

ViiV Healthcare UK Limited
(Registered number : 06990358)

Annual report and financial statements
for the year ended 31 December 2016

Registered office address:
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Brentford
Middlesex
TW8 9GS
England

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ViiV Healthcare UK Limited
(Registered number : 06990358)

Annual report and financial statements
for the year ended 31 December 2016

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ViiV Healthcare UK Limited
(Registered number: 06990358)

Strategic report for the year ended 31 December 2016

The Directors present their strategic report on ViiV Healthcare UK Limited (the "Company") for the year ended 31 December 2016.

Principal activities and future developments

The Company is a member of the ViiV Healthcare Group (the "ViiV Group"). The Principal activity of the Company is marketing, distribution and selling of HIV products as well as licensing out rights of HIV products to the Group. The Directors do not envisage any change to the nature of the business in the foreseeable future.

Review of business

The Company made a profit for the financial year of £251,087,000 (2015: profit of £305,187,000). The Directors are of the opinion that the current level of activity and the year end financial position are satisfactory and will remain so in the foreseeable future.

The profit for the year of £251,087,000 will be transferred to reserves (2015: profit for the year of £305,187,000 transferred to reserves).

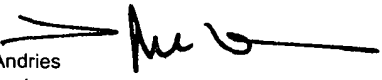
Principal risks and uncertainties

The Directors of ViiV Healthcare Limited manage the risks at the ViiV Group level, rather than at an individual statutory entity level. For this reason, the Company's Directors believe that a discussion of the ViiV Group's risks would not be appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of the GSK Group, which include those of the Company, are discussed in the GSK Group's 2016 Annual Report which does not form part of this report.

Key performance indicators (KPIs)

The Directors of ViiV Healthcare Limited manage the ViiV Group operations on a global group basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The development, performance and position of the GSK Group are discussed in the GSK Group's 2016 Annual Report which does not form part of this report.

On behalf of the Board


J Andries
Director
19 July 2017

ViiV Healthcare UK Limited
(Registered number: 06990358)

Directors' report for the year ended 31 December 2016

The Directors present their report on the Company and the audited financial statements for the year ended 31 December 2016.

Results and dividends

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

An interim dividend of £375,000,000 (2015: £165,500,000) per ordinary share amounting to £1,500,000,000 (2015: £331,000,000) was declared and paid to the holders of ordinary shares on 29 February 2016. A second interim dividend of 2015 of £76,250,000 per ordinary share amounting to £305,000,000 was paid to the holders of ordinary shares on 7 September 2016.

Research and development

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

Directors

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

D Limet	(Resigned on 31 March 2017)
G Reinaud	(Appointed on 31 March 2017)
J Andries	
M Dawson	(Resigned on 31 May 2017)
N Shortman	(Resigned on 7 June 2017)
K Grainger	(Appointed on 1 June 2017)

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

Directors' indemnity

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

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 101 'Reduced disclosure framework' ("FRS 101") and applicable law. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

ViiV Healthcare UK Limited
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Directors' report for the year ended 31 December 2016

Statement of Directors' responsibilities (continued)

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

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

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

Governance

The Company's approach to the Modern Slavery Act 2015 is set by the Group. As part of their governance, the Group reviewed and approved the approach to the Modern Slavery Act 2015 during 2016.

Disclosure of information to auditors

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

Independent auditors

PricewaterhouseCoopers LLP have been appointed to act as the Company's auditors in accordance with a resolution of the Board of Directors. A resolution dealing with their reappointment will be proposed at a General Meeting of the Company.

