



ViiV Healthcare Limited

Annual Report 2014

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Registered number: 06876960

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ViiV Healthcare Limited  
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## ViiV Healthcare Limited

### Strategic report for the year ended 31st December 2014

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 2014.

#### **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. ViiV Healthcare delivered very strong performance in 2014 and, having proven its ability to deliver as a standalone company, GSK has announced its intention to explore the potential to list a minority share of the ViiV Healthcare business.

Around 35 million people worldwide are still living with HIV, according to latest available figures from UNAIDS, and 1.5 million died from AIDS-related causes in 2013. However, global efforts have helped to reduce the rate of new HIV infections by 38% since 2001 and AIDS-related deaths by 37% since 2005. Today, the disease is most prevalent in Sub-Saharan Africa with some 5% of the adult population infected. With nearly 90% of all people infected with HIV living in low-income countries and sub-Saharan Africa, increasing access to treatment is a priority.

##### *Financial highlights*

ViiV Healthcare turnover increased by 14% at constant exchange rates (CER), or 7% at actual rates, to £1,466million. Growth generated by Tivicay (dolutegravir) and Epzicom/Kivexa (abacavir and lamivudine), together with the newly launched Triumeq (dolutegravir, abacavir and lamivudine), more than offset the impact of generic competition to older ViiV Healthcare products, including Combivir and Trizivir. ViiV Healthcare’s growth is outpacing the HIV global market growth of 12% (CER). Core operating profit before tax grew by 13% at CER (or 4% at actual rates) to £910 million. Core profit after tax also increased by 13% at CER (or 4% at actual rates) to £661 million. ViiV Healthcare’s core operating profit includes R&D costs, and excludes non-core items such as the contingent consideration payable to Shionogi in relation to sales of Tivicay and Triumeq. Core performance is defined on page 20 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 £1,680 million (2013: £1,769 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 £1,501 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 £768 million for future contingent consideration payments to Shionogi, and £592 million for future preferential dividend payments to GSK, Pfizer and Shionogi. These charges contributed to a total reported loss after tax of £606 million (2013: profit of £190 million), and a reported net liabilities position of £515 million (2013: net assets of £554 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 £766 million (2013: £617 million) This exceeded core profit after tax, mainly because of the timing of payments to GSK companies, and the timing of taxation

ViiV Healthcare Limited  
Strategic report for the year ended 31st December 2014

payments. The Group returned £531 million (2013: £652 million) to shareholders through ordinary and preferential dividend payments. In addition £7 million (2013: £nil) was paid to Shionogi through contingent consideration payments. Cash and cash equivalents increased from £675 million to £906 million.

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

*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 2014, as shown below:

	ViiV Group £m	GSK Alliance Countries £m	GSK Mark-ups £m	Other £m	GSK Group £m
Turnover	1,466	32	-	-	1,498
Cost of sales	(163)	-	20	(10)	(153)
<b>Gross profit</b>	<b>1,303</b>	<b>32</b>	<b>20</b>	<b>(10)</b>	<b>1,345</b>
Selling, general and administration	(307)	(10)	10	18	(289)
Research and development	(86)	-	7	-	(79)
<b>Core operating profit</b>	<b>910</b>	<b>22</b>	<b>37</b>	<b>8</b>	<b>977</b>

- 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 in to and out of those GSK companies
- 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.

*Operational highlights*

Tivicay recorded sales of £283 million in 2014. Uptake of Tivicay has led the industry in the USA and other markets including Germany and Japan. Sales of Triumeq, the new single-pill treatment that was launched in the USA in August and in some European countries in September, recorded an encouraging sales performance of £57 million in 2014. Epzicom/Kivexa grew by 7% at CER to £749 million and Celsentri/Selzentry was down 2% at £135 million.

*Group Turnover by Geography*

	2014 £m	2013 £m	Growth CER %	Growth £ %
North America	732	611	26%	20%
Europe	532	527	6%	1%
International	202	233	0%	-13%
	<b>1,466</b>	<b>1,371</b>	<b>14%</b>	<b>7%</b>

Regionally, sales in North America grew 26% to £732 million, driven by strong performances of Tivicay and Triumeq, as well as continued growth from Epzicom. Tivicay and Triumeq are performing strongly in the dynamic segments (patients initiating and switching therapy), achieving a joint 18% share of treatment in naive patients, and 31% in switch patients. In Europe, for the first time since ViiV Healthcare's creation, sales grew by 6% to £532 million, faster than the market as a result of the excellent performance of Tivicay (approved in

## ViiV Healthcare Limited

### Strategic report for the year ended 31st December 2014

January 2014 and achieving reimbursements in most European markets), the successful initial uptake of Triumeq in countries where it has been launched, and the continued growth of Kivexa. In the International region, sales were flat at £202 million. Japan and Australia, which launched Tivicay in the second half of the year, have seen particularly impressive sales performances.

ViiV Healthcare has generic competition in the USA to four of its products, Combivir, Epivir, Ziagen, and Trizivir which saw generic competition for the first time in December 2013.

#### Research and Development

There were important regulatory approvals for our dolutegravir-based portfolio during the year. Tivicay (dolutegravir) was approved in the EU in 2014 following its USA approval in 2013. Triumeq, combining dolutegravir with two nucleoside reverse transcriptase inhibitors (NRTIs), was also approved in the USA and EU in 2014. The innovative antiretroviral treatment Tivicay is an integrase inhibitor used with other antiretroviral medicinal products for treatment of adults and adolescents living with HIV. Tivicay's clinical development programme included people living with HIV who were new to treatment (naïve), as well as those who had already been treated with other HIV medicines (experienced) and those who were infected with a virus that had developed resistance to previously available integrase inhibitors. The World Health Organisation (WHO) has cited dolutegravir as one of the long-term developmental priorities for child antiretroviral treatments. Triumeq is the only drug to combine dolutegravir and NRTIs, abacavir and lamivudine, in a single-pill regimen. HIV treatment regimens often combine three different antiretrovirals and Triumeq significantly improves convenience for patients.

ViiV Healthcare entered a collaboration with Janssen in 2014 to develop a two-drug single tablet combining dolutegravir with Janssen's rilpivirine, a NRTI. The research will compare the efficacy of this two-drug regimen compared to a three-drug regimen, in maintaining viral suppression for patients already virally suppressed on a three drug regimen. In 2014, we also began two Phase II studies on the experimental long-acting injectable integrase inhibitor, cabotegravir, previously known as GSK1265744. One of these studies is investigating the potential of cabotegravir for prevention in HIV negative men, the other, in combination with long active rilpivirine, for the treatment of people living with HIV. Cabotegravir offers the possibility of treatment via injection and might allow people to switch from daily oral use to a monthly (or potentially less frequent) form of treatment.

#### 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 2014

## 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
- Expand meaningful partnerships – with business partners, academia and the HIV community
- Drive innovation in HIV R&D
- Leave no HIV patient behind
- Embrace a challenger mindset

## 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	2014	2013
Turnover growth (CER)	+14%	+0%
Core operating profit before tax growth (CER)	+13%	+3%
ViiV growth versus HIV market (value growth, CER)	+2% (ViiV +14% versus market +12%)	-8% (ViiV +0% versus market +8%)

## 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.

## Principal 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 Principal 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 Principal 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. This could compromise the Group's ability to conduct robust safety signal detection and interpretation and to ensure that appropriate decisions are taken with respect to the risk/benefit profile of the Group's products, including the completeness and accuracy of product labels and the pursuit of additional studies/analyses, as appropriate.

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Strategic report for the year ended 31st December 2014

*Commercial Practices and Scientific Engagement*

- Failure to engage in commercial and/or scientific activities that are; (i) consistent with the letter and spirit of legal, industry, or company requirements relating to marketing and communications about our medicines and associated therapeutic areas; (ii) appropriate interactions with healthcare professionals and patients; and (iii) legitimate and transparent transfer of value.

*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: (i) foster a culture within the company in which bribery and corruption are unacceptable; (ii) adopt measures and embed procedures to prevent bribery and corruption by employees, complementary workers and through third party interactions; (iii) investigate allegations of bribery and corruption and remediate issues identified; and (iv) comply with applicable anti-bribery and corruption legislation.

*GSK Change Management*

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

*Research Practices*

- Failure to: (i) protect and inform patients involved in human clinical trial research; (ii) conduct objective, ethical preclinical and clinical trials using sound scientific principles; (iii) guarantee the integrity of discovery, preclinical, and clinical development data; (iv) manage human biological samples according to established ethical standards and regulatory expectations; (v) appropriately disclose human subject research for medicinal products; and (vi) ensure the integrity of our regulatory filings and of the data that we publish.

The principal 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.

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Strategic report for the year ended 31st December 2014

**Access and Care**

Increasing access to HIV treatments is a major focus for ViiV Healthcare. During 2014 the company supported people living with HIV in 139 countries through a variety of approaches, to address the needs of people living with HIV in different parts of the world. The company offers royalty-free voluntary licenses and access pricing in all low-income and least-developed countries and in all sub-Saharan Africa countries, where 70.5% of all people with HIV currently live. For middle income countries, ViiV Healthcare takes a case-by-case approach based on burden of the disease and GDP per capita. All its medicines, including those in the pipeline and new treatments such as Tivicay and Triumeq, are covered by this access policy.

In April, just months after approval of Tivicay in the EU and USA, ViiV Healthcare announced new collaborations with the Medicines Patent Pool (MPP) to increase access to dolutegravir in the countries where 99% of the children and 93.4% of adults with HIV in the developing world live. For adults, the MPP collaboration includes two approaches. First, ViiV Healthcare will apply the established royalty-free voluntary licensing to dolutegravir. Second, for specific middle-income countries including India, the company has established the first-ever MPP licence with a tiered royalty structure, where a country pays only a small percentage of the sale price based on GDP. For children, ViiV Healthcare has granted MPP a voluntary licence in 121 countries for generic manufacturers to develop paediatric formulations of dolutegravir without paying a royalty.

In 2014, the company continued to support more than 300 community projects worldwide through Positive Action, Positive Action for Children Fund, Positive Action Southern Initiative and the Paediatric Innovation Seed Fund. Charitable donations of £12.0 million (2013: £9.8 million) were made via the Positive Action for Children Fund and other grants.

