



**Viapath Group LLP
Annual Report and Financial Statements
For the year ended 31 December 2016**



**A limited liability partnership registered in England and Wales
Registered number OC337242**

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Designated Members and Advisers

Registration number: OC337242 Companies House

Registered office: VIAPATH GROUP LLP
Francis House
9 King's Head Yard
London
SE1 1NA

Designated members: Pathology Services Limited (registered number 06593374)
Serco Limited (registered number 00242246)
KCH Commercial Services Limited (registered number 06023863)

Banker: HSBC Bank plc
Regional Service Centre Europe
PO Box 125
62-76 Park Street
London
SE1 9DZ

Auditor: Deloitte LLP
2 New Street Square,
London,
EC4A 3BZ

Summary Information for the year to 31st December 2016

About us

Since our inception in 2009, Viapath has been a leading UK provider of pathology services to the NHS and private healthcare market. We employ over 1,000 scientists and other employees and provide one of the widest pathology test repertoires in the UK. Viapath has world-renowned specialist laboratories at the leading edge of innovation supporting cancer care, genomics and transplant medicine. Each year the business undertakes 30 million tests and reinvests millions of pounds in growth, modernisation, training and development, and innovation.

Group Structure

Viapath Group LLP is the majority stake-holding partner of Viapath Analytics LLP and Viapath Services LLP. Minority partners of these subsidiary companies are Serco Ltd, KCH Commercial Services Ltd (KCS) and Pathology Services Ltd (PSL). Serco Ltd, KCS and PSL hold an equal share in Viapath Group LLP being one third each. Serco Ltd, KCS and PSL together make up the Members of Viapath consolidated group partnerships, "The Group".

The consolidated financial statements of The Group include the balances of Viapath Analytics LLP (VA) registration number OC392043 and Viapath Services LLP (VS) registration number OC392044. Viapath Group LLP has guaranteed the liabilities of VA and VS under Section 479A and C of the Companies Act 2006 (as Amended). As such VA and VS are exempted from audit of VA and VS financial statements for the financial year 2016.

Chairman's Report

For the period 1 January 2016 to 31 December 2016

Viapath continued to face a challenging operating environment in 2016, with customers demanding continuing high quality services whilst seeking to bear down on the costs of those services. Even so, the considerable upside potential of the business was also reinforced, with the NHS's national bodies re-iterating their desire to see a major transformation in the way pathology services are delivered. For Viapath, this has meant that we have had simultaneously to continue a relentless focus on improving current operations whilst also building the platform for our future growth.

Improvements in current operations are essential both to meet the demands of our customers and to generate the funds needed to support our future growth. In 2016 improvements have included completing the first phase of our investment in the enterprise LIMS programme, delivering greater value to our customers by developing more efficient assays and new tests – for example, helping customers address emerging threats such as those posed by *Candida Auris* a multi-drug resistant pathogen - and restructuring the organisation to support more efficient ways of working and improvements in productivity. Significantly, and despite the pressures on our customer base, Viapath has also continued to grow in 2016, adding major new contracts in South London as well as additional volumes across many of our existing customers.

Overall, the impact of these efforts was to maintain a positive financial performance achieving an EBITDA of £6.1m, albeit £1.5m less than the original plan.

In parallel to this work, we made significant progress in establishing our platform for the future. A strategy for transforming the way we deliver our services, starting with our core customers, was agreed with our shareholders, and considerable effort is now underway to develop the business case for the first major phase of investment.

These results, achieved against a difficult backdrop, have been possible only because of the skill and dedication of our staff. Every single person working at Viapath has a part to play in making this a great business and a great place to work. Many staff continue to be recognised internationally for their expertise, and for our part, staff learning and development remains core to our strategy with more than 1 in 10 benefiting from developmental training in 2016.

Looking to 2017, our priorities have to be to continue improving our business processes and efficiency whilst delivering high quality services, to secure additional volumes where possible, and to develop a compelling case for investment in the first major phase of our growth strategy.

