (2014 – £(nil and £(4) million) for US dollar and Euro respectively.

Interest rate sensitivity

The Group is exposed to interest rate risk on its outstanding borrowings and cash and cash equivalents where any changes in interest rates will affect future cash flows or the fair values of financial instruments.

The table below hypothetically shows the Group's sensitivity to changes in interest rates in relation to Sterling and US dollar variable rate financial assets and liabilities. If the interest rates applicable to floating rate financial assets and liabilities were to have increased by 1% (100 basis points), and assuming other variables remained constant, it is estimated that the Group's finance income for 2015 would increase by approximately £10 million (2014 - £9 million increase). A 1% (100 basis points) movement in interest rates is not deemed to have a material effect on equity.

25. Financial instruments and related disclosures continued

	2015 Increase in income £'000	2014 Increase in income £'000
1% (100 basis points) increase in Sterling interest rates (2014: 1%)	9,298	7,711
1% (100 basis points) increase in US dollar interest rates (2014: 1%)	1,132	1,087

Contractual cash flows for non-derivative financial liabilities and derivative instruments

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

	Obligations under finance leases £'000	Finance charge on obligations under finance leases £'000	Trade payables and other non- current liabilities £'000	Total £'000
At 31st December 2015				
Due in less than one year	(604)	(2)	(1,138,674)	(1,139,280)
Between one and five years	(983)	-	(2,912,580)	(2,913,563)
Between five and ten years	-	-	(4,207,677)	(4,207,677)
Greater than ten years	-	-	(3,122,409)	(3,122,409)
Gross contractual cash flows	(1,587)	(2)	(11,381,340)	(11,382,929)
At 31st December 2014				
Due in less than one year	(558)	(2)	(766,093)	(766,653)
Between one and five years	(1,100)	-	(1,753,250)	(1,754,350)
Between five and ten years	-	-	(3,303,394)	(3,303,394)
Greater than ten years	-	-	(3,099,922)	(3,099,922)
Gross contractual cash flows	(1,658)	(2)	(8,922,659)	(8,924,319)

The following table provides an analysis of the anticipated contractual cash flows for the Group's derivative instruments, using undiscounted cash flows. Cash flows in foreign currencies are translated using spot rates at 31st December.

	2015 Receivables £'000	2015 Payables £'000	2014 Receivables £'000	2014 Payables £'000
Less than one year	668,289	676,125	559,213	560,156

26. Employee share schemes

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

Share Option Plan

Options were granted to employees to acquire shares at the grant price in GlaxoSmithKline plc. 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 (see Share Value Plan below) 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.

Performance Share Plan Awards

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.

Share value plan

The Group operates a Share Value Plan whereby share awards are granted to employees at no cost. There are no performance criteria attached. Grants of Share Value Plan Awards normally vest at the end of the three year vesting period and are available for sale at that time.

The share based compensation charge for the above schemes has been recorded in the income statement as administrative expenses of £9 million (2014: £5 million) and is considered immaterial for further disclosure.

27. Ultimate parent undertaking

GlaxoSmithKline plc, a company registered in England and Wales, is the Group's ultimate parent undertaking and controlling party. The only group of undertakings for which Group financial statements are prepared and which include the results of the ViiV Healthcare Limited Group 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 of the Group is GlaxoSmithKline Mercury Limited.

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28. Group companies

The following are the subsidiaries of the Group at 31st December 2015. Details are given of the principal country of operation, the location of the headquarters, the business sector and the business activities. All companies are incorporated in their principal country of operation except where stated.