On behalf of the Board  
**D Limet**

**Director**

26th March 2015



**ViiV Healthcare Limited**  
**Directors' report for the year ended 31st December 2014**

**Principal activities**

ViiV Healthcare is a specialist HIV group of companies focused solely on the research, development and commercialisation of HIV medicines. On 21st January 2014, ViiV Healthcare received approval from the European Medicines Agency for Tivicay in the EU. This resulted in a further equity shift of 0.9% from Pfizer to GSK as per the shareholders agreement. The economic interest in the group is now 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 23.

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 £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.

The Directors proposed and paid two interim ordinary dividends and one preferential dividend during the year ended 31st December 2014. The first interim ordinary dividend of £370 million being £40,845 per Class A Share, £16,149 per Class B Share, £15,592 per Class C Share and £66,664 per class D2 share, and the preferential dividend of £61 million, related to 2013 and were paid on the 10th April 2014. The second interim ordinary dividend of £100 million being £11,234 per Class A Share, £3,923 per Class B Share, £3,767 per Class C Share and £18,018 per Class D2 Share related to 2014 and was paid on the 4th November 2014.

**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 2014

**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  
J Shannon  
I Tomlinson

**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 (2013: nil).

**Financial risk management**

Information regarding the Group's risk exposure to and management of financial instruments is disclosed in Note 26 to the financial statements.

ViiV Healthcare Limited  
Directors' report for the year ended 31st December 2014

**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.

**Independent auditors**

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

On behalf of the Board

D Limet

Director

26th March 2015

## **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 2014 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**

ViiV Healthcare Limited's financial statements comprise:

- the Consolidated balance sheet as at 31 December 2014;
- 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;
- the Consolidated cash flow statement 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 applicable law and IFRSs as adopted by the European Union.

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.

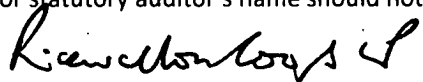
We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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 matters**

We have reported separately on the company financial statements of ViiV Healthcare Limited for the year ended 31 December 2014.

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



PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
26 March 2015

ViiV Healthcare Limited  
Consolidated income statement  
For the year ended 31st December 2014

	Notes	2014 £'000	2013 £'000
Turnover	5	1,465,940	1,371,000
Cost of sales		(296,769)	(238,759)
<b>Gross profit</b>		<b>1,169,171</b>	<b>1,132,241</b>
Selling, general and administration		(1,081,954)	(476,431)
Research and development		(86,310)	(101,479)
<b>Operating profit</b>	6	<b>907</b>	<b>554,331</b>
Share of after tax profits of joint ventures	10	-	528
Loss on dissolution of joint venture	10	-	(2,854)
Finance income	8	2,692	2,225
Finance expense	9	(594,001)	(218,395)
<b>Profit/(Loss) before taxation</b>		<b>(590,402)</b>	<b>335,835</b>
Taxation	11	(15,656)	(145,486)
<b>Profit/(Loss) after taxation for the year</b>		<b>(606,058)</b>	<b>190,349</b>

Consolidated statement of comprehensive income  
For the year ended 31st December 2014

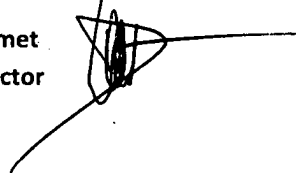
	2014 £'000	2013 £'000
<b>Profit/(Loss) for the year</b>	<b>(606,058)</b>	<b>190,349</b>
Items that may be subsequently reclassified to income statement:		
Exchange movements on overseas net assets	8,620	(9,286)
Tax on exchange movements	-	(1,277)
Items that will not be reclassified to income statement:		
Actuarial (loss) / gain on defined benefit plans	(1,403)	1,751
Deferred tax on actuarial movements in defined benefit plans	434	(232)
<b>Other comprehensive income/(expense) for the year</b>	<b>7,651</b>	<b>(9,044)</b>
<b>Total comprehensive (expense)/income for the year</b>	<b>(598,407)</b>	<b>181,305</b>

ViiV Healthcare Limited  
Consolidated balance sheet  
As at 31st December 2014

	Notes	2014 £'000	2013 £'000
<b>Non-current assets</b>			
Property, plant and equipment		1,745	1,433
Goodwill	13	202,570	203,733
Other intangible assets	14	1,903,581	2,006,387
Deferred tax assets	11	136,793	60,919
Other non-current assets		-	81
<b>Total non-current assets</b>		<b>2,244,689</b>	<b>2,272,553</b>
<b>Current assets</b>			
Inventories	15	22,685	21,077
Current tax recoverable		40,864	37,865
Trade and other receivables	16	337,109	260,859
Derivative financial assets	26	1,557	2,415
Cash and cash equivalents	17	905,609	675,359
<b>Total current assets</b>		<b>1,307,824</b>	<b>997,575</b>
<b>Total assets</b>		<b>3,552,513</b>	<b>3,270,128</b>
<b>Current liabilities</b>			
Short-term borrowings and overdrafts		(1,008)	(514)
Trade and other payables	18	(752,636)	(453,211)
Derivative financial liabilities	26	(2,501)	(169)
Current tax payable		(55,164)	(4,407)
Short-term provisions	19	(3,006)	(4,701)
<b>Total current liabilities</b>		<b>(814,315)</b>	<b>(463,002)</b>
<b>Non-current liabilities</b>			
Long-term borrowings		(1,100)	(752)
Deferred tax liabilities	11	(22,615)	(185,653)
Other provisions	19	(6,435)	(6,666)
Other non-current liabilities	20	(3,222,828)	(2,060,439)
<b>Total non-current liabilities</b>		<b>(3,252,978)</b>	<b>(2,253,510)</b>
<b>Total liabilities</b>		<b>(4,067,293)</b>	<b>(2,716,512)</b>
<b>Net Assets/Liabilities</b>		<b>(514,780)</b>	<b>553,616</b>
<b>Equity</b>			
Share capital	21	11	11
Share premium		341,000	341,000
Retained earnings		947,115	1,485,016
Merger reserve		(77,914)	(78,558)
Other reserves		(1,724,992)	(1,193,853)
<b>Total equity</b>		<b>(514,780)</b>	<b>553,616</b>

The financial statements on pages 14 to 64 were approved by the Board of Directors on 26th March 2015 and signed on its behalf by:

D Limet  
Director



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)
<b>Gross Profit</b>		<b>1,303,439</b>	<b>(132,678)</b>	<b>(1,590)</b>	-	-	-	<b>1,169,171</b>
Selling, general and administration		(306,655)	-	-	-	(767,878)	(7,421)	(1,081,954)
Research and development		(86,310)	-	-	-	-	-	(86,310)
<b>Operating profit</b>		<b>910,474</b>	<b>(132,678)</b>	<b>(1,590)</b>	-	<b>(767,878)</b>	<b>(7,421)</b>	<b>907</b>
Finance income	8	2,692	-	-	-	-	-	2,692
Finance expense	9	(2,309)	-	-	(591,692)	-	-	(594,001)
<b>Profit/(Loss) before taxation</b>		<b>910,857</b>	<b>(132,678)</b>	<b>(1,590)</b>	<b>(591,692)</b>	<b>(767,878)</b>	<b>(7,421)</b>	<b>(590,402)</b>
Taxation		(249,768)	92,368	601	-	140,775	368	(15,656)
<b>Profit/(Loss) after taxation for the year</b>		<b>661,089</b>	<b>(40,310)</b>	<b>(989)</b>	<b>(591,692)</b>	<b>(627,103)</b>	<b>(7,053)</b>	<b>(606,058)</b>



ViiV Healthcare Limited  
Core results reconciliation  
For the year ended 31st December 2013

Notes	Core Results	Intangible amortisation	Intangible write-off	Preferential dividend re-measurement	Contingent consideration re-measurement	Loss on dissolution of joint venture	Total 2013 results
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	1,371,000	-	-	-	-	-	1,371,000
Cost of sales	(170,511)	(55,889)	(12,359)	-	-	-	(238,759)
<b>Gross Profit</b>	<b>1,200,489</b>	<b>(55,889)</b>	<b>(12,359)</b>	-	-	-	<b>1,132,241</b>
Selling, general and administration	(223,201)	-	-	-	(253,230)	-	(476,431)
Research and development	(101,479)	-	-	-	-	-	(101,479)
<b>Operating profit</b>	<b>875,809</b>	<b>(55,889)</b>	<b>(12,359)</b>	-	<b>(253,230)</b>	-	<b>554,331</b>
Share of after tax profits of joint venture	10 528	-	-	-	-	-	528
Loss on dissolution of joint venture	-	-	-	-	-	(2,854)	(2,854)
Finance income	8 2,225	-	-	-	-	-	2,225
Finance expense	9 (3,244)	-	-	(215,151)	-	-	(218,395)
<b>Profit before taxation</b>	<b>875,318</b>	<b>(55,889)</b>	<b>(12,359)</b>	<b>(215,151)</b>	<b>(253,230)</b>	<b>(2,854)</b>	<b>335,835</b>
Taxation	(239,430)	(18,650)	2,413	-	110,181	-	(145,486)
<b>Profit after taxation for the year</b>	<b>635,888</b>	<b>(74,539)</b>	<b>(9,946)</b>	<b>(215,151)</b>	<b>(143,049)</b>	<b>(2,854)</b>	<b>190,349</b>

ViiV Healthcare Limited  
Consolidated statement of changes in equity  
For the year ended 31st December 2014

	Share capital £'000	Retained earnings £'000	Share premium £'000	Merger reserve £'000	Other reserves £'000	Total equity £'000
At 1st January 2013	11	1,741,140	341,000	(78,702)	(996,584)	1,006,865
Profit for the year	-	190,349	-	-	-	190,349
Other comprehensive (loss)/ income for the year	-	(9,188)	-	144	-	(9,044)
Total comprehensive income/(loss) for the year	-	181,161	-	144	-	181,305
Transfer of finance expense related to preferential dividend	-	215,151	-	-	(215,151)	-
Preferential dividend to Shareholders	-	(17,882)	-	-	17,882	-
Ordinary dividends to shareholders	-	(634,554)	-	-	-	(634,554)
At 31st December 2013	11	1,485,016	341,000	(78,558)	(1,193,853)	553,616
Loss for the year	-	(606,058)	-	-	-	(606,058)
Other comprehensive 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	(77,194)	(1,724,992)	(514,780)