On behalf of the Board


J Andries
Director
19 July 2017

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Company's affairs at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the Balance sheet as at 31 December 2016;
- the Income statement and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 2 & 3, 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 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:

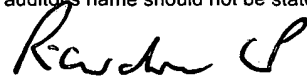
- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

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. With respect to the Strategic report and the Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

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



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 July 2017

ViiV Healthcare UK Limited
(Registered number: 06990358)

Income statement
for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Turnover	4	509,334	473,855
Cost of sales		(94,623)	(78,006)
Gross profit		414,711	395,849
Selling and distribution costs		(9,076)	(6,666)
Administrative expenses		(83,777)	(72,125)
Research and development expenditure		(19,948)	(18,677)
Other operating income		69,839	59,260
Operating profit	5	371,749	357,641
Profit before interest and taxation		371,749	357,641
Finance expense	6	(98,874)	(107)
Profit before taxation		272,875	357,534
Taxation	8	(21,788)	(52,347)
Profit for the year		251,087	305,187

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

ViiV Healthcare UK Limited
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Statement of comprehensive income
for the year ended 31 December 2016

	2016	2015
	£'000	£'000
Profit for the year	251,087	305,187
Items that may be subsequently reclassified to the income statement:		
Fair value movement on investment in subsidiary	2,373,000	1,327,504
Other comprehensive income for the year	2,373,000	1,327,504
Total comprehensive income for the year	2,624,087	1,632,691

ViiV Healthcare UK Limited
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Balance sheet
as at 31 December 2016

	Notes	2016 £'000	2015 £'000
Non-current assets			
Intangible assets	10	2,204	1,935
Investments in subsidiaries	11	6,890,500	3,017,500
Deferred tax assets	8	-	53
Total non-current assets		6,892,704	3,019,488
Current assets			
Trade and other receivables	12	764,254	656,540
Cash and cash equivalents		28	-
Total current assets		764,282	656,540
Total assets		7,656,986	3,676,028
Current liabilities			
Trade and other payables	13	(613,145)	(465,012)
Short-term borrowings	14	-	(98)
Accruals and deferred income	15	(32,816)	(19,035)
Total current liabilities		(645,961)	(484,145)
Net current assets		118,321	172,395
Total assets less current liabilities		7,011,025	3,191,883
Non-current liabilities			
Trade and other payables		(1,500,000)	-
Deferred tax liabilities	8	(55)	-
Total non-current liabilities		(1,500,055)	-
Total liabilities		(2,146,016)	(484,145)
Net assets		5,510,970	3,191,883
Equity			
Share capital	16	-	-
Share premium		1,500,000	-
Other reserves	17	3,036,504	663,504
Retained earnings		974,466	2,528,379
Shareholders' equity		5,510,970	3,191,883

The financial statements on pages 6 to 19 were approved by the Board of Directors on 19 July 2017 and were signed on its behalf by:


J Andries
Director

ViiV Healthcare UK Limited
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Statement of changes in equity
for the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2015	-	378,000	1,181,000	331,192	1,890,192
Profit for the year	-	-	-	305,187	305,187
Other comprehensive income	-	-	1,327,504	-	1,327,504
Total comprehensive income for the year	-	-	1,327,504	305,187	1,632,691
Ordinary shares issued	-	-	-	-	-
Dividends to shareholders	-	-	-	(331,000)	(331,000)
Transfer of reserves to Share premium account	-	1,845,000	(1,845,000)	-	-
Capital Reduction	-	(2,223,000)	-	2,223,000	-
At 31 December 2015	-	-	663,504	2,528,379	3,191,883
Profit for the year	-	-	-	251,087	251,087
Other comprehensive income	-	-	2,373,000	-	2,373,000
Total comprehensive income for the year	-	-	2,373,000	251,087	2,624,087
Ordinary shares issued	-	1,500,000	-	-	1,500,000
Dividends to shareholders	-	-	-	(1,805,000)	(1,805,000)
At 31 December 2016	-	1,500,000	3,036,504	974,466	5,510,970

ViiV Healthcare UK Limited
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Notes to the financial statements for the year ended 31 December 2016

1 Presentation of the financial statements

General information

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

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Disclosure exemptions adopted

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

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payments' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7, 'Financial instruments: disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - (i) paragraph 79(a) (iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
 - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period);
 - (iv) paragraph 62(a) and (b) of IAS 40 Investment property;
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows),
 - 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or make a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirements for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 40A-D (requirements for a third balance sheet),
 - 111 (cash flow statement information), and
 - 134 - 136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation);
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group.