	Location	Subsidiary	Activity	%
Europe				
England	Brentford	ViiV Healthcare Trading Services UK Limited	e, f, m, p, s	100%
	Brentford	ViiV Healthcare Overseas Limited	h	100%
	Brentford	ViiV Healthcare UK Limited	i, m, s	100%
	Brentford	ViiV Healthcare UK (No. 3) Limited	h, i	100%
	Brentford	ViiV Healthcare UK (No. 4) Limited	i	100%
	Brentford	ViiV Healthcare Finance 1 Limited	f	100%
	Brentford	ViiV Healthcare Finance 2 Limited	f	100%
	Brentford	PHIVCO UK Limited	h, i	100%
	Brentford	PHIVCO UK II Limited	f, h, i	100%
Jersey	St Helier	ViiV Healthcare UK (No. 2) Limited	h	100%
	St Helier	PHIVCO Jersey Limited	h	100%
	St Helier	PHIVCO Jersey II Limited	h	100%
Belgium	Wavre	ViiV Healthcare sprl	m	100%
France	Marly le Roi	ViiV Healthcare SAS	m	100%
Germany	Munich	ViiV Healthcare GmbH	m	100%
Italy	Verona	ViiV Healthcare S.r.l.	m	100%
Netherlands	Zeist	ViiV Healthcare B.V.	m	100%
Portugal	Alges	ViiV HIV Healthcare Unipessoal Lda	m	100%
Spain	Madrid	Laboratorios ViiV Healthcare S.L.	m	100%
Switzerland	Muenchenbuchsee	ViiV Healthcare GmbH	m	100%
Americas				
USA	Wilmington	ViiV Healthcare Company	d, i, m, r	100%
	Wilmington	PHIVCO-1 LLC	h, i	100%
	Wilmington	PHIVCO-2 LLC	h, i	100%
	Wilmington	Shionogi-ViiV Healthcare LLC	s	100%
	Wilmington	ViiV Healthcare Venture LLC	h	100%
Canada	Calgary	ViiV Healthcare ULC	m	100%
Puerto Rico	Guaynabo	ViiV Healthcare Puerto Rico LLC	m	100%

28. Group companies continued

International

Australia	Boronia	ViiV Healthcare Pty Ltd	e, m	100%
Japan	Tokyo	ViiV Healthcare Kabushiki Kaisha	d, m, p	100%
Russia	Moscow	ViiV Healthcare Trading LLC	e, m	100%
South Africa	Bryanston	ViiV Healthcare (South Africa) (Proprietary) Limited	s	100%

Business activity: d - development, e - exporting, f - finance, h - holding company, i – holder of intellectual property, m - marketing and trade, p - production, r - research, s - service company.

Two new companies were incorporated shortly after year end, ViiV Healthcare Finance Limited on 11 January 2016, and ViiV Healthcare UK (No.5) Limited on 18 January 2016. Both companies are incorporated in England.

29. Legal Proceedings

Intellectual Property Proceedings

Epzicom/Kivexa/Trizivir

On 6 February 2014, ViiV Healthcare received notice that Lupin had filed an ANDA containing a Paragraph IV certification for Epzicom, alleging that the three patents listed in the Orange Book for Epzicom are either invalid, unenforceable or not infringed.

ViiV Healthcare filed suit against Lupin on 3 March 2014, alleging infringement of both the patent covering the combination of lamivudine and abacavir and the patent covering the hemisulfate salt of abacavir. ViiV Healthcare settled with Lupin on 22 June 2015, and the case was dismissed on 7 August 2015.

On 2 June 2014, Apotex filed a Petition requesting an Inter Partes Review (IPR) of the combination patent covering Epzicom and Trizivir. The USPTO granted the petition on 8 December 2014 which initiated the IPR. On 8 January 2015, Teva filed a petition with the USPTO to join the proceeding. ViiV Healthcare filed an opposition to Teva's joinder motion on 3 April 2015, and Teva's motion to join was denied on 25 June 2015. On 29 July 2015, ViiV Healthcare and Apotex settled the case, and the USPTO terminated the IPR on 3 August 2015.

Teva Canada and Apotex each filed Notices of Allegation challenging patents for Kivexa (lamivudine/abacavir) listed on the Canadian Patent Register. ViiV Healthcare filed suit for infringement against Teva on 12 September 2013 under the patents covering abacavir hemisulfate and the combination of lamivudine and abacavir. ViiV Healthcare filed suit against Apotex on 31 January 2014 under the patent covering abacavir hemisulfate and on 14 March 2014 for infringement of the patent covering the combination of lamivudine and abacavir. ViiV Healthcare settled the case against Teva on 24 April 2015 and against Apotex on 29 July 2015.

Teva also challenged the claims of the combination patent covering Kivexa in Germany, France, Italy and the United Kingdom. The combination patent expires across Europe in 2016. In addition, ViiV Healthcare has a corresponding Supplementary Protection Certificate (SPC) for Kivexa that does not expire until late 2019. Teva also challenged the validity of the SPC. ViiV Healthcare reached a settlement with Teva in May 2015 and the litigation was terminated.

In May 2015, Mylan filed an action in the UK Patents Court alleging that the patent covering the combination of lamivudine and abacavir for Kivexa is invalid. They also allege that the SPC based upon the patent is invalid because it was not the first marketing authorisation for the combination, alleging instead that the prior approval of Trizivir was the first. Trial is scheduled for May 2016. In addition, Mylan has challenged the combination patent and associated SPC in France, Italy and Portugal. No dates have been set in these jurisdictions.