Viapath has a very bright future if we can harness the opportunities for improvement and innovation in the way we work, and in the technologies we use: working smarter not harder and exploiting the revolution that lies ahead in the world of pathology. So, I am pleased to report one other important development in 2016, the appointment of our new Chief Executive, Dougie Dryburgh. I am sure Dougie and his team will provide strong and effective leadership as we embark on this next major phase of our development.

Dr. David Bennett
Viapath Independent Chairman

Strategic Report

for the 12-month period to 31st December 2016

This Strategic report has been prepared solely to provide additional information to assess the partnership's strategies and the potential for those strategies to succeed.

The Strategic report contains certain forward-looking statements. These statements are made by the Members in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The Members in preparing this Strategic report have complied with s414C of the Companies Act 2006.

Business review and future developments

Business Changes

During 2016 Viapath started providing services on the PRUH site in July 2016 and as a result the financial performance includes 7 months of service delivery on that site. Viapath also began providing services at South London and Maudsley NHS Foundation Trust in February 2016.

Year End Results

The results for the year ended 31st December 2016 as shown in the primary statements from page 13 to 16, while the notes supporting the statements are shown from page 17. The Members believe that these results appropriately reflect Viapath activities during the year.

A summary of key financial results is set out in the table below and discussed in this section.

	2016	2015
Revenue (£ '000)	105,231	97,251
Operating profit for the financial year (£ '000)	1,650	1,706
Total assets (£ '000)	46,549	45,632
EBITDA (£ '000)	6,123	5,795
Gross Profit percentage	28.8%	28.7%
Return on capital employed (Operating Profit/total Assets)	3.5%	3.7%

Revenue in 2016 increased by 8.2% compared to prior year revenue. The increase is attributable to successful introduction of new contracts, including PRUH and new tests repertoire, increased growth in third party tests and the changing case mix of tests performed for our major customers. Despite the growth in revenue our return on capital employed has fallen as Viapath continue to offer significant value to our NHS customers by absorbing increased costs without passing these on to customers.

Capital Expenditure

The business continued its Laboratory Information Management (LIM) system improvement programme rolling out the asset at the end of June 2016. Plans are in place to continue development of our LIM systems in 2017 with a focus on blood transfusion.

Staff

Staff turnover in the 12 months to 31 December 2016 was just below the 2015 level at 15.98% (2015:16.00%). This continues to remain stable following the high rates seen pre 2014 and continues to demonstrate the effectiveness of staff engagement programmes, career progression opportunities and investment in staff training and development.

Principal risks and uncertainties**Interest rate risk**

Viapath is exposed to interest rate risk on funding from its members. As at 31 December 2016, Viapath had drawn down loans totalling £15.0m (2015: £14.3m) from its members. Of that balance £12.6m (2015: £12.3m) relates to cash loans repayable in tranches between 2017 and 2019. The remaining £2.4m (2015: £2.0m) relates to non-cash stock that will be transferred back to Member's at the cessation of pathology contracts. Interest is paid on the loans at 2% above LIBOR relating to three month deposits. There are no other significant borrowings or bank overdrafts.

Credit risk

Viapath's principal financial assets are trade and other receivables. In 2016 the debtor balances resulting from third party sales continued to grow. The majority of these customers are NHS organisations and, in line with the macroeconomic environment some of these customers have significant financial challenges. As a result Viapath has witnessed a significant growth in its receivables impairment provision. Nevertheless management has countered this emerging risk with an increased resource focused on ensuring prompt cash collection. The Members do not consider that Viapath is exposed to significant credit risk on the basis that the three main customers account for the large majority of receivables are independently regulated by NHS Improvement and are largely government funded.

Viapath trades with its designated members and creditworthy third parties assessed by reference to credit ratings companies. It is the organisation's policy that, as deemed appropriate, clients and customers are subject to credit vetting procedures. During the accounting year, Viapath had three major public sector customers and a number of smaller public sector and commercial customers.

Liquidity risk

Viapath has received funding from its members and has no other significant borrowings. The partnership continues to benefit from the joint support of its members. Adequate funds are provided by the members through a combination of loan funding and working capital management. The Members, therefore, do not consider that Viapath is exposed to significant liquidity risk.