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Notes to the financial statements for the year ended 31 December 2016

2 Summary of significant accounting policies (continued)

The financial statements of GlaxoSmithKline plc can be obtained as described in note 2(b).

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

(b) Consolidation

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

(c) Foreign currency transactions

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

(d) Turnover

Turnover comprises of third party royalty income, intercompany royalty income and positive residual profit returns.

The net profit remaining after accounting for all third party income and expenses, and intercompany expenses related to the supply and management of the product, is returned to the intellectual property rights holders in the form of a residual return. Whereby the return is an income, it is categorised as turnover, and whereby it is a cost, it is categorised as Cost of sales.

Turnover is recognised when the third party or intercompany revenue, and associated expenses of the product cause the title and risk of loss to pass to the customer and/or intercompany counterparty. 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.

(e) Expenditure

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

(f) Royalty income and expenses

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

(g) Dividends paid and received

Interim dividends received are included in the income statement in the year in which the right to receive the payment is established. Interim dividends paid are deducted from reserves in the year in which they are paid. Final dividends are recorded in the reserves upon shareholder approval. Dividends in specie are recognised at their fair value at the date of receipt.

Notes to the financial statements for the year ended 31 December 2016

2 Summary of significant accounting policies (continued)

(h) Research and development

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

(i) Finance expense

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

(j) Share based payments

Incentives in the form of shares are provided to employees under share option and share award schemes are fair-valued at their grant dates and the cost is charged to the income statement.

(k) Intangible assets

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

Licences and patents rights, separately acquired are amortised over their estimated useful lives generally not exceeding 20 years, using the straight-line basis, from the time they are available for use. The estimated useful lives for determining the amortisation charge take into account patent lives, where applicable, as well as the value obtained from periods of non-exclusivity. Asset lives are reviewed, and where appropriate adjusted, annually. Any development costs incurred by the Company and associated with acquired licences, patents 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.

(l) Investment in subsidiaries

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

(m) Impairment of non-financial assets

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

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

(n) Trade and other receivables

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

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

(o) Cash and cash equivalents

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

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Notes to the financial statements for the year ended 31 December 2016

2 Summary of significant accounting policies (continued)

(p) Trade and other payables

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

(q) Taxation

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

Deferred tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probably 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, associates and joint ventures, except where the timing of the reversal of the temporary differences 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.

3 Key accounting judgments and estimates

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

(a) Turnover

The net profit remaining after accounting for all third party income and expenses, and intercompany expenses related to the supply and management of the product, is returned to the intellectual property rights holders in the form of a residual return. Whereby the return is an income, it is categorised as turnover, and whereby it is a cost, it is categorised as Cost of sales.

Turnover is recognised when the third party revenue, and associated expenses of the product cause the title and risk of loss to pass to the customer and/or intercompany counterparty. 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.

(b) Taxation

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

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

4 Turnover

During the year ended 31 December 2016, the Company operated in one geographical segment, the United Kingdom, and one class of business, being the licensing to other Group companies and the sale of HIV products to third parties.

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Notes to the financial statements for the year ended 31 December 2016

5 Operating profit

	2016 £'000	2015 £'000
The following items have been (credited)/charged in operating profit:		
Third party royalties	12,410	5,271
Royalties and other income from Group undertakings	(1,104)	(855)
Exchange losses on foreign currency transactions	930	1,548
Amortisation of intangible assets	150	115
Cost of inventories included in cost of sales	94,473	77,891
Audit Fees	35	27

During the year, the Company bore head office costs on behalf of the Group and charged a management fee to other Group companies for these services.

6 Finance expense

	2016 £'000	2015 £'000
On loans with Group undertakings	(98,874)	(107)

The finance expense of £98,087,671 related to the loan payable of £1,500,000,000 to ViiV Healthcare Finance Limited, which incurred interest at a rate of 7.8% per annum.

7 Employees

Employee costs	2016 £'000	2015 £'000
Wages and salaries	32,129	23,786
Social security costs	1,633	1,170
Share based payments	4,727	6,272
	38,489	31,228

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

	2016	2015
Selling, general and administration	150	134

The average number of Company employees excludes temporary and contract staff.