Lexiva

On 10 December 2014, Lupin filed a petition with the USPTO for an IPR alleging that the patent covering the active ingredient for Lexiva is invalid, the patent expires in 2020. ViiV Healthcare filed a Patent Owner's Preliminary Response opposing the petition on 12 April 2015. On 9 July 2015, the USPTO granted in-part and denied in-part the petition for an IPR. Significantly, the USPTO denied the petition for the basic compound claims covering Lexiva, while granting the petition for other claims in the patent. On 24 July 2015, Lupin requested reconsideration of the decision not to initiate review of the claims specifically covering Lexiva. On 14 October 2015, ViiV Healthcare requested adverse judgment as to the claims upon which review was granted (effectively cancelling those claims). On 2 November 2015, the USPTO denied Lupin's motion for reconsideration and, on 3 November 2015, the USPTO cancelled the requested claims and terminated the IPR, leaving the claims covering Lexiva intact. On 4 February 2016, Lupin filed a new petition for an IPR on the remaining claims. A Patent Owner's Preliminary Response is due 11 May 2016.

30. Summary of material differences between IFRS and US GAAP

Preferential dividends

Under IFRS, the estimated future preferential dividends payable to GSK, Pfizer and Shionogi are recognised as financial liabilities at amortised cost and discounted to account for the change in value over time. Under US GAAP the liability for estimated preferential dividends payable to GSK does not meet the conditions for recognition and is not contingent consideration arising on a business combination. As a result the liability for the estimated preferential dividends payable to GSK is removed from the balance. The impact of the re-measurement of this liability for changes in actual and revised estimated cash flows is consequently removed from the Income Statement.

Taxation

Under IFRS, any tax impacts to the seller as a result of the intercompany transaction are recognized as incurred. Deferred taxes resulting from the intragroup sale are recognized at the buyer's tax rate. Under US GAAP any tax impacts to the seller as a result of an intercompany sale are deferred until realized by third-party sale or otherwise recovered (e.g., amortized or impaired). In addition, the buyer is prohibited from recognizing a deferred tax asset resulting from the difference between the tax basis and consolidated carrying amount of the asset.

Under IFRS, deferred tax balances are disclosed in the balance sheet as non-current items. Under US GAAP, deferred tax balances are disclosed as current or non-current based on the classification of the underlying items generating the temporary difference.

Net economic benefit payments

Under IFRS the Group recognises net economic benefit payments receivable from GSK. These payments arise where GSK group companies initially make profits on HIV products which then need to be transferred to ViiV Healthcare under the Shareholders' Agreement. Under US GAAP the net economic benefit payments receivable from GSK are not recognised as they are due from an entity under common control. Where GSK makes a net economic benefit payment under IFRS this is treated as a credit to the Income Statement, under US GAAP this is treated as an additional capital contribution.

Research and development

Research and development ("R&D") expenditure is charged to the income statement in the period in which it is incurred: except that under IFRS 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. The capitalised R&D expenditure is then amortised over the estimated useful life of the asset, with the amortisation charge included in Cost of Sales. Under US GAAP, all development expenditure is treated as an expense in the Income Statement.

The following is a summary of the adjustments to profits and shareholders' funds which would be required if US GAAP had been applied instead of IFRS.

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Income statement for the year ended 31st December 2015

	IFRS 2015 £'000	Note 1	Note 2	Note 3	Note 4	US GAAP 2015 £'000
Turnover	2,329,643	-	-	-	-	2,329,643
Costs and expenses:						
Cost of sales	(216,524)	-	-	6,841	-	(209,683)
Selling, general and administrative expenses	(2,268,879)	-	-	-	(2,787)	(2,271,666)
Research and development expenses	(103,006)	-	-	(27,116)	-	(130,122)
Amortisation of intangible assets	(132,408)	-	-	-	-	(132,408)
Other income/(expense) – net	(980,864)	966,946				(13,918)
Income from continuing operations before provision for taxes on income/(expense)	(1,372,038)	966,946	-	(20,275)	(2,787)	(428,154)
Provision for taxes on income	(54,216)	-	(13,844)	2,715	-	(65,345)
Net income/(expense)	(1,426,254)	966,946	(13,844)	(17,560)	(2,787)	(493,499)
Other comprehensive income:						
Exchange movements on overseas net assets	7,409	-	-	-	-	7,409
Actuarial gains on defined benefit plans	(473)	-	-	-	-	(473)
Deferred tax on actuarial movements in defined benefit plans	184	-	-	-	-	184
Total comprehensive income/(expense)	(1,419,134)	966,946	(13,844)	(17,560)	(2,787)	(486,379)