Other reserves largely comprise the cumulative impact of the opening preferential dividend liability and subsequent re-measurement (Note 18 and 20), 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 2014

	Notes	2014 £'000	2013 £'000
<b>Cash flow from operating activities</b>			
Profit/(Loss) after taxation for the year		(606,058)	190,349
Adjustments reconciling profit after tax to operating cash flows	24	1,564,562	693,579
Cash generated from operations		958,504	883,928
Taxation paid		(192,693)	(266,450)
Net cash inflow from operating activities		765,811	617,478
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(1,168)	(1,614)
Proceeds from sale of property, plant and equipment		555	310
Capital expenditure on intangible assets		(33,754)	(29,199)
Payment of contingent consideration liability		(7,472)	-
Interest received		2,359	1,698
Cash returned to shareholders on dissolution of joint venture		-	1,909
Proceeds from disposal of subsidiary, net of cash		6,795	-
Investment in joint ventures		-	(1,037)
Dividends received from joint ventures	10	-	1,255
Net cash outflow from investing activities		(32,685)	(26,678)
<b>Cash flow from financing activities</b>			
Net repayment of obligation under finance leases		(489)	(451)
Interest paid		(2,249)	(2,752)
Ordinary dividends paid to shareholders		(469,989)	(634,554)
Preferential dividends paid to shareholders		(60,553)	(17,882)
Other financing items		387	(6,873)
Net cash outflow from financing activities		(532,893)	(662,512)
Increase/(Decrease) in cash and bank overdrafts		200,233	(71,712)
Exchange adjustments		29,634	(250)
Cash and bank overdrafts at beginning of year		675,292	747,254
Cash and bank overdrafts at end of year		905,159	675,292
Cash and bank overdrafts at end of year comprise:			
Cash and cash equivalents	17	905,609	675,359
Overdrafts		(450)	(67)
		905,159	675,292

ViiV Healthcare Limited  
Notes to the financial statements  
For the year ended 31st December 2014

## 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. On 21st January 2014, ViiV Healthcare received approval from the European Medicines Agency for Tivicay in the EU. This resulted in a further equity shift of 0.9% from Pfizer to GSK as per the shareholders agreement. The economic interest in the group is now 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, losses on joint venture dissolution 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 the year, has been recorded as a non-core item. The normal ongoing charge remains in core results.

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

ViiV Healthcare Limited  
Notes to the financial statements  
For the year ended 31st December 2014

**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.

*Financial period*

These financial statements cover the financial year from 1st January to 31st December 2014, with comparative figures for the financial year from 1st January to 31st December 2013.

*Composition of the Group*

A list of the subsidiary and associated undertakings which, in the opinion of the Directors, principally affected the amount of profit or the net assets of the Group is given in Note 29, 'Principal 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 2014, ViiV Healthcare Limited has implemented the following new or amended accounting standards.

**IAS 32 "Offsetting financial assets and financial liabilities"**

The amendment provides additional guidance on when financial assets and financial liabilities may be offset 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 68 and the accounting policies are given on page 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; and
- the Group's share of the results and net assets of joint ventures.

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. Where the Group has the ability to exercise joint control over, and rights to the net assets of, entities, the entities are accounted for as joint ventures. Where the Group has the ability to exercise joint control over an arrangement, but has rights to specified assets and obligations for specified liabilities of the arrangement, the arrangement is accounted for as a joint operation. Where the Group has the ability to exercise significant influence over entities, they are accounted for as associates. The results and assets and liabilities of associates and joint ventures are incorporated into the consolidated financial statements using the equity method of accounting. The Group's rights to assets, liabilities, revenue and expenses of joint operations are included in the consolidated financial statements in accordance with those rights and obligations.

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. The relevant proportion of profits on transactions with joint ventures is also deferred until the products are sold to third parties. 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 and joint ventures, 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 and as part of the cost of investment in the case of joint ventures. 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.

## 2. Accounting principles and policies continued

On consolidation, assets and liabilities, including related goodwill, of overseas subsidiaries and joint ventures, are translated into Sterling at rates of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiaries and joint ventures 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 and joint ventures are translated into Sterling are taken to a separate component of equity.

### *Turnover*

Turnover 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. Turnover 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 turnover.

### *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.

## 2. Accounting principles and policies continued

### *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 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 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 when there is an indication that the assets might be impaired. 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.

### *Investments in joint ventures*

Investments in joint ventures are accounted for using the equity method. The investments are carried in the consolidated balance sheet at the Group's share of their net assets at date of acquisition and of their post-acquisition retained profits or losses together with any goodwill arising on the acquisition.

### *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.

## 2. Accounting principles and policies continued

Deferred tax is provided in full, using the liability method, 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 and joint ventures, 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.

### *Derivative financial instruments and hedging*

Derivative financial instruments are used to manage exposure to market risks from treasury operations. The principle derivative instrument used by the Group is 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 and IFRIC interpretations have been issued by the IASB and are likely to affect future Annual Reports, although in their current forms, none is expected to have a material impact on the results or financial position of the Group.

<b>New IFRSs</b>		<b>Effective for periods beginning on or after</b>
IFRS 15	Revenue from contract with customers	1st January 2017
IFRS 9	Financial Instruments	1st January 2018
<b>Amendments and revisions to IFRSs</b>		
IAS 19	Defined benefit plans: Employee contributions	1 <sup>st</sup> January 2015
IFRS 10	Consolidated Financial Statements	1 <sup>st</sup> January 2016
IAS 28	Investments in associates and joint ventures	1 <sup>st</sup> January 2016
IFRS 11	Joint Arrangements	1 <sup>st</sup> 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.

#### *Turnover*

Turnover is recognised when the 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, 18 and 20).

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 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 (see Note 18 and 20). 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

ViiV Healthcare Limited  
Notes to the financial statements  
For the year ended 31st December 2014

therefore may not fully reflect the final amounts paid. In line with the predominant market practice, a pre-tax interest rate has been used to discount the liability.

Amounts involved in this re-measurement are estimates of future performance, based on available market information and historical performance, and therefore may not fully reflect the final consideration amount paid.

*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. These future cash flows 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 £1,680 million (2013: £1,769 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 £1,501 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 £768 million for future contingent consideration payments to Shionogi, and £592 million for future preferential dividend payments to GSK, Pfizer and Shionogi. These charges contributed to a total reported loss after tax of £606 million (2013: profit of £190 million), and a reported net liabilities position of £515 million (2013: net assets of £553 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.

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#### 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 and joint ventures 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:

	2014	2013
<b>Average rates:</b>		
£/US\$	1.65	1.57
£/Euro	1.24	1.18
£/Yen	175	153
<b>Year end rates:</b>		
£/US\$	1.56	1.66
£/Euro	1.29	1.20
£/Yen	187	174

#### 5. Turnover

Turnover by geography	2014 £'000	Represented 2013 £'000
North America	731,459	611,039
Europe	532,432	526,916
International	202,049	233,045
	<b>1,465,940</b>	<b>1,371,000</b>

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**6. Operating profit**

	Notes	2014 £'000	2013 £'000
<b>The following items have been included in operating profit:</b>			
Employee costs	7	83,625	82,558
Depreciation of property, plant and equipment		560	845
Amortisation of intangible assets	14	136,159	57,474
Write-off of intangible assets	14	1,590	12,359
Contingent consideration re-measurement	20	767,878	253,230
Net foreign exchange losses/(gains)		3,916	(13,600)
Inventories:			
Cost of inventories included in cost of sales		125,842	138,712
Operating lease rentals:			
Minimum lease payments		542	336
Contingent rents		276	107
<b>Research and development</b>			
Research and development before capitalisation		120,064	130,678
Capitalised development costs		(33,754)	(29,199)
Research and development net of capitalisation		86,310	101,479
<b>Fees payable to the Company's auditor and its associates</b>			
Audit of parent company and consolidated financial statements		394	456
Audit of company's subsidiaries		337	316
Audit and audit-related services		731	772
Taxation advice		269	688
		1,000	1,460

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## 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 2014.

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.

	2014 £'000	2013 £'000
Wages and salaries	69,266	70,418
Social security costs	7,653	7,293
Other Pension Costs	638	799
Cost of share-based incentive plans	4,984	3,877
Severance costs from integration and restructuring activities	1,084	171
	<b>83,625</b>	<b>82,558</b>

	2014	2013
The average number of persons employed by the Group (including Directors) during the year:	<b>583</b>	<b>557</b>

The monthly average number of employees by region	2014	2013
Europe	<b>218</b>	<b>195</b>
North America	<b>201</b>	<b>193</b>
International	<b>75</b>	<b>91</b>
ViiV Corporate	<b>53</b>	<b>48</b>
R&D	<b>36</b>	<b>30</b>
	<b>583</b>	<b>557</b>

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 2014 was nil (2013: nil).

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## 7. Employee costs continued

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

	2014 £'000	2013 £'000
Wages and salaries	3,721	3,720
Social security costs	319	195
Pension and other post-employment costs	647	653
Cost of share-based incentive plans	1,569	1,439
	<b>6,256</b>	<b>6,007</b>

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

	2014 £'000	2013 £'000
Aggregate emoluments and benefits	975	871
Pension	230	211
	<b>1,205</b>	<b>1,082</b>

Retirement benefits accrued under defined benefit schemes sponsored by sister companies within the GSK for one (2013: one) Director.