Corporate governance**Overview**

In January 2016 the functions that had previously been considered at the Member's Board and Operations Board were combined to a single Viapath Group Board. Three committees of the Board are the Audit Committee, Remuneration Committee and the Governance, Risk and Quality Committee. During late 2016 an additional Finance and Performance Committee was established for greater financial governance oversight.

Viapath Group Board

The Viapath Group Board (the 'Board') oversees the strategic direction of the business, takes decisions on items reserved for unanimous member approval and ensures accountability to investors. The meeting is chaired by the independent Chairman of Viapath and attendees are representatives from each of the members of Viapath, along with the Viapath Executive team and the Viapath Company Secretary. Only the member representatives have voting rights.

The Board has agreed the specific business and governance matters that are reserved for its decision to help it discharge its responsibilities and oversee Viapath's affairs. These matters include:

- annual objectives, budget and forecast;
- monitoring delivery of Viapath's strategy and objectives;
- profit sharing agreements;
- annual report and accounts;
- overall system of internal control and risk management;
- major capital projects;
- communications policy;
- changes to the structure, size and composition of the board;
- appointment of executive officers; and
- material changes to pension plans or the introduction of new schemes.

Certain specific responsibilities are delegated to the committees, notably the Audit and Remuneration committees, which operate within clearly defined terms of reference and are described below.

Viapath Group Board Committees**Remuneration Committee**

The Remuneration Committee is a standing committee of the Operating Board. It meets at least once a year and reviews the remuneration arrangements including salary and benefits for the Viapath executive team. The meeting is chaired by the independent Chairman of Viapath and attendees represent each of the members. The Viapath Company Secretary also attends.

Audit Committee

The Audit Committee is a standing committee of the Operating Board. It meets at least twice a year to review the financial risk, control and assurance processes, audit compliance and the corporate risk register. The Committee also reviews and approves the statutory accounts. The meeting is chaired by the independent Chairman of Viapath and attendees represent each of the members. The Viapath Company Secretary also attends.

Governance, Risk and Quality Committee

The Governance, Risk and Quality Committee is a standing committee of the Operating Board. It supports the Board in gaining reasonable assurance that Viapath has unified and effective structures for clinical governance, quality and the related aspects of risk management and assurance to support the organisation's programme for quality improvement and safety. During 2016 this meeting was chaired by the independent Chairman of Viapath and attendees represent each of the members. The Viapath Company Secretary also attends.

Finance and Performance Committee

The Finance and Performance Committee was established as a committee to the Board in November 2016. It supports the Board through detailed financial review and oversight of the monthly financial position and performance against budget. The meeting is chaired by the Serco representative Member and comprises representatives from each other Member along with Viapath's CEO and CFO.

Chairman and Chief Executive Officer

The Chairman is responsible for the operation and leadership of the Board, ensuring its effectiveness and setting its agenda. The Viapath Chairman from February 2016 was Dr. David Bennett. Until 22nd October 2016 Viapath's Chief Executive Officer (CEO) was Richard Jones. After that date Dougie Dryburgh became the Viapath CEO and assumed responsibility for leading and managing Viapath's business within the authorities delegated by the Board including implementation of the board strategy and policy.

Going concern

The financial position of Viapath is shown on the statement of financial position on page 14 and its cash flows are described in the statement of cash flows on page 16 of the financial statements. The liquidity and financial risk are described above and in addition, note 18 of the financial statements provides details of Viapath's objectives, policies and processes for managing its capital and details of its financial instruments.

A high proportion of Viapath's expenditure and its forecast income is fixed and secured through long term contracts including penalties for early termination. The contracts with Guy's and St Thomas' NHS Foundation Trust (GSTT) and King's College Hospital NHS Foundation Trust (KCHT) have been agreed up to 2020. The Members, who are also the primary suppliers of funding to the business, have made available to Viapath a committed loan facility of £12.5m. Management are committed to driving financial and operational improvements to deliver further sustainable profit enhancements. Members have agreed loan repayments in tranches during 2017, 2018 and 2019 (see note 17).