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Income statement for the year ended 31st December 2014

	IFRS 2014 £'000	Note 1	Note 2	Note 3	Note 4	US GAAP 2014 £'000
Turnover	1,465,940	-	-	-	-	1,465,940
Costs and expenses:						
Cost of sales	(160,667)	-	-	3,424	-	(157,243)
Selling, general and administrative expenses	(1,081,954)	-	-	-	3,276	(1,078,678)
Research and development expenses	(86,310)	-	-	(33,754)	-	(120,064)
Amortisation of intangible assets	(136,102)	-	-	-	-	(136,102)
Other income/(expense) – net	(591,309)	580,582	-	-	-	(10,727)
Income from continuing operations before provision for taxes on income/(expense)	(590,402)	580,582	-	(30,330)	3,276	(36,874)
Provision for taxes on income	(15,656)	-	(6,043)	5,000	-	(16,699)
Net income/(expense)	(606,058)	580,582	(6,043)	(25,330)	3,276	(53,573)
Other comprehensive income:						
Exchange movements on overseas net assets	8,620	-	-	-	-	8,620
Actuarial gains on defined benefit plans	(1,403)	-	-	-	-	(1,403)
Deferred tax on actuarial movements in defined benefit plans	434	-	-	-	-	434
Total comprehensive income/(expense)	(598,407)	580,582	(6,043)	(25,330)	3,276	(45,922)

Notes:

1. Reversal of re-measurement of the liability for estimated future preferential dividends payable to GSK, as this liability is not recognised under US GAAP.
2. Adjustment to reflect the different tax treatment of deferred profit in stock.
3. Reversal of capitalised and amortised development expenditure, as all development expenditure is treated as an expense under US GAAP.
4. Removal of the net economic benefit received from GSK, as under US GAAP this is treated as an additional capital contribution.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2015

Balance sheet as at 31st December 2015

	IFRS as at 31st December 2015 £'000	Note A	Note B	Note C	Note D	Note E	US GAAP as at 31st December 2015 £'000
Assets							
Cash and cash equivalents	1,157,608	-	-	-	-	-	1,157,608
Accounts receivable	385,028	-	-	(2,000)	-	-	383,028
Inventories	29,634	-	-	-	-	-	29,634
Taxes and other current assets	47,197	140,169	-	-	(28,919)	-	158,447
Total current assets	1,619,467	140,169	-	(2,000)	(28,919)	-	1,728,717
Goodwill	203,801	-	-	-	-	-	203,801
Identifiable intangible assets, less accumulated amortisation	1,792,896	-	-	-	-	(79,107)	1,713,789
Other assets, deferred taxes and deferred charges	468,913	(140,169)	-	-	-	12,234	340,978
Total assets	4,085,077	-	-	(2,000)	(28,919)	(66,873)	3,987,285
Liabilities and Shareholders' Equity							
Short-term borrowings and overdraft	(778)	-	-	-	-	-	(778)
Accounts payable	(277,477)	-	-	-	-	-	(277,477)
Income taxes payable	(54,638)	-	-	-	-	-	(54,638)
Other current liabilities (inc deferred taxes)	(885,632)	-	235,112	-	-	-	(650,520)
Total current liabilities	(1,218,525)	-	235,112	-	-	-	(983,413)
Other provisions	(6,496)	-	-	-	-	-	(6,496)
Long-term borrowings	(983)	-	-	-	-	-	(983)
Deferred taxes	-	-	-	-	-	-	-
Other non-current liabilities	(5,482,205)	-	2,238,286	-	-	-	(3,243,919)
Total liabilities	(6,708,209)	-	2,473,398	-	-	-	(4,234,811)
Common stock	(11)	-	-	-	-	-	(11)
Additional paid in capital	(341,000)	-	-	(96,778)	-	-	(437,778)
Retained earnings (and Reserves)	2,964,143	(16,000)	(2,473,398)	98,778	28,919	66,873	669,315
Accumulated other comprehensive (income)/expense	-	16,000	-	-	-	-	16,000
Total shareholders' equity	2,623,132	-	(2,473,398)	2,000	28,919	66,873	247,526
Total liabilities and shareholders' equity	(4,085,077)	-	-	2,000	28,919	66,873	(3,987,285)