One (2013: one) Director received share awards under long term incentive plans in respect of qualifying services to the Group. 26,800 share options were exercised during the year (2013: 54,000)

## 8. Finance income

	2014 £'000	2013 £'000
Interest income arising from:		
Cash and cash equivalents	2,636	2,236
Fair value movements on derivatives at fair value through profit or loss	56	(11)
	<b>2,692</b>	<b>2,225</b>

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

## 9. Finance expense

	2014 £'000	2013 £'000
Interest expense arising on:		
Financial liabilities at amortised cost	2,285	2,861
Fair value movements on derivatives at fair value through profit and loss	24	383
Re-measurement of preferential dividends liability	591,692	215,151
	<b>594,001</b>	<b>218,395</b>

The re-measurement of preferential dividends liability was higher in 2014 as a result of an increase in sales forecasts for Tivicay and Triumeq (Note 20).



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**10. Joint ventures**

	2014 £'000	2013 £'000
At 1st January	-	4,454
Exchange adjustments	-	(1)
Additions	-	1,037
Loss on dissolution of joint venture	-	(2,854)
Other movement	-	(1,909)
Dividends received from joint ventures	-	(1,255)
Share of after tax profit in joint venture	-	528
At 31st December	-	-

Investments in joint ventures at 1st January 2013 related to 50% interest in ViiV Healthcare Shire Canada Inc, which co-marketed Kivexa, Combivir, Trizivir and Epivir in Canada. During 2013, the Group received a dividend of £1.3 million (2012: £2.4 million) from ViiV Healthcare Shire Canada Inc.

On 19th May 2013, the partnership was dissolved. Shire Canada sold its 50% share in the partnership to ViiV Canada for a cash payment equal to 50% of the audited net assets of the partnership as at 19th May 2013. ViiV Canada now own and operate 100% of the existing business and assets of the former partnership.

GSK's partnership interest was transferred from GSK Canada to ViiV Canada in 2009, at a fair value of £32 million. This value was mainly ascribed to the value of the service fees due from the partnership for activities performed by ViiV Canada on behalf of the partnership. This created an intangible asset in the ViiV financial statements. The asset was being amortised and on dissolution, ViiV Canada wrote off the intangible asset, measured at £12.4 million. ViiV Canada also recognised a loss of £2.9 million on dissolution of the joint venture.

Summarised financial information in respect of the Group's joint ventures is set out below:

	2014 £'000	2013 £'000
<b>Income statement</b>		
Turnover	-	8,681
Expenses	-	(7,625)
Profit after tax	-	1,056
<b>Balance Sheet</b>		
Assets	-	-
Liabilities	-	-
Net Assets	-	-

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# 11. Taxation

Taxation charge based on profits for the year	2014 £'000	2013 £'000
UK corporation tax	61,953	59,988
Overseas taxation	192,372	167,765
Current taxation	254,325	227,753
Deferred taxation	(238,669)	(82,267)
	15,656	145,486

Reconciliation of the taxation rate on Group profits	2014 %	2014 £'000	Represented 2013 %	Represented 2013 £'000
UK statutory rate of taxation	21.5	(126,942)	23.3	78,250
Differences in overseas taxation rates	(2.1)	12,237	16.3	54,742
Changes in tax rates	0.5	(2,876)	(6.8)	(22,883)
Benefit of intellectual property incentives	6.1	(35,751)	(8.4)	(28,186)
Revaluation of preference dividend obligation	(21.5)	127,189	14.9	50,130
Other permanent differences	(0.0)	(30)	(5.7)	(19,109)
Prior year items	(7.1)	41,829	9.8	32,542
Tax rate	(2.6)	15,656	43.4	145,486

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.

It should be noted that as the group is making an overall loss in 2014 this effectively results in a reverse in the sign convention in the percentage tax reconciliation when compared to 2013.

The tax reconciliation for 2013 has been re-presented to be consistent with the presentation for 2014, which shows a different allocation in a greater number of categories to that shown in the prior year. In particular, the tax impact is now shown separately of intellectual property regimes (principally relates to the UK's patent box regime) and the preference dividend obligation (for which no tax benefit is available). The prior year presentation now also includes absolute numbers in addition to the percentages.

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 (rather than the tax rate of the country where the profit was originally made and the tax paid, which is the practice under UK and US GAAP).

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 2014 is estimated to be £nil (2013: £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 £259 million (2013: £232 million).

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**11. Taxation continued**

<b>Tax on items charged to equity and statement of comprehensive income</b>	<b>2014 £'000</b>	<b>2013 £'000</b>
Current taxation		
Foreign exchange movements	-	(1,277)
	-	(1,277)
Deferred taxation		
Defined benefit plans	434	(232)
	434	(232)
<b>Total credit/(charge) to equity and statement of comprehensive income</b>	<b>434</b>	<b>(1,509)</b>

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

<b>Movement in deferred tax assets and liabilities</b>	<b>Accelerated capital allowances</b>	<b>Intangibles and contingent consideration liability</b>	<b>Intra-group profit</b>	<b>Tax losses</b>	<b>Other net temporary differences</b>	<b>Offset within countries</b>	<b>Total</b>
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Deferred tax assets at 1st January 2014	371	271,546	23,144	12,816	28,644	(275,602)	60,919
Deferred tax liabilities at 1st January 2014	-	(461,049)	-	-	(206)	275,602	(185,653)
At 1st January 2014	371	(189,503)	23,144	12,816	28,438	-	(124,734)
Exchange adjustments	8	(293)	-	(19)	113	-	(191)
Credit/(charge) to income statement	(59)	217,170	13,036	(2,741)	11,263	-	238,669
Credit/(charge) to statement of comprehensive income	-	-	-	-	434	-	434
<b>At 31st December 2014</b>	<b>320</b>	<b>27,374</b>	<b>36,180</b>	<b>10,056</b>	<b>40,248</b>	<b>-</b>	<b>114,178</b>
Deferred tax assets at 31st December 2014	331	405,165	36,180	10,056	40,359	(355,298)	136,793
Deferred tax liabilities at 31st December 2014	(11)	(377,791)	-	-	(111)	355,298	(22,615)

The deferred tax credit to income relating to changes in tax rates is £2.9 million (2013: £23.0 million). 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 2014, the Group had recognised a deferred tax asset of £10.0 million (2013: £12.8 million) in respect of income tax losses of approximately £25.7 million (2013: £32.6 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 2014. 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 2014, the net deferred tax asset expected to be recovered within 12 months was £69.0 million (2013: £52.9 million)

## 11. Taxation continued

### 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.

## 12. Dividends

The Directors propose an 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.

The Directors proposed and paid two interim ordinary dividends and one preferential dividend during the year ended 31st December 2014. The first interim ordinary dividend of £370 million being £40,845 per Class A Share, £16,149 per Class B Share, £15,592 per Class C Share and £66,664 per class D2 share, and the preferential dividend of £61 million, related to 2013 and were paid on the 10th April 2014. The second interim ordinary dividend of £100 million being £11,234 per Class A Share, £3,923 per Class B Share, £3,767 per Class C Share and £18,018 per Class D2 Share related to 2014 and was paid on the 4th November 2014.

## 13. Goodwill

	2014 £'000	2013 £'000
Cost at 1st January	203,733	203,179
Exchange adjustments	(1,163)	554
Cost at 31st December	202,570	203,733
Net book value at 1st January	203,733	203,179
<b>Net book value at 31st December</b>	<b>202,570</b>	<b>203,733</b>

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 is as follows: North America £99.0 million (2013: £92.2 million), Europe £102.6 million (2013: £110.4 million) and International £1.0 million (2013: £1.1 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 10.0% is applied to the projected risk-adjusted post-tax cash flows and terminal value (derived using a 0% 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 2014. 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.

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**14. Other intangible assets**

	Computer software £'000	Licences, patents etc. £'000	Total £'000
Cost at 1st January 2013	5,688	2,149,299	2,154,987
Exchange adjustments	(68)	(2,008)	(2,076)
Additions	-	29,199	29,199
Disposals and write-offs	-	(23,584)	(23,584)
Cost at 31st December 2013 and 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)
<b>Cost at 31st December 2014</b>	<b>-</b>	<b>2,185,668</b>	<b>2,185,668</b>
Accumulated amortisation at 1st January 2013	(4,250)	(102,791)	(107,041)
Exchange adjustments	38	1,670	1,708
Charge for the year	(747)	(56,727)	(57,474)
Disposal and write-off	-	11,226	11,226
Accumulated amortisation at 31st December 2013 and 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)
Disposal and write-off	4,999	2,325	7,324
<b>Accumulated amortisation at 31st December 2014</b>	<b>-</b>	<b>(282,087)</b>	<b>(282,087)</b>
Impairments at 1st January 2013	(558)	-	(558)
Exchange adjustments	-	-	-
Impairment losses	-	-	-
Impairments at 31st December 2013 and 1st January 2014	(558)	-	(558)
Exchange adjustments	3	-	3
Impairment losses	555	-	555
<b>Impairment at 31st December 2014</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net book value at 31st December 2013	103	2,006,284	2,006,387
<b>Net book value at 31st December 2014</b>	<b>-</b>	<b>1,903,581</b>	<b>1,903,581</b>

Amortisation of licences and patents on marketed products has been charged through cost of sales in the income statement. Write-off of £1.6 million was included in cost of sales (non-core) in 2014 in relation to Lexiva. Additions include £33.8 million in relation to capitalised development costs for maraviroc (*Selzentry/Celsentri TM*) and dolutegravir (*Tivicay & Triumeq TM*).

The book values of material assets are analysed as follows:

Asset description	End of amortisation period	2014 £'000	2013 £'000
Dolutegravir	2037	1,680,362	1,769,252
Maraviroc	2031	223,219	235,059
Other assets	Various	-	2,076
		<b>1,903,581</b>	<b>2,006,387</b>

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**15. Inventories**

	2014 £'000	2013 £'000
Work in progress	10,597	9,692
Finished goods	12,088	11,385
	<b>22,685</b>	<b>21,077</b>

**16. Trade and other receivables**

	2014 £'000	Represented 2013 £'000
Trade receivables with 3rd parties	219,681	216,161
Trade receivables with GSK entities	82,759	6,714
Other prepayments	2,541	2,143
Interest receivable	316	63
Employee loans and advances	388	133
Indirect tax and Other receivables	31,424	35,645
	<b>337,109</b>	<b>260,859</b>
<b>Bad and doubtful debt provision</b>		
At 1st January	(7,030)	(6,646)
Exchange adjustments	352	(128)
Charge for the year	(453)	(1,901)
Subsequent recoveries of amounts provided for	564	1,645
Utilised	(46)	-
At 31st December	<b>(6,613)</b>	<b>(7,030)</b>

Figures for 2013 have been represented to reflect a more detailed analysis.