Viapath has financial resources available through both formal and informal funding from its members. The financial plan for the Group forecasts that it will generate cash in excess of its operational and investment requirements. Given the continuing support of the members, no further internal or external capital funding is expected to be required to maintain the Group's business operations.

As a consequence of these factors, the Members believe that the Group continues to be well placed to manage its business risks and continue as a going concern. The Members have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the report and financial statements.

Approved by the Members and
signed on behalf of the Members



Alan Dingwall (Finance Director, Local and Regional Government, Serco)

Dated:

21/7/17

Statement of Members' Responsibilities

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

The Limited Liability Partnerships (Accounts & Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be prepared in accordance with the Companies Act 2006, as applicable to limited liability partnerships.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the firm's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, members are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The members are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the firm and enable them to ensure that the financial statements comply with the Companies Act 2006, as applicable to limited liability partnerships. They are also responsible for safeguarding the assets of the firm and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The members are responsible for the maintenance and integrity of the corporate and financial information included on the firm's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Viapath

We have audited the financial statements of Viapath LLP for the year ended December 2016 which comprise Group and Consolidated Statements of Comprehensive Income, Group and Consolidated Statement of Financial Position, the Group and Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement and related notes 0 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent limited liability partnership financial statements, as applied in accordance with the provisions of the Companies Act 2006 as applied to limited liability partnerships.

This report is made solely to the limited liability partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the limited liability partnership's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the limited liability partnership and the limited liability partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities Statement, the members 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the groups and the parent limited liability partnership's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the designated members; and the overall presentation of the financial statements. 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.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent limited liability partnership's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent limited liability partnership financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006 as applied to limited liability partnerships; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

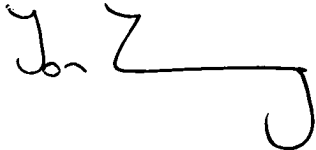
As explained in Note 1 to the group financial statements, the group in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

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



Jon Young FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

Dated: 21 July 2017

STATEMENT OF COMPREHENSIVE INCOME

For the period to 31 December 2016

		2016	2016	2015	2015
		Consolidated	Group	Consolidated	Group
Continuing Operations	Notes	£ '000	£ '000	£ '000	£ '000
Revenue	3	105,231	10,181	97,251	9,940
Cost of Sales		(74,928)	(6,115)	(69,315)	(6,257)
Gross Profit		30,303	4,066	27,936	3,683
Administrative Expenses		(28,653)	(3,247)	(26,230)	(3,302)
Operating Profit		1,650	819	1,706	381
Finance income	7	-	-	21	21
Finance costs	7	(353)	(341)	(328)	(324)
Profit for the year available for discretionary division among members		1,297	478	1,399	78
Total comprehensive income for the year attributable to members		1,297	478	1,399	78

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 Consolidated £ '000	2016 Group £ '000	2015 Consolidated £ '000	2015 Group £ '000
Assets					
Intangible Assets	8	11,217	127	9,413	38
Property plant and Equipment	9	5,499	84	5,734	138
Trade and other Receivables	10	515	515	955	955
Total non-current assets		17,231	726	16,102	1,131
Current assets					
Inventories	11	3,292	7	3,330	1
Trade and other receivables	10	20,230	39,118	18,926	33,306
Cash and cash equivalents	12	5,796	3,197	7,274	2,110
Total Current Assets		29,318	42,322	29,530	35,417
Total Assets		46,549	43,048	45,632	36,548
Equity and liabilities					
Equity attributable to members					
Members' capital	15	3,331	3,331	3,331	3,331
Other reserves	15	2,181	42	884	(436)
Total Equity		5,512	3,373	4,215	2,895
Non-current liabilities					
Loans and other debts due to members	13	9,531	8,770	14,271	14,271
Trade and other payables	13	-	15,755	32	8,000
Total non-current liabilities		9,531	24,525	14,303	22,271
Current liabilities					
Provisions	14	799	293	-	-
Loans and other debts due to members	13	5,500	5,500	-	-
Trade and other payables	13	25,207	9,357	27,114	11,383
Total current liabilities		31,506	15,150	27,114	11,383
Total liabilities		41,037	39,675	41,417	33,654
Total equity and liabilities		46,549	43,048	45,632	36,549