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2015

Balance sheet as at 31st December 2014

	IFRS as at 31st December 2014 £'000	Note A	Note B	Note C	Note D	Note E	US GAAP as at 31st December 2014 £'000
Assets							
Cash and cash equivalents	905,609	-	-	-	-	-	905,609
Accounts receivable	337,109	-	-	(3,356)	-	-	333,753
Inventories	22,685	-	-	-	-	-	22,685
Taxes and other current assets	42,421	69,000	-	-	(15,000)	-	96,421
Total current assets	1,307,824	69,000	-	(3,356)	(15,000)	-	1,358,468
Goodwill	202,570	-	-	-	-	-	202,570
Identifiable intangible assets, less accumulated amortisation	1,903,581	-	-	-	-	(58,631)	1,844,950
Other assets, deferred taxes and deferred charges	138,538	(69,000)	-	-	-	3,000	72,538
Total assets	3,552,513	-	-	(3,356)	(15,000)	(55,631)	3,478,526
Liabilities and Shareholders' Equity							
Short-term borrowings and overdraft	(1,008)	-	-	-	-	-	(1,008)
Accounts payable	(335,003)	-	-	-	-	-	(335,003)
Income taxes payable	(55,164)	-	-	-	-	-	(55,164)
Other current liabilities (inc deferred taxes)	(423,140)	-	77,107	-	-	-	(346,033)
Total current liabilities	(814,315)	-	77,107	-	-	-	(737,208)
Other provisions	(6,435)	-	-	-	-	-	(6,435)
Long-term borrowings	(1,100)	-	-	-	-	-	(1,100)
Deferred taxes	(22,615)	-	-	-	-	7,000	(15,615)
Other non-current liabilities	(3,222,828)	-	1,506,768	-	-	-	(1,716,060)
Total liabilities	(4,067,293)	-	1,583,875	-	-	7,000	(2,476,418)
Common stock	(11)	-	-	-	-	-	(11)
Additional paid in capital	(341,000)	-	-	(92,635)	-	-	(433,635)
Retained earnings (and Reserves)	855,791	(23,000)	(1,583,875)	95,991	15,000	48,631	(591,462)
Accumulated other comprehensive (income)/expense	-	23,000	-	-	-	-	23,000
Total shareholders' equity	514,780	-	(1,583,875)	3,356	15,000	48,631	(1,002,108)
Total liabilities and shareholders' equity	(3,552,513)	-	-	3,356	15,000	55,631	(3,478,526)

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2015

Notes:

- A. Reclassifications: (i) under US GAAP the current portion of the deferred tax asset and liability is reclassified into current assets and current liabilities based on the classification of the underlying balance to which the deferred tax relates and (ii) foreign currency gains/losses on the translation of assets and liabilities held by entities whose functional currencies are not GBP are recorded in retained earnings under IFRS and in accumulated other comprehensive income/expense under US GAAP.
- B. Removal of the liability for estimated future preferential dividends payable to GSK as this does not meet the conditions for recognition under SFAS 5 and is a balance with an entity under common control.
- C. Removal of the net economic benefit receivable from GSK as this is a balance with an entity under common control. Payments received from GSK are treated as additional capital contributions under US GAAP.
- D. Adjustment to reflect the different tax treatment of deferred profit in stock.
- E. Reversal of capitalised and amortised development expenditure, as all development expenditure is treated as an expense under US GAAP.

31. Post balance sheet events

On 22 February 2016, the Group completed two previously announced transactions with Bristol-Myers Squibb (BMS). The Group acquired late-stage R&D assets from BMS for an initial upfront payment of \$317 million followed by development and first commercial sale milestones of up to \$518 million, and tiered royalties on sales. The Group also acquired BMS's preclinical and discovery stage HIV research business for an upfront payment of \$33 million, followed by development and first commercial sales milestones of up to \$587 million, and further consideration contingent on future sales performance.

ViiV Healthcare Limited

Directors' statement of responsibilities in relation to the Company's financial statements

Financial statements of ViiV Healthcare Limited prepared under FRS 101

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

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

In preparing those 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; and
- 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

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 to enable them to ensure that the Company 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

The Directors in office at the date of this Report have each confirmed that:

- so far as he or she is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Going concern basis

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board



D Limet

Director

23rd March 2016

ViiV Healthcare Limited

Independent auditors' report to the members of ViiV Healthcare Limited

Report on the company financial statements

Our opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2015;
- 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 Annual Report, comprise:

- the Company balance sheet - FRS 101 as at 31 December 2015;
- the Company statement of changes in equity for the year then ended; 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 Generally Accepted Accounting Practice).

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 Report and the 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 by the company, 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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' statement of responsibilities set out on page 11, 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.