**17. Cash and cash equivalents**

	2014 £'000	2013 £'000
Cash at bank and in hand	64,221	42,007
Short-term deposits	841,388	633,352
	<b>905,609</b>	<b>675,359</b>

## 18. Trade and other payables

	2014 £'000	Represented 2013 £'000
Trade payables with 3rd parties	75,546	91,514
Trade payables with GSK entities	259,457	114,241
Wages and salaries	16,065	17,883
Social security	1,733	1,962
Indirect tax and Other payables	10,611	17,297
Deferred income	-	559
Customer return and rebate accruals	158,814	118,746
Other accruals	37,327	26,723
Contingent consideration due within one year	104,102	3,376
Preferential dividends due within one year	88,981	60,910
	<b>752,636</b>	<b>453,211</b>

Figures for 2013 have been represented to reflect a more detailed analysis.

## 19. Other provisions

	Employee related provisions £'000	Other provisions £'000	Total £'000
At 1st January 2013	10,945	104	11,049
Exchange adjustments	218	(40)	178
(Credit)/Charge for the year	(1,680)	3,796	2,116
Utilised	(966)	(161)	(1,127)
Decrease in pensions obligations	(1,574)	-	(1,574)
Other movements	(277)	1,002	725
At 31st December 2013	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
To be settled within one year	-	3,006	3,006
To be settled after one year	6,435	-	6,435
At 31st December 2014	6,435	3,006	9,441

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.

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**20. Other non-current liabilities**

	Preferential dividends £'000	Contingent consideration £'000	Total £'000
As at 1st January 2014	1,140,692	919,747	2,060,439
Re-measurement	591,692	767,878	1,359,570
Transfer to trade and other payables	(88,981)	(100,726)	(189,707)
Payment of contingent consideration	-	(7,472)	(7,472)
Other movements	(2)	-	(2)
<b>As at 31st December 2014</b>	<b>1,643,401</b>	<b>1,579,427</b>	<b>3,222,828</b>

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 18). As sales forecasts for Tivicay and Triumeq have increased during 2014, the expected liability has increased, and a charge of £592 million has been recorded for the year ending 31st December 2014 within Finance Expense (Note 9). The amount falling due within one year is £89 million, which has been transferred to Trade and Other Payables (Note 18). Preferential dividends of £61 million were paid during 2014, reducing the liability in above and Note 18.

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 18). As sales forecasts for Tivicay and Triumeq have increased during 2014, the fair value of the liability has increased, and a charge of £768 million has been recorded for the year ending 31st December 2014. The amount falling due within one year is £101 million, which has been transferred to Trade and Other Payables (Note 18). Contingent consideration of £7 million was paid during 2014, reducing the liability in above and Note 18.

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 26.



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## 21. 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 2013	6,950	7	2,798	3	252	-	1,112	1	11,112	11
At 31st December 2013	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

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.

## 22. Movements in equity

Retained earnings, merger reserve and other reserves, amounted to (£855.8) million at 31st December 2014 (2013: £212.6 million) of which a loss of £96.8 million (2013: £96.8 million) relates to historic joint ventures which no longer exist at the balance sheet date. The analysis of other comprehensive income is shown below:

	Retained earnings £'000	Merger Reserve £'000	Total £'000
At 1st January 2013	(21,344)	1,242	(20,102)
Exchange movements on overseas net assets	(9,430)	144	(9,286)
Tax on exchange movements	(1,277)	-	(1,277)
Actuarial gain/(loss) on defined benefit plans	1,751	-	1,751
Deferred tax on actuarial movements in defined benefit plans	(232)	-	(232)
At 31st December 2013	(30,532)	1,386	(29,146)
Exchange movements on overseas net assets	7,976	644	8,620
Actuarial (loss)/gain 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)

### 23. Related party transactions

On 21st January 2014, ViiV Healthcare received approval from the European Medicines Agency for Tivicay in the EU. This resulted in a further equity shift of 0.9% from Pfizer to GSK as per the Shareholders Agreement. The economic interest in the group is now held 78.3% by GSK, 11.7% by Pfizer, and 10.0% by Shionogi.

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 net economic benefit payable to GSK companies in 2014 includes the reversal of an over-accrual of £6 million for income reported in 2013. The net economic benefit receivable from GSK companies in 2013 represents the amount due in respect of the three years from 2011.

The Group sold its subsidiary in Mexico to a GSK group company during the year for £7.4 million. The table below outlines the amounts of the relevant transactions and outstanding amounts at the end of the financial year:

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**23. Related party transactions continued**

	GlaxoSmithKline group of companies		Pfizer group of companies		Shionogi group of companies	
	Represented				Represented	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Sale of goods	172,795	221,994	8,469	5,896	-	-
Purchase of goods	141,222	138,743	18,848	19,943	7,131	4,913
Research and Development services	104,962	78,234	20,888	45,295	391	660
Support services	52,245	50,227	-	-	-	-
Net economic benefit (expense)/income	(3,948)	19,386	-	-	-	-
Co – Promotion amounts payable	-	-	-	-	(1,604)	-
Amount receivables at 31st December	82,759	6,714	-	-	-	-
Amounts payable at 31st December	(259,457)	(114,241)	(5,595)	(1,426)	(55)	(160)
Disposal of subsidiary	7,397	-	-	-	-	-
Contingent consideration liability	-	-	-	-	(1,683,529)	(923,123)
Contingent consideration payment	-	-	-	-	7,472	-
Preferential dividend liability	(1,583,518)	(1,051,486)	(77,892)	(108,411)	(71,031)	(41,764)
Preferential dividend payment	48,191	9,895	12,266	7,987	96	-
Ordinary dividend payment	361,950	536,742	61,040	94,719	46,999	3,091

Only one Director is remunerated by the Group, details of which can be found in Note 7, Employee Costs. Figures for 2013 have been represented to reflect a more detailed analysis of related party transactions.

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

	2014 £'000	Represented 2013 £'000
Profit/(Loss) after tax	(606,058)	190,349
Add back:		
Tax on profits	15,656	145,486
Share of after-tax (profit)/losses of joint ventures	-	(528)
Finance expense net of finance income	591,309	216,170
Re-measurement of contingent consideration	767,878	253,230
Depreciation	560	845
Amortisation of intangible assets	136,159	57,474
Asset write-off	1,590	12,359
Loss on dissolution of joint venture	-	2,854
Profit on sale of property, plant and equipment	(248)	(28)
(Increase) in inventories	(4,005)	(7,486)
(Increase) in trade receivables 3 <sup>rd</sup> party	(3,520)	(29,033)
(Increase)/Decrease in trade receivables GSK	(83,199)	59,011
Decrease /(Increase) in other receivables	2,817	(23,176)
(Decrease)/Increase in trade payables 3 <sup>rd</sup> party	(15,968)	29,402
Increase in trade payables GSK	130,403	21,148
Increase/(Decrease) in other payables	26,658	(46,040)
(Decrease)/Increase in pension and other provisions	(2,578)	1,891
Other	1,050	-
	<b>1,564,562</b>	<b>693,579</b>
Cash generated from operations	<b>958,504</b>	<b>883,928</b>

**25. Commitments**

	2014 £'000	2013 £'000
<b>Commitments under non-cancellable leases and other contracts</b>		
Payments due within one year	512	1,248
Payments due between one and five years	513	4,216
Payments due after five years	-	22
Total commitments	<b>1,025</b>	<b>5,486</b>

## **26. 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 27th March 2014.

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 2014, ViiV Healthcare returned £531 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 £905.6 million at 31st December 2014 (2013: £675.4 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 internal and external trade flows are generally not hedged. 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

## 26. Financial instruments and related disclosures continued

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 £384.6 million (2013: £382.3 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 2014, the Group held outstanding foreign exchange contracts consisting primarily of currency swaps with a total net asset fair value of £0.5 million (2013: £2.2 million) and a total net liability fair value of £1.4 million (2013: nil) 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 £1,224.0 million (2013: 921.2 million) which is the total of the Group's financial assets. This represents £905.6 million of cash and cash equivalents and £318.4 million of trade and other receivables and derivative financial assets. See page 48 for details on the Group's total financial assets.

The Group's greatest concentration of credit risk is £305.0 million with HSBC (Aa3/AA-). In 2013, the greatest concentration of credit risk was £410.1 million deposited in US Treasury and Treasury repo only market funds.

### Treasury-related credit risk

The Group has continued to maintain its conservative approach to counterparty risk throughout 2014. 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	Aa1/AA+ £'000	Aa2/AA £'000	Aa3/AA- £'000	A1/A+ £'000	A2/A £'000	A3/A- £'000	
<b>2014</b>								
Bank balances and deposits	-	-	-	593,423	524	6,645	51,602	<b>652,194</b>
US Treasury & Treasury repo only money market funds	-	253,415	-	-	-	-	-	<b>253,415</b>
<b>Total</b>	-	<b>253,415</b>	-	<b>593,423</b>	<b>524</b>	<b>6,645</b>	<b>51,602</b>	<b>905,609</b>
<b>2013</b>								
Bank balances and deposits	-	-	-	234,728	26,779	3,778	-	<b>265,285</b>
US Treasury & Treasury repo only money market funds	-	410,074	-	-	-	-	-	<b>410,074</b>
<b>Total</b>	-	<b>410,074</b>	-	<b>234,728</b>	<b>26,779</b>	<b>3,778</b>	-	<b>675,359</b>

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 £838.2 million at 31st December 2014, all available within three months. The Group invests centrally managed liquid assets in bank deposits and Aaa/AAA US Treasury and Treasury

## 26. Financial instruments and related disclosures continued

repo only money market funds (which bear credit exposure to the US Government (Aa1/AA+ rated)) with a minimum short-term credit rating of A-1/P-1.