8 Taxation

Income tax expense on profit	2016 £'000	2015 £'000
Current tax:		
UK corporation tax	20,777	48,572
Adjustments in respect of previous years	903	3,221
Total current tax	21,680	51,793
Deferred tax:		
Origination and reversal of timing differences	137	620
Adjustments in respect of previous years	(12)	(64)
Change in tax rate - impact on deferred tax	(17)	(2)
Total deferred tax	108	554
Total tax charge for the year	21,788	52,347

ViiV Healthcare UK Limited
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Notes to the financial statements for the year ended 31 December 2016

8 Taxation (continued)

The tax assessed for the year is lower (2015: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2016 of 20.00% (2015: 20.25%). The differences are explained below:

Reconciliation of total tax charge	£'000	£'000
Profit on ordinary activities before tax	272,875	357,534
Tax on ordinary activities at the UK statutory rate 20.00% (2015: 20.25%)	54,575	72,388
Effects of:		
Patent Box deduction	(31,666)	(24,269)
Other permanent differences	(1,995)	1,073
Adjustments in respect of previous years	891	3,157
Remeasurement of deferred tax - change in tax rate	(17)	(2)
Total tax charge for the year	21,788	52,347

Factors that may affect future tax charges:

The UK tax rate for the year ended 31 December 2016 is 20%. Further reductions to 19% (effective 1 April 2017) and to 17% (effective 1 April 2020) were enacted as part of the Finance Act 2016 on 15 September 2016. This will impact the Company's future current tax charge accordingly. Deferred taxes have been measured using appropriate rates substantively enacted at the balance sheet date.

Movement in deferred tax assets and liabilities

	Intangibles assets
	£'000
At 1 January 2016	53
Charge to income statement	(108)
At 31 December 2016	(55)

After offsetting deferred tax assets and liabilities where appropriate, the net deferred tax liability comprises:

	2016	2015
	£'000	£'000
Deferred tax assets classified as non-current assets	-	53
Deferred tax liabilities classified as non-current liabilities	55	-
	55	53

9 Dividends paid

	£ per share	£ '000
Dividends paid in 2016		
7 September 2016 - 2015 interim dividend paid	76,250,000	305,000
29 February 2016 - 2016 interim dividend paid	375,000,000	1,500,000
Dividends paid in 2015		
2 October 2015 - interim dividend paid	165,500,000	331,000

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Notes to the financial statements for the year ended 31 December 2016

10 Other intangible assets

	Licences, patents, etc. £'000
Cost	
At 1 January 2016	2,120
Additions	419
At 31 December 2016	2,539
Accumulated amortisation	
At 1 January 2016	(185)
Charge for the year	(150)
At 31 December 2016	(335)
Net book value at 1 January 2016	1,935
Net book value at 31 December 2016	2,204

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

11 Investments in subsidiary undertakings

	Subsidiary undertakings £'000
Fair value	
At 1 January 2015	1,690,000
Increase in fair value during the year	1,327,500
At 31 December 2015	3,017,500
Additions	1,500,000
Increase in fair value during the year	2,373,000
At 31 December 2016	6,890,500

Investment in subsidiary undertakings comprises investment of 68.61% shares (2015: 60.34%) in ViiV Healthcare UK (No.3) Limited with a cost of £2,009m out of which £1,500m investments were made during the year in ViiV Healthcare UK (No.3) Limited (2015: £509m).

Details of the subsidiary undertakings of the Company as at 31 December 2016 are given in Note 20.

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

12 Trade and other receivables

	2016 £'000	2015 £'000
Amounts due within one year		
Trade receivables	24,920	24,035
Amounts owed by Group undertakings	728,520	615,320
Amounts owed by GlaxoSmithKline Group undertakings	-	10,373
Other receivables	10,814	6,812
	764,254	656,540

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

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Notes to the financial statements for the year ended 31 December 2016

13 Trade and other payables

	2016 £'000	2015 £'000
Amounts due within one year		
Trade payables	14,660	15,257
Amounts owed to Group undertakings	437,160	328,718
Amounts owed to GlaxoSmithKline Group undertakings	87,539	71,483
Corporation tax	65,286	43,606
Other payables	8,500	5,948
	613,145	465,012
Amount due after more than one year		
Amounts owed to Group undertakings	1,500,000	-
	1,500,000	-

The amounts owed to Group undertakings and GlaxoSmithKline Group undertakings are unsecured, interest free and repayable on demand except for a call account balance with ViiV Healthcare Trading Services UK Limited of £435,852,572 (2015: £316,574,523) which is unsecured with interest charged at 0.93% (2015: 0.14%) per annum and repayable on demand.