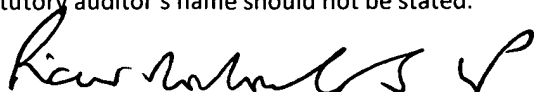
We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report 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.

Other matter

We have reported separately on the group financial statements of ViiV Healthcare Limited for the year ended 31 December 2015.

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
23 March 2016

ViiV Healthcare Limited

Company balance sheet – FRS 101 as at 31 December 2015

	Notes	2015 £000	2014 £000
Fixed assets			
Investments	D	4,398,940	4,398,940
Current assets			
Debtors	E	3,463	130,151
Creditors: amounts falling due within one year	F	(455,285)	(89,755)
Net current (liabilities)/assets		(451,822)	40,396
Total assets less current liabilities		3,947,118	4,439,336
Creditors: amounts falling due after more than one year	F	(3,740,229)	(3,011,292)
Net assets		206,889	1,428,044
Capital and reserves			
Called up share capital	G	11	11
Share premium account		341,000	341,000
Revaluation reserve		1,962,880	1,962,880
Preferential dividend reserve		(2,624,391)	(1,732,382)
Profit and loss account		527,389	856,535
Total shareholders' funds		206,889	1,428,044

The financial statements on pages 66 to 74 were approved by the Board of Directors on 23rd March 2016 and signed on its behalf by:


D Limet

Director

ViiV Healthcare Limited

Registered number: 06876960

ViiV Healthcare Limited

Company statement of changes in equity for the year ended 31st December 2015

	Called up share capital £'000	Share premium account £'000	Revaluation reserve £'000	Preferential dividend reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 2014	11	341,000	1,962,880	(1,202,205)	783,563	1,885,249
Profit for the year	-	-	-	-	490,598	490,598
Transfer of finance expense related to preferential dividends	-	-	-	(590,730)	112,915	(477,815)
Preferential dividend to shareholders	-	-	-	60,553	(60,553)	-
Ordinary dividend to shareholders	-	-	-	-	(469,988)	(469,988)
As at 31 December 2014	11	341,000	1,962,880	(1,732,382)	856,535	1,428,044
Loss for the year	-	-	-	-	(531,937)	(531,937)
Transfer of finance expense related to preferential dividends	-	-	-	(980,990)	980,990	-
Preferential dividend to shareholders	-	-	-	88,981	(88,981)	-
Ordinary dividend to shareholders	-	-	-	-	(689,218)	(689,218)
As at 31 December 2015	11	341,000	1,962,880	(2,624,391)	527,389	206,889

A Presentation of the financial statements

Description of business

ViiV Healthcare Limited is the parent company of the ViiV Group, and operates as a holding company.

Preparation of financial statements

The financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements and Financial Reporting Standard 101 Reduced Disclosure Framework. 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.

As permitted by s.408 of the Companies Act 2006, the profit and loss account of the Company is not presented in this Annual Report.

First time application of FRS 100 and 101

In the current year the Company has adopted FRS 100 and 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 materially 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.

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:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the Company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the group headed by ViiV Healthcare Limited.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of GlaxoSmithKline plc. These financial statements do not include certain disclosures in respect of share based payments and financial instruments.

Accounting principles and policies

The preparation of the balance sheet in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual amounts could differ from those estimates.

B Accounting policies

Foreign currency transactions

Foreign currency transactions are recorded at the exchange rate ruling on the date of transaction. Foreign currency assets and liabilities are translated at rates of exchange ruling at the balance sheet date.

Dividends paid and received

Dividends paid and received are included in the financial statements in the period in which the related dividends are actually paid or received.

Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. 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.

Investments in subsidiary companies

Investments in subsidiary companies are held at cost less any provision for impairment.

Impairment of investments

The carrying values of investments are reviewed for impairment when there is an indication that the investment might be impaired. Any provision resulting from an impairment review is charged to the income statement in the year concerned.

Taxation

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

The Company accounts for taxation which is deferred or accelerated by reason of timing differences which have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax liabilities and assets are not discounted.

Preferential dividends

Preferential dividends will vary in line with sales of Tivicay, Triumeq, and other products provided by, or acquired from, GSK, Pfizer and Shionogi affiliates. The Company recognises liabilities in respect of these preferential dividends which are reported at amortised cost and re-measured at each reporting date to reflect any changes in expectation of the amounts to be paid.

Contingent consideration

The contingent consideration payable to Shionogi is not reflected in the accounts of the Company. This is because the long term liability resides at a Group level only.