Viapath Group LLP has guaranteed the liabilities of its subsidiaries, Viapath Analytics LLP and Viapath Services LLP under Section 479A and C of the Companies Act 2006 (as Amended). As such, VA and VS will take advantage of the audit exemption set out within Section 479A for the year ended 31 December 2016.

The accompanying notes are an integral part of this statement of financial position
The Consolidated financial statements of the Group and Viapath Group LLP financial statements registration number OC337242 were approved by the members and authorised for issue on 28 June 2017 and signed on the member's behalf by:



21/7/17

Alan Dingwall (Finance Director, Local and Regional Government, Serco)
Dated:

STATEMENT OF CHANGES IN EQUITY**Consolidated**

	Notes	Members' capital £000	Other reserves £000	Total £000
Balance at 1 January 2015		3,331	(515)	2,816
Total comprehensive income 2015	15	-	1,399	1,399
Balance at 1 January 2016		3,331	884	4,215
Total comprehensive income 2016	15	-	1,297	1,297
Balance at 31 December 2016		3,331	2,181	5,512

Group

	Notes	Members' capital £000	Other reserves £000	Total £000
Balance at 1 January 2015		3,331	(515)	2,816
Total comprehensive income 2015	15	-	78	78
Balance at 1 January 2016		3,331	(436)	2,894
Total comprehensive income 2016	15	-	478	478
Balance at 31 December 2016		3,331	42	3,373

STATEMENT OF CASH FLOWS
For the period ended 31 December 2016

	Notes	Consolidated 2016 £ '000	Consolidated 2015 £ '000
Cash flow from operating activities			
Profit/(loss) for the period		1,297	1,399
Profit/loss on disposal of non-current assets		-	-
Other finance charges	7	12	9
Amortisation	8	2,305	2,794
Depreciation	9	1,576	1,386
Interest Received		-	(21)
Interest Paid	7	341	319
Intangible Impairment	8	189	152
Increase/(decrease) in provisions	14	799	-
Decrease/(increase) in inventories	11	39	(317)
Decrease/(increase) in receivables	10	(864)	(5,921)
Increase/(decrease) in payables	13	(1,179)	6,763
Net cash from operating activities		4,514	6,563
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(1,341)	(1,880)
Investment in intangibles	8	(4,298)	(3,722)
Net cash from investing activities		(5,639)	(5,602)
Cash flows from financing activities			
Interest paid to members		(341)	(318)
Other finance income		-	21
Other finance charges		(12)	(9)
Net cash from financing activities		(353)	(306)
Net increase/(decrease) in cash and cash equivalents		(1,478)	655
Cash and cash equivalents at beginning of year		7,274	6,619
Cash and cash equivalents at end of the year		5,796	7,274

Notes to the Financial Statements

1. ACCOUNTING POLICIES

The principal accounting policies are set out below and have been applied consistently throughout the current and preceding year.

Going concern

Viapath's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report.

The Members have a reasonable expectation that Viapath has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the report and financial statements.

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and under the historical cost convention.

The financial statements are presented in sterling, rounded to the nearest £1,000 on the historical accrued cost basis and adopting the accounting policies presented herein.

Adoption of new and revised standards

There have been no new Standards and Interpretations that have been adopted by Viapath in 2016 financial year.

Standards are regularly reviewed and considered for early adoption.

- IFRS 9
- IFRS 15
- IFRS 16

Have each been assessed for early adoption. The impact of each is considered to be negligible; therefore Viapath has not adopted these standards early.

Basis of translation of foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on re-translation are included in the statement of comprehensive income for the year.

