

ViiV Healthcare UK Limited
(Registered number : 06990358)

Annual Report

for the year ended 31 December 2017



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

ViiV Healthcare UK Limited
(Registered number : 06990358)

Annual Report

for the year ended 31 December 2017

Contents	Pages
Strategic report	1
Directors' report	2-3
Independent auditors' report	4-6
Income statement	7
Statement of other comprehensive income	8
Balance sheet	9
Statement of changes in equity	10
Notes to the financial statements	11-20

ViiV Healthcare UK Limited
(Registered number: 06990358)

Strategic report for the year ended 31 December 2017

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

Principal activities and future developments

The Company is a member of the ViiV Healthcare Group (the "ViiV Group"). The principal activities of the Company are marketing, distribution and selling of HIV products, as well as the development, enhancement, maintenance, protection and exploitation of intellectual property assets owned by the Company which may include but is not limited to, licensing out intellectual property rights relating to pharmaceutical products to the ViiV Healthcare Group of companies (the "Group") and carrying out research and development activities. The Directors do not envisage any change to the nature of the business in the foreseeable future. Additionally, the Company holds an investment in a subsidiary undertaking.

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

Review of business

The Company made a profit for the financial year of £112,095,000 (2016: profit of £251,087,000). 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 £112,095,000 will be transferred to reserves (2016: profit for the year of £251,087,000 transferred to reserves).

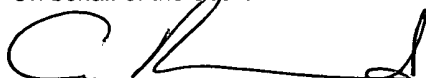
Principal risks and uncertainties

The Directors of the Company manage the functions, assets and risks related to the intellectual property assets owned by the Company on a business sector, therapy area and stage of product life cycle basis. The principal functions, risks and uncertainties related to the development, enhancement, maintenance, protection and exploitation of intellectual property assets owned by the Group, which include those of the Company, are discussed in the Group's parent company, ViiV Healthcare Limited's, Annual Report and financial statements. Please refer to the 2017 ViiV Healthcare Limited's (the parent company of the ViiV Group) Annual Report and financial statements, which does not form part of this report, to ensure a complete understanding of the principal risks and uncertainties of the Group, and therefore the Company.

Key performance indicators (KPIs)

The Directors of the Company manage the functions, assets and risks related to the intellectual property assets owned by the Company on a business sector, therapy area and stage of product life cycle basis. Therefore, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The development, performance and position of the Group are discussed in ViiV Healthcare Limited's 2017 Annual Report which does not form part of this report.

On behalf of the Board



G Reinaud
Director
28 June 2018

ViiV Healthcare UK Limited
(Registered number: 06990358)

Directors' report for the year ended 31 December 2017

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

Results and dividends

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

An interim dividend of £242,500,000 (2016: £451,250,000) per ordinary share amounting to £970,000,000 (2016: £1,805,000,000) was declared and paid to the holders of ordinary shares on 31 December 2017.

No final dividend is proposed to the holders of ordinary shares in respect of the year ended 31 December 2017 (2016: £nil).

Research and development

The Company is responsible for initiating research and development ("R&D") activities, which are carried out by GlaxoSmithKline plc, 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 office during the year and up to the date of signing the financial statements were as follows:

D Limet	(Resigned on 31 March 2017)
M Dawson	(Resigned on 31 May 2017)
N Shortman	(Resigned on 7 June 2017)
J Andries	(Resigned on 30 September 2017)
G Reinaud	(Appointed on 31 March 2017)
K Grainger	(Appointed on 1 June 2017)
D Waterhouse	(Appointed on 22 September 2017)

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

Directors' indemnity

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

ViiV Healthcare UK Limited
(Registered number: 06990358)

Directors' report for the year ended 31 December 2017

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. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Governance

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

Disclosure of information to auditors

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

Independent auditors

Following the signing of the accounts the Company will be appointing Deloitte LLP as statutory auditors for the 2018 financial year.