C Operating profit

A fee of £5k (2014: £6k) relating to the audit of the Company has been charged in operating profit.

D Fixed asset investments

	2015 £'000	2014 £'000
Cost and carrying value at 1st January	4,398,940	4,398,940
Cost and carrying value at 31st December	4,398,940	4,398,940

The directors believe that the carrying value of the investments is supported by their underlying net assets or their forecast cash flows.

Details of the subsidiary undertakings of the Company as at 31st December 2015 are given in Note H.

E Debtors

	2015 £'000	2014 £'000
Amounts due within one year		
Amounts owed by ViiV Healthcare Group undertakings	-	125,259
Amounts owed by GSK Group undertakings	2,000	3,356
Taxation	1,463	1,536
	3,463	130,151

The taxation debtor is due from fellow ViiV Healthcare Group undertakings.

F Creditors

	2015 £'000	2014 £'000
Amounts falling due within one year		
Amounts owed to ViiV Healthcare Group undertakings	203,230	-
Other creditors	-	767
Preferential dividends due within one year	252,051	88,981
Accruals and deferred income	4	7
	455,285	89,755
Amounts due after more than one year		
Amounts owed to ViiV Healthcare Group undertakings	1,367,889	1,367,889
Preferential dividends due after one year	2,372,340	1,643,403
	3,740,229	3,011,292

G Called up share capital

	2015 Number of shares	2014 Number of shares	2015 £'000	2014 £'000
Issued and fully paid				
Class A Shares of £1 each	6,950	6,950	7	7
Class B Shares of £1 each	2,798	2,798	3	3
Class C Shares of £1 each	252	252	-	-
Class D1 & D2 Shares of £1 each	1,112	1,112	1	1
	11,112	11,112	11	11

Holders of Class A, B and C Shares are entitled to both preferential dividends and ordinary dividends. Class D shares are split into Class D1 and Class D2. Class D1 are entitled to Shionogi preferred ordinary dividends and Class D2 are entitled to ordinary dividends. Preferential dividends are based on the performance of certain assets and are payable in full prior to any ordinary dividend. Any amounts that cannot be paid due to insufficient distributable reserves will be carried forward to future years and will be paid in preference to any subsequently declared dividend.

The Directors propose an interim ordinary dividend of £453 million in respect of the year ended 31st December 2015 being £51,033 per Class A Share, £17,435 per Class B Share, £16,728 per Class C Share, £81,617 per Class D2 Share and a preferential dividend of £252 million being £33,829 per Class A Share, £2,729 per Class B Share, £2,742 per Class C Share and £15,461 per Class D1 Share.

The Directors proposed and paid one interim ordinary dividend and one preferential dividend during the year ended 31st December 2015. The interim ordinary dividend of £689 million in respect of the year ended 31st December 2014 being £77,425 per Class A Share, £27,036 per Class B Share, £25,963 per Class C Share, £124,184 per Class D2 Share and a preferential dividend of £89 million being £11,080 per Class A Share, £3,418 per Class B Share, £3,435 per Class C Share and £2,774 per Class D1 Share related to 2014 and were paid on the 1st April 2015.

H Subsidiaries

The subsidiaries of the Company as at 31st December 2015 are listed on pages 54 to 55.

I Adoption of Financial Reporting Standard (FRS) 101 'Reduced Disclosure Framework'

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 equity at 1 January 2014

Note	Called up share capital £'000	Share premium account £'000	Revaluation reserve £'000	Preferential dividend reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
As at 1 January 2014 as previously reported under UK GAAP	11	341,000	8,355	(445,466)	783,563	687,463
Transitional adjustment - investment in subsidiaries	a	-	-	1,954,525	-	1,954,525
Transitional adjustment - preference dividends	b	-	-	(756,739)	-	(756,739)
As at 1 January 2014 in accordance with FRS 101	11	341,000	1,962,880	(1,202,205)	783,563	1,885,249

Notes to the reconciliation of equity at 1 January 2014:

- a) The Company elected to value its investment in subsidiaries at deemed cost. For one investment, fair value was used as deemed cost resulting in an adjustment to the carrying value of investments of £1,955 million. For all other investments in subsidiaries, deemed cost is equal to the carrying value of those investments under previous GAAP. An analysis of deemed cost of investments is shown below:

	£'000
Deemed cost of investments based on fair value	2,200,000
Deemed cost of investments based on previous GAAP	2,198,940
Total carrying value of investments under FRS 101	4,398,940

- b) The extent of preference dividends payable is contingent on uncertain future events. In accordance with previous GAAP, only dividends based on past events were recorded at amortised cost using the effective interest rate method. Under FRS 101, the dividend liability is also recorded at amortised cost using the effective interest rate method, however a provision for dividends based on the uncertain future events is included. This has resulted in an increase in the preference dividend liability of £757 million at the date of transition to FRS 101.