Revenue

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Taxation

The status of a Limited Liability Partnership is such that it is transparent for Corporation Tax. The liability for taxation on Viapath profits falls on the Members, and is not dealt with in these financial statements.

ACCOUNTING POLICIES (continued)**Members' remuneration**

Remuneration to members that is paid under service agreements, or other payments, which represent a liability of the entity not arising from a division of profits, are either expensed to the income statement or capitalised depending on the nature of the transaction and are disclosed within the related party note.

Profit shares, which have not been allocated until after the balance sheet date, are treated in these financial statements as unallocated at the balance sheet date and included within other reserves.

Intangible assets

Costs are capitalised as an intangible asset only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Expenditure is amortised over the shorter of the period of the value in use or the assets expected useful life. Where appropriate, provision is also made for any impairment. All other development expenditure is written off as incurred.

Assets under construction are stated at cost and are not amortised until the asset is completed and placed in service.

Laboratory information system software is typically amortised on a straight line basis at the rates of 10% - 14% per annum over the life of the contract or licence. An annual review of intangible assets is undertaken to review each asset value in use (detail below).

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Viapath does not own any property and leases the buildings which house its operations.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

Depreciation is provided on all property, plant and equipment on a straight-line basis at rates that reduce the assets to their residual value over their estimated useful lives.

The principal annual rates used are:

Plant and equipment 10% - 33%

Impairment of property, plant and equipment and intangible assets

At each balance sheet date, Viapath reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense in profit and loss.

ACCOUNTING POLICIES (continued)**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Financial assets

Financial assets are classified as loans and receivables. Loans and receivables have fixed or determinable payments that are not quoted in an active market.

Financial assets include cash and cash equivalents, trade receivables, other debtors and amounts owed by members. Viapath determines the classification of its financial assets at initial recognition and they are initially recorded at fair value.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that Viapath will not be able to collect all amounts due according to the original terms of the contract. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that a trade receivable is impaired. The amount of the provision is based on management's best estimate of the likelihood of the recoverable amount. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the impairment provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and demand deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and have a maturity of three months or less.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average cost basis. Net realisable value represents the value to the business in use.

Financial liabilities

Viapath determines the classification of its financial liabilities at initial recognition. Financial liabilities include trade payables, loans due to members and other amounts due to members. Trade payables are initially recognised at fair value and subsequently at amortised cost.

Loans due to members

Loans are recognised at the value of proceeds received. Finance charges are recognised in the profit and loss account on an accrual basis. Member's loans carry a variable interest rate based on LIBOR plus agreements.

ACCOUNTING POLICIES (continued)**Financial liabilities and equity**

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

Pension costs: defined contribution schemes

Contributions for the period in respect of defined contribution schemes are charged to the profit and loss account as they fall due. Differences between charges accruing during the year and cash payments are included as either accruals or prepayments in the balance sheet.

Critical accounting estimates and key sources of estimation

In the process of applying Viapath's accounting policies which are described in this note, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Contract costs

All bid costs are expensed through the income statement up to the point where contract award (or full recovery of costs) is virtually certain. Bid and transition costs incurred after this point are then recognised within trade and other receivables as amounts recoverable on contracts. Bid costs are expensed on a straight-line basis on award of contract over the life of the contract. Transition costs are expensed on a straight-line basis on successful completion of the project over the contract period. Detailed contract forecasts are prepared to determine whether the assets are recoverable and an asset is only recognised where it is determined that the costs are fully recoverable. The Members are confident that the carrying amount of the assets will be recovered in full.

2. OPERATING SEGMENT

The LLP's operations relate to delivering pathology services within the United Kingdom. As such the LLP does not disclose operating segment information. The Board is the chief operating decision maker.

3. REVENUE

The revenue of the LLP is principally derived from the provision of pathology services to health organisations. Our main customers are Guy's and St Thomas' Hospital NHS Foundation Trust (GSTFT), King's College Hospital NHS Foundation Trust (KCHT) and to Bedford Hospital NHS Trust (BHT).