On behalf of the Board



G Reinaud
Director
28 June 2018

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

Report on the audit of the financial statements

Opinion

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

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

Reporting on other information (continued)

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described on page 5-6.

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

Responsibilities for the financial statements and the audit (continued)

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Other matter

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



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 June 2018

ViiV Healthcare UK Limited
(Registered number: 06990358)

Income statement
for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Turnover	4	351,164	509,334
Cost of sales		(55,617)	(94,623)
Gross profit		295,547	414,711
Selling and distribution costs		(9,859)	(9,076)
Administrative expenses		(105,229)	(83,777)
Research and development expenditure		(29,945)	(19,948)
Other operating income		80,634	69,839
Operating profit	5	231,148	371,749
Profit before interest and taxation		231,148	371,749
Finance expense	6	(117,284)	(98,874)
Profit before taxation		113,864	272,875
Taxation	8	(1,769)	(21,788)
Profit for the year		112,095	251,087

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

ViiV Healthcare UK Limited
(Registered number: 06990358)

Statement of comprehensive income
for the year ended 31 December 2017

	2017	2016
	£'000	£'000
Profit for the year	112,095	251,087
Items that may be subsequently reclassified to the income statement:		
Fair value movement on investment in subsidiary	(196,500)	2,373,000
Other comprehensive (loss) / income for the year	(196,500)	2,373,000
Total comprehensive (loss) / income for the year	(84,405)	2,624,087

ViiV Healthcare UK Limited
(Registered number: 06990358)

Balance sheet
as at 31 December 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Intangible assets	10	2,513	2,204
Investments in subsidiaries	11	6,694,000	6,890,500
Total non-current assets		6,696,513	6,892,704
Current assets			
Trade and other receivables	12	318,995	764,254
Cash and cash equivalents		272	28
Total current assets		319,267	764,282
Total assets		7,015,780	7,656,986
Current liabilities			
Trade and other payables	13	(1,023,105)	(613,145)
Accruals	14	(35,947)	(32,816)
Total current liabilities		(1,059,052)	(645,961)
Net current (liabilities)/assets		(739,785)	118,321
Total assets less current liabilities		5,956,728	7,011,025
Non-current liabilities			
Trade and other payables	13	(1,500,000)	(1,500,000)
Deferred tax liabilities	8	(163)	(55)
Total non-current liabilities		(1,500,163)	(1,500,055)
Total liabilities		(2,559,215)	(2,146,016)
Net assets		4,456,565	5,510,970
Equity			
Share capital	15	-	-
Share premium		1,500,000	1,500,000
Other reserves	16	2,840,004	3,036,504
Retained earnings		116,561	974,466
Shareholders' equity		4,456,565	5,510,970

The financial statements on pages 7 to 20 were approved by the Board of Directors on 28 June 2018 and signed on its behalf by:



G Reinaud
Director

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

	Notes	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2016		-	-	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	9	-	-	-	(1,805,000)	(1,805,000)
At 31 December 2016		-	1,500,000	3,036,504	974,466	5,510,970
Profit for the year		-	-	-	112,095	112,095
Other comprehensive loss		-	-	(196,500)	-	(196,500)
Total comprehensive income for the year		-	-	(196,500)	112,095	(84,405)
Ordinary shares issued		-	-	-	-	-
Dividends to shareholders	9	-	-	-	(970,000)	(970,000)
At 31 December 2017		-	1,500,000	2,840,004	116,561	4,456,565

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

1 Presentation of the financial statements

General information

The Company is a member of the ViiV Healthcare Group (the "ViiV Group"). The principal activities of the Company are marketing, distribution and selling of HIV products, as well as the development, enhancement, maintenance, protection and exploitation of intellectual property assets owned by the Company which may include but is not limited to, licensing out intellectual property rights relating to pharmaceutical products to the ViiV Healthcare Group of companies (the "Group") and carrying out research and development activities. The Directors do not envisage any change to the nature of the business in the foreseeable future. Additionally, the Company holds an investment in a subsidiary undertaking.