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

Global counterparty limits are assigned to each of ViiV Healthcare'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 2014, the Group had trade receivables due from these three wholesalers totalling £111.5 million (2013: £65.0 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 16, 'Trade and other receivables').

### Fair value of financial assets and liabilities

The table on page 48 presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 31st December 2014 and 31st December 2013. 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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**26. Financial instruments and related disclosures continued**

**Financial assets and financial liabilities**

	<b>2014 Carrying value and Fair value £'000</b>	<b>2013 Carrying value and Fair value £'000</b>
Cash and cash equivalents	<b>905,609</b>	675,359
Loans and receivables:		
Trade and other receivables and certain Other non-current assets in scope of IAS 39	<b>316,838</b>	243,435
Financial assets at fair value through profit or loss:		
Derivatives classified as held for trading under IAS 39	<b>1,557</b>	2,415
<b>Total financial assets</b>	<b>1,224,004</b>	921,209
Financial liabilities measured at amortised cost:		
Borrowings:		
- Bank loans and overdrafts	<b>(450)</b>	(67)
- Obligations under finance leases	<b>(1,658)</b>	(1,199)
<b>Total borrowings</b>	<b>(2,108)</b>	(1,266)
Trade and other payables and certain		
Other non-current liabilities in scope of IAS 39	<b>(554,658)</b>	(378,696)
Preferential dividend liability in scope of IAS 39	<b>(1,732,382)</b>	(1,201,602)
Financial liabilities at fair value through profit or loss:		
Trade and other payables and certain		
Other non-current liabilities in scope of IAS 39	<b>(1,683,529)</b>	(923,123)
Derivatives classified as held for trading under IAS 39	<b>(2,501)</b>	(169)
<b>Total financial liabilities</b>	<b>(3,975,178)</b>	(2,504,856)
<b>Net financial liabilities</b>	<b>(2,751,174)</b>	(1,583,647)

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.



## 26. Financial instruments and related disclosures continued

At 31st December 2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets at fair value</b>				
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
<b>Financial liabilities at fair value</b>				
Financial liabilities at fair value through profit and loss				
Trade and other payables	-	-	(104,102)	(104,102)
Contingent consideration	-	-	(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)
<b>At 31st December 2013</b>				
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets at fair value</b>				
Financial assets at fair value through profit and loss				
Derivatives classified as held for trading under IAS 39	-	2,415	-	2,415
	-	2,415	-	2,415
<b>Financial liabilities at fair value</b>				
Financial liabilities at fair value through profit and loss				
Trade and other payables	-	-	(3,376)	(3,376)
Contingent consideration	-	-	(919,747)	(919,747)
Derivatives classified as held for trading under IAS 39	-	(169)	-	(169)
	-	(169)	(923,123)	(923,292)

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

	2014 £'000	2013 £'000
At 1st January	(923,123)	(669,893)
Re-measurement of contingent consideration	(767,878)	(253,230)
Payment of contingent consideration liabilities	7,472	-
At 31st December	(1,683,529)	(923,123)

## 26. Financial instruments and related disclosures continued

Re-measurement of contingent consideration of £767.9 million (2013: £253.2 million) attributable to Level 3 financial instruments held at 31st December 2014 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 includes £1,683.5 million (2013 – £923.1 million) in respect of contingent consideration payable for the acquisition in 2012 of the former Shionogi-ViiV Healthcare joint venture. This consideration 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 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	2014 £'000
10% increase in sales forecasts	186
10% decrease in sales forecasts	(187)
1% increase in market interest rates	(82)
1% decrease in market interest rates	88

### 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	2014 £'000	2013 £'000
Trade and other receivables	16	337,109	260,859
Other non-current assets		-	81
		<b>337,109</b>	<b>260,940</b>
Analysed as:			
Financial assets in scope of IAS 39		<b>316,838</b>	243,435
Other assets		<b>20,271</b>	17,505
		<b>337,109</b>	<b>260,940</b>

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:

	2014 £'000	2013 £'000
Past due by 1-30 days	6,674	9,945
Past due by 31-90 days	10,606	14,686
Past due by 91-180 days	17,479	14,950
Past due by 181-365 days	3,298	21,653
Past due by more than 365 days	116	19,238
	<b>38,173</b>	<b>80,472</b>

## 26. Financial instruments and related disclosures continued

Trade receivables include £30.6 million (2013: £68.9 million) after provisions for bad and doubtful debts which are past due from state hospital authorities in Italy, Portugal and Spain. Provisions have been made where the Group does not expect to receive payment in full because of healthcare funding issues in specific state hospitals or regions. The Group is actively pursuing these debts and considers the net balance recoverable. Past due receivables in Spain have reduced significantly in 2014 due to an exceptional payment to healthcare suppliers funded by the central government, and a factoring agreement concluded in December 2014.

### 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	2014 £'000	2013 £'000
Trade and other payables	18	752,636	453,211
Other non-current liabilities	20	3,222,828	2,060,439
		<b>3,975,464</b>	<b>2,513,650</b>
Analysed as:			
Financial liabilities in scope of IAS 39 – at amortised cost		<b>2,287,040</b>	1,580,298
Financial liabilities in scope of IAS 39 – at fair value through profit or loss		<b>1,683,529</b>	923,123
Other liabilities		<b>4,895</b>	10,229
		<b>3,975,464</b>	<b>2,513,650</b>

### 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 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)

	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 2013	£000	£000	£000	£000	£000
Derivative financial assets	2,415	-	2,415	(169)	2,246
Derivative financial liabilities	(169)	-	(169)	169	-

## 26. 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), 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

The two major foreign currencies in which the Group's financial instruments are denominated are US Dollars and Euros. The Group has considered movements in these currencies over the last three years and has concluded that a 10% movement in rates is a reasonable benchmark. Financial instruments are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them. Intercompany loans which are fully hedged to maturity with a currency swap have been excluded from this analysis.

A 10% movement in rates is not deemed to have a material effect on income or equity.

#### Interest rate sensitivity

The table below shows on an indicative basis the Group's sensitivity to interest rates on its floating rate Sterling and US dollar financial instruments, being the currencies in which the Group has historically held cash and cash equivalents. The Group has considered movements in these interest rates over the last three years and has concluded that a 1% (100 basis points) increase is a reasonable benchmark.

	2014 Increase in income £'000	2013 Increase in income £'000
1% (100 basis points) increase in Sterling interest rates (2013: 1%)	7,711	5,637
1% (100 basis points) increase in US dollar interest rates (2013: 1%)	1,087	1,385

These interest rates could not be decreased by 1% as they are currently less than 1%. The maximum decrease in income would therefore be limited to £2.9 million and £nil million for Sterling and US Dollar interest rates respectively (2013: £2.1 million and £0.1 million).

Interest rate movements on foreign currency derivatives, trade payables, trade receivables and other financial instruments not in net cash do not present a material exposure to the Group's income statement based on a 1% increase or decrease in these interest rates.

A 1% (100 basis points) movement in interest rates is not deemed to have a material effect on equity.

## 26. Financial instruments and related disclosures continued

### 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	Finance charge on obligations under finance leases	Trade payables and Other non- current liabilities	Total
	£'000	£'000	£'000	£'000
<b>At 31st December 2014</b>				
Due in less than one year	(558)	(2)	(766,093)	<b>(766,653)</b>
Between one and five years	(1,100)	-	(1,753,250)	<b>(1,754,350)</b>
Between five and ten years	-	-	(3,303,394)	<b>(3,303,394)</b>
Greater than ten years	-	-	(3,099,922)	<b>(3,099,922)</b>
Gross contractual cash flows	(1,658)	(2)	(8,922,659)	<b>(8,924,319)</b>
<b>At 31st December 2013</b>				
Due in less than one year	(447)	(2)	(443,233)	<b>(443,682)</b>
Between one and five years	(753)	-	(861,454)	<b>(862,207)</b>
Between five and ten years	-	-	(2,169,643)	<b>(2,169,643)</b>
Greater than ten years	-	-	(2,645,126)	<b>(2,645,126)</b>
Gross contractual cash flows	(1,200)	(2)	(6,119,456)	<b>(6,120,658)</b>

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.

	2014 Receivables £'000	2014 Payables £'000	2013 Receivables £'000	2013 Payables £'000
Less than one year	559,213	560,156	384,565	382,299

## **27. 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 £5.0 million (2013: £3.9 million) and is considered immaterial for further disclosure.

## **28. 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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## 29. Principal group companies

The following represent the principal subsidiaries of the Group at 31st December 2014. 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	%
<b>Europe</b>				
England	Brentford	ViiV Healthcare Trading Services UK Limited	e, f, m	100%
	Brentford	ViiV Healthcare Overseas Limited	h	100%
	Brentford	ViiV Healthcare UK Limited	m, i	100%
	Brentford	ViiV Healthcare UK (No. 3) Limited	r, i	100%
	Brentford	PHIVCO UK Limited	h, i	100%
	Brentford	PHIVCO UK II Limited	r, 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%
<b>Americas</b>				
USA	Wilmington	ViiV Healthcare Company	m, i	100%
	Wilmington	PHIVCO-1 LLC	i	100%
	Wilmington	PHIVCO-2 LLC	i	100%
Canada	Calgary	ViiV Healthcare ULC	m	100%
Puerto Rico	Guaynabo	ViiV Healthcare Puerto Rico LLC	m	100%

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**International**

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

Business activity: e exporting, f finance, h holding company, m marketing and trade, i holder of intellectual property, research and development



### 30. Legal Proceedings

#### Intellectual Property Proceedings

##### *Epzicom/Trizivir/Kivexa*

On 30 November 2007, ViiV Healthcare received notice that Teva Pharmaceuticals USA, Inc. (Teva) had filed an ANDA with a Paragraph IV certification for Epzicom (the combination of lamivudine and abacavir). The certification challenged only the patent covering the hemisulfate salt of abacavir, which expires in 2018. ViiV Healthcare did not sue Teva under this patent. On 27 June 2011, ViiV Healthcare received notice that Teva had amended its ANDA for Epzicom to contain a Paragraph IV certification for two additional patents listed in the Orange Book, alleging the patents were invalid, unenforceable or not infringed.