The amount owed to group undertakings for more than a year pertains to loan balance with ViiV Healthcare Finance Limited of £1,500,000,000 at fixed interest rate of 7.8% per annum.

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

14 Short-term borrowings

	2016 £'000	2015 £'000
Amounts falling due within one year		
Bank overdraft	-	98

15 Accruals and deferred income

	2016 £'000	2015 £'000
Amounts falling due within one year	32,816	19,035

16 Share capital

	2016 Number of shares	2015 Number of shares	2016 £	2015 £
Authorised				
Ordinary Shares of £1 each (2015: £1 each)	100	100	100	100
Issued and fully paid				
Ordinary Shares of £1 each (2015: £1 each)	4	3	4	3

During the year ended 31 December 2016, the Company allotted 1 ordinary share (nominal value: £1 per share) at a premium of £1,499,999,999 to ViiV Healthcare Limited.

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Notes to the financial statements for the year ended 31 December 2016

17 Other reserves

	Fair value reserve £'000
At 1 January 2015	1,181,000
Net fair value movements	1,327,504
Transfer of reserves to Share premium account	(1,845,000)
At 31 December 2015	663,504
Net fair value movements	2,373,000
At 31 December 2016	3,036,504

Movements in Fair value reserves relate entirely to revaluations in the Company's subsidiary holding ViiV Healthcare UK (No.3) Limited.

18 Directors' remuneration

During the year the Directors of the Company were remunerated as executives of the Group. They received no remuneration in respect of their services to the Company (2015: £nil).

19 Employee Share Schemes

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

Share option plan

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

Performance share award plan

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

Share value award plan

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

The share based compensation charge for the above schemes has been recorded in the income statement as administrative expenses of £4.7 million (2015: £6.3 million) and is considered immaterial for further disclosure.

20 Related party transactions

The Company has taken advantage of the exemption afforded by FRS 101 'Reduced disclosure framework' not to disclose any related party transactions with other wholly owned members of the Group, or information around remuneration of key management personnel compensation. The related party transactions that do not qualify for exemptions are detailed below.

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Notes to the financial statements for the year ended 31 December 2016

20 Related party transactions (continued)

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

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

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

	GlaxoSmithKline Group of companies	GlaxoSmithKline Group of companies
	2016	2015
	£'000	£'000
Purchase of Goods and Services		
GlaxoSmithKline Research & Development Limited	175,211	123,432
GlaxoSmithKline UK Limited	89	77
GlaxoSmithKline Services Unlimited	12,902	15,548
Payable to related parties		
GlaxoSmithKline Research & Development Limited	54,298	38,449
GlaxoSmithKline Services Unlimited	18,240	18,189
GlaxoSmithKline UK Limited	13,396	-
Receivables from related parties		
GlaxoSmithKline UK Limited	-	3,995
GlaxoSmithKline Research & Development Limited	-	-

21 Subsidiaries

The subsidiaries of the Company as at 31 December 2016 are as follows:

Company	Direct shares held (%)	Indirect shares held(%)	Security	Address of the registered office
ViiV Healthcare UK (No.3) Limited	68.61%	-	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England.
ViiV Healthcare Finance 1 Limited	-	68.61%	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England.
ViiV Healthcare Finance Limited	-	68.61%	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England.
ViiV Healthcare Finance Limited	-	68.61%	Redeemable Preference Shares	980 Great West Road, Brentford, Middlesex, TW8 9GS, England.
Shionogi - ViiV Healthcare LLC	-	68.61%	Common Interests	Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware, 19808, United States.