The Company is a private company, limited by shares, 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 76 and 79(d) 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.

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

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 GlaxoSmithKline plc. Copies of the consolidated financial statements can be obtained from the Company Secretary, GlaxoSmithKline plc, 980 Great West Road, Brentford, Middlesex TW8 9GS. The immediate parent undertaking is ViiV Healthcare Limited. These financial statements are separate financial statements.

(c) Foreign currency transactions

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

(d) Turnover

Turnover relates to the receipt of a distribution return from the manufacture and distribution of pharmaceutical product for which it owns the intellectual property rights. Whereby the distribution return is an income, it is categorised as Turnover. Distribution losses are recorded in 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.

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

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 in Company's ultimate parent company, GlaxoSmithKline plc, that 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 and losses recognised directly in reserves. On disposal of investment in subsidiary, the accumulated fair value adjustments previously taken to reserves are included in the income statement.

(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 the income statement.

(o) Cash and cash equivalents

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

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

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 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, 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.

(r) Share capital

Ordinary shares are classified as equity.

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

Turnover relates to the receipt of a distribution return from the manufacture and distribution of pharmaceutical product for which it owns the intellectual property rights. Whereby the distribution return is an income, it is categorised as Turnover. Distribution losses are recorded in 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.

(b) Valuation of investment in subsidiaries

Management have calculated the fair value of the investment based on risk adjusted future cash flows discounted using appropriate discount rates. The fair value movement of the investment is accounted for in other reserves.

4 Turnover

During the year ended 31 December 2017, 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.

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

5 Operating profit

	2017	2016
	£'000	£'000

The following items have been charged/(credited) in operating profit:

Third party royalties	16,802	12,410
Royalties and other income from Group undertakings	798	(1,104)
Exchange losses on foreign currency transactions	202	930
Amortisation of intangible assets	177	150
Cost of inventories included in cost of sales	55,440	94,473
Audit Fees	35	35

6 Finance expense

	2017	2016
	£'000	£'000

On loans with Group undertakings	(117,284)	(98,874)
----------------------------------	-----------	----------

£117,000,000 (2016:£98,087,671) of the finance expense relates 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.

The remaining finance expense of £284,366 (2016:£785,875) relates to call account balance of £893,763,275 (2016: £435,852,572) with ViiV Healthcare Trading Services UK Limited, which incurred interest at LIBOR rate less 0.125% (2016: LIBOR rate less 0.125%) per annum.

7 Employees

	2017	2016
	£'000	£'000
Employee costs		
Wages and salaries	39,768	32,129
Social security costs	2,935	1,633
Share based payments	4,605	4,727
	47,308	38,489

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

	2017	2016
Selling, general and administration	175	150

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

8 Taxation

	2017	2016
	£'000	£'000
Income tax expense on profit		
Current tax:		
UK corporation tax at 19.25% (2016: 20.00%)	2,000	20,777
Adjustments in respect of previous years	(339)	903
Total current tax	1,661	21,680
Deferred tax:		
Origination and reversal of timing differences	125	137
Adjustments in respect of previous years	(2)	(12)
Change in tax rate - impact on deferred tax	(15)	(17)
Total deferred tax	108	108
Total tax charge for the year	1,769	21,788

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

8 Taxation (continued)

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

Reconciliation of total tax charge	£'000	£'000
Profit on ordinary activities before tax	113,864	272,875
Tax on ordinary activities at the UK statutory rate 19.25% (2016: 20.00%)	21,915	54,575
Effects of:		
Patent Box deduction	(22,079)	(31,666)
Other permanent differences	2,361	(1,995)
Adjustments in respect of previous years	(341)	891
Rate change in respect of deferred tax	(15)	(17)
R&D tax credits	(72)	-
Total tax charge for the year	1,769	21,788

Factors that may affect future tax charges:

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

Movement in deferred tax assets and liabilities

	Intangible assets £ '000
At 1 January 2017	(55)
Charge to income statement	(108)
At 31 December 2017	(163)

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

	2017 £'000	2016 £'000
Deferred tax liabilities classified as non- current liabilities	(163)	(55)

9 Dividends paid

	£ per share	£ '000
Dividends paid in 2017		
31 December 2017 - 2017 interim dividend paid	242,500,000	970,000
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
		1,805,000

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

10 Intangible assets

	Licences, patents, etc. £'000
Cost	
At 1 January 2017	2,539
Additions	486
At 31 December 2017	3,025
Accumulated amortisation	
At 1 January 2017	(335)
Charge for the year	(177)
At 31 December 2017	(512)
Net book value at 1 January 2017	2,204
Net book value at 31 December 2017	2,513

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 2016	3,017,500
Additions	1,500,000
Increase in fair value during the year	2,373,000
At 31 December 2016	6,890,500
Decrease in fair value during the year	(196,500)
At 31 December 2017	6,694,000

Investment in subsidiary undertakings comprises investment of 68.61% shares (2016: 68.61%) in ViiV Healthcare UK (No.3) Limited with a cost of £2,009 million out of which £nil investments were made during the year in ViiV Healthcare UK (No.3) Limited (2016: £1,500 million).

Details of the subsidiary undertakings of the Company as at 31 December 2017 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

	2017 £'000	2016 £'000
Amounts due within one year		
Trade receivables	21,484	24,920
Amounts owed by Group undertakings	292,646	728,520
Amounts owed by GlaxoSmithKline group undertakings	22	-
Other receivables	4,843	10,814
	318,995	764,254

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

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

13 Trade and other payables

	2017 £'000	2016 £'000
Amounts due within one year		
Trade payables	17,976	14,660
Amounts owed to Group undertakings	896,501	437,160
Amounts owed to GlaxoSmithKline group undertakings	48,652	87,539
Corporation tax	51,374	65,286
Other payables	8,602	8,500
	1,023,105	613,145
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 £893,763,275 (2016: £435,852,572) which is unsecured with interest charged at LIBOR rate less 0.125% (2016: LIBOR rate less 0.125%) per annum and repayable on demand.

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

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

14 Accruals

	2017 £'000	2016 £'000
Amounts falling due within one year	35,947	32,816

15 Share capital

	2017 Number of shares	2016 Number of shares	2017 £	2016 £
Issued and fully paid				
Ordinary Shares of £1 each (2016: £1 each)	4	4	4	4

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

16 Other reserves

	Fair value reserve £'000
At 1 January 2016	663,504
Net fair value movements	2,373,000
At 31 December 2016	3,036,504
Net fair value movements	(196,500)
At 31 December 2017	2,840,004

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

17 Directors' remuneration

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

18 Employee Share Schemes

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

Share option plan

Options are granted to employees to acquire shares at the grant price. In GSK, options 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 £4.6 million (2016: £4.7 million) and is considered immaterial for further disclosure.

19 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.

ViiV Healthcare UK Limited
(Registered number: 06990358)

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

19 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
	2017	2016
	£'000	£'000
Purchase of Goods and Services		
GlaxoSmithKline Research & Development Limited	128,530	175,211
GlaxoSmithKline UK Limited	89	89
GlaxoSmithKline Services Unlimited	14,356	12,902
Payable to related parties		
GlaxoSmithKline Research & Development Limited	607	54,298
GlaxoSmithKline Services Unlimited	19,490	18,240
GlaxoSmithKline UK Limited	11,810	13,396
GlaxoSmithKline Intellectual Property Development Limited	14,824	-

20 Subsidiaries

The subsidiaries of the Company as at 31 December 2017 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.
	-	68.61%	Redeemable Preference Shares	
Shionogi - ViiV Healthcare LLC	-	68.61%	Common Interests	Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware, 19808, United States.