The patents challenged in this new certification relate to a method of treating HIV using the combination (expiring in 2016), and a certain crystal form of lamivudine (expiring in 2016). On 5 August 2011, ViiV Healthcare filed suit against Teva under the combination patent in the United States District Court for the District of Delaware.

On 18 May 2011, ViiV Healthcare received notice that Lupin Ltd. (Lupin) had filed an ANDA containing a Paragraph IV certification for Trizivir (the triple combination of lamivudine, abacavir and zidovudine) alleging that three patents listed in the Orange Book for Trizivir were invalid, unenforceable or not infringed. These patents relate to a method of treating HIV using the triple combination (expiring in 2016), the hemisulfate salt of abacavir (expiring in 2018), and a certain crystal form of lamivudine (expiring in 2016). On 29 June 2011, ViiV Healthcare filed suit against Lupin under the patent covering the triple combination in the United States District Court for the District of Delaware. The District Court consolidated the case relating to Epzicom with the case relating to Trizivir.

On 17 December 2013, the United States District Court for the District of Delaware upheld the validity of the US patent with an expiry date in March 2016 which covers the combination of lamivudine and abacavir (Epzicom) and the triple combination of lamivudine, abacavir and zidovudine (Trizivir). In a separate component to the decision, the judge ruled that the Lupin generic version of Trizivir did not infringe the patent. Lupin subsequently launched its generic version of Trizivir. Teva earlier had stipulated that its generic version of Epzicom would infringe the patent, and the District Court enjoined Teva from launching its generic version of Epzicom until the expiration of the patent. The parties appealed the judgments. On 12 February 2015, the United States Court of Appeals for the Federal Circuit affirmed the decision of the District Court.

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. A trial date has been set for 18 April 2016.

On 2 June 2014, Apotex filed a Petition requesting Inter Partes Review (IPR) of the combination patent covering Epzicom and Trizivir. The United States Patent and Trademark Office (USPTO) granted the petition on 8 December 2014 which initiates an IPR of the patent by the USPTO. On 8 January 2015, Teva filed a petition with the USPTO to join the proceedings.

Teva Canada and Apotex have each challenged patents for Kivexa (lamivudine/abacavir) listed on the Canadian Patent Register. ViiV Healthcare filed suit for infringement against each party under the patent covering the combination of lamivudine and abacavir and the patent covering the hemisulfate salt of abacavir. A ruling that the hemisulfate salt patent was improperly listed has resulted in the de-listing of such patent from the Canadian Patent Register. ViiV Healthcare has appealed this ruling. Notwithstanding this ruling, the infringement cases against Teva Canada and Apotex relating to the validity of the combination and hemisulfate salt patents will proceed; a hearing on the infringement case against Teva Canada has been scheduled for 27 April 2015, and a hearing on the infringement case against Apotex has been scheduled for December 2015.

In addition, Teva has challenged the claims of the combination patent covering Kivexa in Germany, France and Italy. There is also related litigation ongoing in the United Kingdom. The combination patent litigation involving ViiV

### 30. Legal Proceedings continued

Healthcare and Teva commenced in Germany in December 2013, in France in June 2014, and in Italy in September 2014. The combination patent expires across Europe in 2016. In addition, ViiV Healthcare has a corresponding Supplementary Protection Certificate (SPC) for Kivexa (but not Trizivir) that does not expire until late 2019.

As well as challenging the validity of the underlying patents, Teva is challenging the SPCs on the basis that they are invalid due to a failure to comply with the requirements of Article 3(d) of Regulation (EC) No. 469/2009 (the SPC Regulation) ('Teva's Article 3(d) contention'). These cases are pending. In Germany, oral hearing has been set for 19 May 2015, and in France, oral hearing has been set for 15 December 2015. A final hearing date has yet to be set in Italy.

On 26 November 2014, ViiV Healthcare commenced an action in the UK against Teva for a declaration that Teva's Article 3(d) contention concerning the Kivexa SPC is incorrect. An interim hearing is scheduled for 25 March 2015 to determine whether questions regarding the SPC Regulation should be referred to the Court of Justice for the European Union.

#### *Lexiva*

On 23 April 2012, Ranbaxy Laboratories Limited (Ranbaxy) notified ViiV Healthcare that it had filed a Paragraph IV certification alleging that a patent claiming a polymorphic form of fosamprenavir calcium, the active ingredient in Lexiva, was invalid or not infringed. The patent expires in 2020. ViiV Healthcare did not sue under this patent.

On 30 July 2012, Mylan Pharmaceuticals, Inc. (Mylan) notified ViiV Healthcare that it had filed an ANDA for Lexiva with a Paragraph IV certification asserting that patents claiming (i) the active ingredient (expiring in 2018) and (ii) a polymorphic form of the active ingredient (expiring 2020), are invalid, unenforceable, or not infringed. Mylan is the second generic company to file an ANDA for Lexiva, but the first generic company to challenge the basic compound patent on the active ingredient. On 23 August 2012, ViiV Healthcare and its licensor, Vertex Pharmaceuticals incorporated, filed a patent infringement suit against Mylan on the patent claiming the active ingredient (but not the patent claiming the polymorph) in the United States District Court for the District of Delaware. On 26 May 2014, the parties settled the case on terms that are confidential. On 18 October 2012, Ranbaxy filed a petition for an Inter Partes Review (IPR) alleging that the patent claiming the active ingredient for Lexiva is invalid. On 5 March 2013, the USPTO granted Ranbaxy's petition. The IPR was settled October 2014 on terms that are confidential.

On 10 December 2014, Lupin Limited filed a petition with the USPTO for an IPR alleging that the compound patent covering the active ingredient for Lexiva is invalid. The USPTO has not yet ruled on whether the petition for the IPR will be granted.

### **31. 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 2014

	IFRS 2014 £'000	Note 1	Note 2	Note 3	Note 4	US GAAP 2014 £'000
<b>Turnover</b>	<b>1,465,940</b>	-	-	-	-	<b>1,465,940</b>
<b>Costs and expenses:</b>						
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)
<b>Income from continuing operations before provision for taxes on income/(expense)</b>	<b>(590,402)</b>	<b>580,582</b>	<b>-</b>	<b>(30,330)</b>	<b>3,276</b>	<b>(36,874)</b>
Provision for taxes on income	(15,656)	-	(6,043)	5,000	-	(16,699)
<b>Net income/(expense)</b>	<b>(606,058)</b>	<b>580,582</b>	<b>(6,043)</b>	<b>(25,330)</b>	<b>3,276</b>	<b>(53,573)</b>
<b>Other comprehensive income:</b>						
Exchange movements on overseas net assets and net investment hedges	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
<b>Total comprehensive income/(expense)</b>	<b>(598,407)</b>	<b>580,582</b>	<b>(6,043)</b>	<b>(25,330)</b>	<b>3,276</b>	<b>(45,922)</b>

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Income statement for the year ended 31st December 2013

	IFRS 2013 £'000	Note 1	Note 2	Note 3	Note 4	US GAAP 2013 £'000
<b>Turnover</b>	<b>1,371,000</b>	-	-	-	-	<b>1,371,000</b>
<b>Costs and expenses:</b>						
Cost of sales	(170,511)	-	-	838	-	(169,673)
Selling, general and administrative expenses	(476,431)	-	-	-	(19,386)	(495,817)
Research and development expenses	(101,479)	-	-	(29,199)	-	(130,678)
Amortisation of intangible assets	(68,248)	-	-	-	-	(68,248)
Gain from affiliates	528	-	-	-	-	528
Loss on dissolution of Joint venture	(2,854)	-	-	-	-	(2,854)
Other income/(expense) – net	(216,170)	286,743	-	-	-	70,573
<b>Income from continuing operations before provision for taxes on income</b>	<b>335,835</b>	<b>286,743</b>	<b>-</b>	<b>(28,361)</b>	<b>(19,386)</b>	<b>574,831</b>
Provision for taxes on income	(145,486)	-	(340)	5,000	-	(140,826)
<b>Net income</b>	<b>190,349</b>	<b>286,743</b>	<b>(340)</b>	<b>(23,361)</b>	<b>(19,386)</b>	<b>434,005</b>
<b>Other comprehensive income:</b>						
Exchange movements on overseas net assets and net investment hedges	(9,286)	-	-	-	-	(9,286)
Tax on exchange movements	(1,277)	-	-	-	-	(1,277)
Actuarial gains on defined benefit plans	1,751	-	-	-	-	1,751
Deferred tax on actuarial movements in defined benefit plans	(232)	-	-	-	-	(232)
<b>Total comprehensive income</b>	<b>181,305</b>	<b>286,743</b>	<b>(340)</b>	<b>(23,361)</b>	<b>(19,386)</b>	<b>424,961</b>

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.