ViiV Healthcare Limited

Notes to the Company balance sheet – FRS 101 as at 31 December 2015

Reconciliation of equity at 31 December 2014:

The transition to FRS 101 has resulted in a material impact to the comparative accounting period. This impact is quantified below:

	Note	Previously reported GAAP £'000	Effect of transition to FRS 101 £'000	FRS 101 31 Dec 2014 £'000
Fixed assets				
Investments	a	2,444,415	1,954,525	4,398,940
Current assets				
Trade and other receivables		130,151	-	130,151
Creditors: amounts falling due within one year		(89,755)	-	(89,755)
Net current assets		40,396	-	40,396
Total assets less current liabilities		2,484,811	1,954,525	4,439,336
Creditors: amounts falling due after one year	b	(1,776,738)	(1,234,554)	(3,011,292)
Net assets		708,073	719,971	1,428,044
Equity				
Called up share capital		11	-	11
Share premium account		341,000	-	341,000
Revaluation reserve		8,355	1,954,525	1,962,880
Preferential dividend reserve		(497,828)	(1,234,554)	(1,732,382)
Profit and loss account		856,535	-	856,535
Total shareholders' funds		708,073	719,971	1,428,044

Notes to the reconciliation of equity at 31 December 2014:

- a) The Company elected to value its investment in subsidiaries at deemed cost. For one investment, fair value was used as deemed cost resulting in an adjustment to the carrying value of investments of £1,955 million. For all other investments in subsidiaries, deemed cost is equal to the carrying value of those investments under previous GAAP. An analysis of deemed cost of investments is shown below:

	£'000
Deemed cost of investments based on fair value	2,200,000
Deemed cost of investments based on previous GAAP	2,198,940
Total carrying value of investments under FRS 101	<u>4,398,940</u>

- b) The extent of preference dividends payable is contingent on uncertain future events. In accordance with previous GAAP, only dividends based on past events were recorded at amortised cost using the effective interest rate method. Under FRS 101, the dividend liability is also recorded at amortised cost using the effective interest rate method, however a provision for dividends based on the uncertain future events is included. This has resulted in an increase in the preference dividend liability of £757 million at the date of transition to FRS 101. A further increase in the liability of £478 million occurred during the comparative period arose as a result of the calculation basis under FRS 101. The total cumulative increase at 31st December 2014 was £1,235 million.

J Post balance sheet event

In the period following 31st December 2015, the Company completed a series of steps, in order to create distributable reserves such that the Company is able to pay dividends on a timely basis in future years. This included establishing an internal financing structure to align intra-group financing with profit generation.

- a) Received a dividend from ViiV Healthcare Company of £301 million (29th January 2016)
- b) Received a dividend from ViiV Healthcare Company of £787 million (26th February 2016)
- c) Invested in ViiV Healthcare Finance 2 Ltd an amount of £787 million (26th February 2016)
- d) Invested in ViiV Healthcare UK Ltd an amount of £1,500 million (29th February 2016)
- e) Received a dividend from ViiV Healthcare UK Ltd of £1,500 million (29th February 2016)
- f) Issued 1 share of £1 with no economic entitlement to GlaxoSmithKline Mercury Ltd, at a premium of £4,250 million (8th March 2016)
- g) Completed a capital reduction to reduce capital and increase distributable reserves by £4,591 million (8th March 2016)

Reconciliation of equity at 23 March 2016

	Called up share capital £'000	Share premium account £'000	Revaluation reserve £'000	Preferential dividend reserve £'000	Unrealised reserve £'000	Profit and loss account £'000	Total share- holders' funds £'000
As at 31 December 2015	11	341,000	1,962,880	(2,624,391)	-	527,389	206,889
(a) Dividend from VHC	-	-	-	-	-	301,097	301,097
(b) Dividend from VHC	-	-	-	-	787,021	-	787,021
(e) Dividend from VHUK	-	-	-	-	1,500,000	-	1,500,000
(f) Issue 1 share	-	4,249,901	(1,962,880)	-	(2,287,021)	-	-
(g) Capital reduction	-	(4,590,901)	-	-	-	4,590,901	-
As at 23 March 2016	11	-	-	(2,624,391)	-	5,419,387	2,795,007