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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
<b>Assets</b>							
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
<b>Total current assets</b>	<b>1,307,824</b>	<b>69,000</b>	<b>-</b>	<b>(3,356)</b>	<b>(15,000)</b>	<b>-</b>	<b>1,358,468</b>
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
<b>Total assets</b>	<b>3,552,513</b>	<b>-</b>	<b>-</b>	<b>(3,356)</b>	<b>(15,000)</b>	<b>(55,631)</b>	<b>3,478,526</b>
<b>Liabilities and Shareholders' Equity</b>							
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)
<b>Total current liabilities</b>	<b>(814,315)</b>	<b>-</b>	<b>77,107</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(737,208)</b>
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)
<b>Total liabilities</b>	<b>(4,067,293)</b>	<b>-</b>	<b>1,583,875</b>	<b>-</b>	<b>-</b>	<b>7,000</b>	<b>(2,476,418)</b>
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
<b>Total shareholders' equity</b>	<b>514,780</b>	<b>-</b>	<b>(1,583,875)</b>	<b>3,356</b>	<b>15,000</b>	<b>48,631</b>	<b>(1,002,108)</b>
<b>Total liabilities and shareholders' equity</b>	<b>(3,552,513)</b>	<b>-</b>	<b>-</b>	<b>3,356</b>	<b>15,000</b>	<b>55,631</b>	<b>(3,478,526)</b>

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Balance sheet as at 31st December 2013

	IFRS as at 31st December 2013 £'000	Note A	Note B	Note C	Note D	Note E	US GAAP as at 31st December 2013 £'000
<b>Assets</b>							
Cash and cash equivalents	675,359	-	-	-	-	-	675,359
Accounts Receivable	260,859	-	-	(16,345)	-	-	244,514
Inventories	21,077	-	-	-	-	-	21,077
Taxes and other current assets	40,280	52,940	-	-	(8,957)	-	84,263
<b>Total current assets</b>	<b>997,575</b>	<b>52,940</b>	<b>-</b>	<b>(16,345)</b>	<b>(8,957)</b>	<b>-</b>	<b>1,025,213</b>
Goodwill	203,733	-	-	-	-	-	203,733
Identifiable intangible assets, less accumulated amortisation	2,006,387	-	-	-	-	(28,361)	1,978,026
Other assets, deferred taxes and deferred charges	62,433	(47,470)	-	-	-	-	14,963
<b>Total assets</b>	<b>3,270,128</b>	<b>5,470</b>	<b>-</b>	<b>(16,345)</b>	<b>(8,957)</b>	<b>(28,361)</b>	<b>3,221,935</b>
<b>Liabilities and Shareholders' Equity</b>							
Short-term borrowings and overdraft	(514)	-	-	-	-	-	(514)
Accounts payable	(91,514)	-	-	-	-	-	(91,514)
Income taxes payable	(4,407)	-	-	-	-	-	(4,407)
Other current liabilities (inc deferred taxes)	(366,567)	-	48,548	-	-	-	(318,019)
<b>Total current liabilities</b>	<b>(463,002)</b>	<b>-</b>	<b>48,548</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(414,454)</b>
Other Provisions	(6,666)	-	-	-	-	-	(6,666)
Long-term borrowings	(752)	-	-	-	-	-	(752)
Deferred taxes	(185,653)	(5,470)	-	-	-	5,000	(186,123)
Other non-current liabilities	(2,060,439)	-	1,002,938	-	-	-	(1,057,501)
<b>Total liabilities</b>	<b>(2,716,512)</b>	<b>(5,470)</b>	<b>1,051,486</b>	<b>-</b>	<b>-</b>	<b>5,000</b>	<b>(1,665,496)</b>
Common stock	(11)	-	-	-	-	-	(11)
Additional paid in capital	(341,000)	-	-	(83,594)	-	-	(424,594)
Retained earnings (and Reserves)	(212,605)	(31,376)	(1,051,486)	99,939	8,957	23,361	(1,163,210)
Accumulated other comprehensive (income)/expense	-	31,376	-	-	-	-	31,376
<b>Total shareholders' equity</b>	<b>(553,616)</b>	<b>-</b>	<b>(1,051,486)</b>	<b>16,345</b>	<b>8,957</b>	<b>23,361</b>	<b>(1,556,439)</b>
<b>Total liabilities and shareholders' equity</b>	<b>(3,270,128)</b>	<b>(5,470)</b>	<b>-</b>	<b>16,345</b>	<b>8,957</b>	<b>28,361</b>	<b>(3,221,935)</b>

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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.



## ViiV Healthcare Limited

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

#### Financial statements of ViiV Healthcare Limited prepared under UK GAAP

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 have been followed, subject to any material departures disclosed and explained in the financial statements;

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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.

#### Independent auditors

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

On behalf of the Board

D Limet

Director

26th March 2015

## **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 2014;
- 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**

ViiV Healthcare Limited's financial statements comprise:

- the Company balance sheet - UK GAAP as at 31 December 2014; 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 applicable law and United Kingdom Accounting Standards (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 matters**

We have reported separately on the group financial statements of ViiV Healthcare Limited for the year ended 31 December 2014.

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



PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
26 March 2015

ViiV Healthcare Limited  
Company balance sheet – UK GAAP at 31st December 2014

	Notes	2014 £000	2013 £000
<b>Fixed assets</b>			
Investments	D	2,444,415	2,444,415
<b>Current assets</b>			
Debtors	E	130,151	57,150
<b>Creditors: amounts falling due within one year</b>	F	(89,755)	(60,917)
<b>Net current (liabilities)/assets</b>		40,396	(3,767)
<b>Total assets less current liabilities</b>		2,484,811	2,440,648
Creditors: amounts falling due after more than one year	F	(1,776,738)	(1,753,185)
<b>Net assets</b>		708,073	687,463
<b>Capital and reserves</b>			
Called up share capital	G	11	11
Share premium account	H	341,000	341,000
Other reserves	H	(489,473)	(437,111)
Profit and loss account	H	856,535	783,563
<b>Total shareholders' funds</b>		708,073	687,463

The financial statements on pages 68 to 72 were approved by the Board of Directors on 26th March 2015 and signed on its behalf by:

  
D Limet

Director

ViiV Healthcare Limited

Registered number: 06876960

ViiV Healthcare Limited  
Notes to the company balance sheet – UK GAAP as  
at 31st December 2014

**A 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. On 21st January 2014, ViiV Healthcare received approval from the European Medicines Agency for Tivicay in the EU. This resulted in a further equity shift of 0.9% from Pfizer to GSK as per the Shareholders Agreement. The economic interest in the group is now held 78.3% by GSK, 11.7% by Pfizer, and 10.0% by Shionogi.

**Preparation of financial statements**

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

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.

**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.

The balance sheet has been prepared in accordance with the Company's accounting policies approved by the Board and described in Note B.

**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.

ViiV Healthcare Limited  
Notes to the company balance sheet – UK GAAP as  
at 31st December 2014

**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. The Company does not re-measure these liabilities, except to reflect the passage of time, and the extent that the dividends payable in relation to the year differ from the initial valuation.

**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 £6k (2013: £4k) relating to the audit of the Company has been charged in operating profit.

**D Fixed asset investments**

	2014 £'000	2013 £'000
Cost and carrying value at 1st January	2,444,415	2,444,415
Additions	-	-
Impairment	-	-
Cost and carrying value at 31st December	2,444,415	2,444,415

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

Details of the principal subsidiary undertakings of the Company as at 31st December 2014 are given in Note I.

**E Debtors**

	2014 £'000	2013 £'000
<b>Amounts due within one year</b>		
Amounts owed by ViiV Healthcare Group undertakings	125,259	41,484
Amounts owed by GSK Group undertakings	3,356	15,082
Taxation	1,536	584
	130,151	57,150

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

ViiV Healthcare Limited  
Notes to the company balance sheet – UK GAAP as  
at 31st December 2014

**F Creditors**

	2014 £'000	2013 £'000
<b>Amounts falling due within one year</b>		
Other creditors	89,748	60,910
Accruals and deferred income	7	7
	<b>89,755</b>	<b>60,917</b>
<b>Amounts due after more than one year</b>		
Amounts owed to ViiV Healthcare Group undertakings	1,367,889	1,369,232
Other creditors	408,849	383,953
	<b>1,776,738</b>	<b>1,753,185</b>

Other creditors represent future preferential dividends due to GSK, Pfizer and Shionogi (Note G).

**G Called up share capital**

	2014 Number of shares	2013 Number of shares	2014 £'000	2013 £'000
<b>Issued and fully paid</b>				
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
	<b>11,112</b>	<b>11,112</b>	<b>11</b>	<b>11</b>

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 £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.

The Directors proposed and paid two interim ordinary dividends and one preferential dividend during the year ended 31st December 2014. The first interim ordinary dividend of £370 million being £40,845 per Class A Share, £16,149 per Class B Share, £15,592 per Class C Share and £66,664 per class D2 share, and the preferential dividend of £61 million, related to 2013 and was paid on the 10th April 2014. The second interim ordinary dividend of £100 million being £11,234 per Class A Share, £3,923 per Class B Share, £3,767 per Class C Share and £18,018 per Class D2 Share related to 2014 and were paid on the 4th November 2014.

ViiV Healthcare Limited  
Notes to the company balance sheet – UK GAAP as  
at 31st December 2014

**H Reserves**

	Profit and loss account	Share premium account	Other reserves	Total reserves
	£'000	£'000	£'000	£'000
At 1st January 2013	852,572	341,000	(374,360)	<b>819,212</b>
Profit for the financial year	502,793	-	-	<b>502,793</b>
Transfer of finance expense related to preferential dividend	80,633	-	(80,633)	-
Preferential dividend to shareholders	(17,882)	-	17,882	-
Ordinary dividends to shareholders	(634,553)	-	-	<b>(634,553)</b>
At 31st December 2013	783,563	341,000	(437,111)	<b>687,452</b>
Profit for the financial year	490,598	-	-	<b>490,598</b>
Transfer of finance expense related to preferential dividend	112,915	-	(112,915)	-
Preferential dividend to shareholders	(60,553)	-	60,553	-
Ordinary dividends to shareholders	(469,988)	-	-	<b>(469,988)</b>
<b>At 31st December 2014</b>	<b>856,535</b>	<b>341,000</b>	<b>(489,473)</b>	<b>708,062</b>

Other reserves represents the preferential dividends payable to shareholders (Note G) and additional value attributed to the original contribution of the former GSK HIV business in Canada in October 2009 following finalisation of the value of the contribution at that date.

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

**I Principal subsidiaries**

The principal subsidiaries of the Company as at 31st December 2014 are as follows:

Company	Percentage shares held	Class of shares held	Country of Incorporation
ViiV Healthcare UK Limited	100%	Ordinary	England
ViiV Healthcare Overseas Limited	100%	Ordinary	England
ViiV Healthcare Trading Services UK Limited	100%	Ordinary	England
PHIVCO UK Limited	100%	Ordinary	England
PHIVCO UK II Limited	100%	Ordinary	England
ViiV Healthcare UK (No. 2) Limited	100%	Ordinary	Jersey
ViiV Healthcare Company	100%	Common	USA

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

Following the publication of FRS 100 'Application of Financial Reporting Requirements', ViiV Healthcare Limited is required to change its accounting framework for its entity financial statements, which is currently UK GAAP, for its financial year commencing 1 January 2015. It considers that it is in the best interests of the Group for ViiV Healthcare Limited to adopt FRS 101. No disclosures in the current financial statements would be omitted on adoption of FRS 101.