4. MEMBERS' REMUNERATION CHARGED AS AN EXPENSE AND SHARE OF PROFITS

All outflows of benefits to members are treated as members' remuneration. No remuneration was paid to members under an employment contract in the current or prior year.

Distributable profits are divided among the members in accordance with agreed profit sharing arrangements.

5. OPERATING PROFIT

	Consolidated	Group	Consolidated	Group
	2016	2016	2015	2015
	£ '000	£ '000	£ '000	£ '000
Is stated after charging:				
Amortisation of amounts recoverable on contracts	441	440	441	441
Amortisation of intangible assets	2,305	-	2,353	
Rentals under member's agreements:				
- Land and buildings	445	445	445	445
- Plant and machinery	941	212	941	212
Depreciation on equipment	1,576	54	1,386	60
Fees paid to Deloitte LLP audit services	57	57	50	50
Movement in trade receivables impairment	1,270	(17)	250	2
Intangible impairment	189	-	152	-
Restructuring costs	30	-	-	-

6. STAFF COSTS

	Consolidated	Group	Consolidated	Group
	2016	2016	2015	2015
	£ '000	£ '000	£ '000	£ '000
Employee costs excluding members:				
Wages and salaries	42,130	4,420	38,881	4,182
Social security costs	4,353	493	3,731	481
Other pension costs	3,457	358	3,434	385
Total staff costs	49,940	5,271	46,046	5,048

The average numbers of employees were as follows:

	Consolidated	Group	Consolidated	Group
	2016	2016	2015	2015
Scientific and Operational	1,061	13	938	13
Administrative and Clerical	105	77	96	72
Total	1,166	90	1,034	85

7. FINANCE INCOME AND FINANCE COSTS

	Consolidated 2016 £ `000	Group 2016 £ `000	Consolidated 2015 £ `000	Group 2015 £ `000
Interest on bank deposits	-	-	21	21
Total finance income	-	-	21	21
Interest payable to members	341	341	319	319
Finance lease interest	2	-	4	-
Other	10	-	5	5
Total finance costs	353	341	328	324

8. INTANGIBLE ASSETS

	Group Assets under construction £ '000	Group Intangibles £ '000	Group Total £ '000	Consolidated Assets Under Construction £ '000	Consolidated Intangibles £ '000	Consolidated Total £ '000
Cost						
At 31 December 2014	2,413	10,989	13,402	2,413	10,989	13,402
Additions during the year	38	7	45	3,688	34	3,722
Transfer	-	-	-	(2)	2	-
Impairment	-	-	-	-	(199)	(199)
Disposals	(2,413)	(10,996)	(13,409)	-	(2)	(2)
At 31 December 2015	38	-	38	6,099	10,824	16,923
Additions during the year	89	-	89	3,062	1,236	4,298
Transfer	-	-	-	(8,000)	8,000	-
Impairment	-	-	-	-	(336)	(336)
At 31 December 2016	127	-	127	1,161	19,724	20,885
Accumulated amortisation						
At 31 December 2014	-	(5,204)	(5,204)	-	(5,204)	(5,204)
Charge for the year	-	-	-	-	(2,353)	(2,353)
Impairment	-	-	-	-	47	47
Disposals	-	5,204	5,204	-	-	-
At 31 December 2015	-	-	-	-	(7,510)	(7,510)
Charge for the year	-	-	-	-	(2,305)	(2,305)
Impairment	-	-	-	-	147	147
At 31 December 2016	-	-	-	-	(9,668)	(9,668)
Net book value						
At 31 December 2015	38	-	38	6,099	3,314	9,413
At 31 December 2016	127	-	127	1,161	10,056	11,217

On 1.1.2015 Viapath Group LLP transferred the majority of the non-current assets under its control to Viapath Services LLP. The transfer was made at the assets Net Book Value.

9. PROPERTY, PLANT AND EQUIPMENT

	Consolidated	Group	Consolidated	Group
	2016	2016	2015	2015
	£ '000	£ '000	£ '000	£ '000
Cost				
At 1 January	12,580	261	10,700	10,700
Additions during the period	1,341	-	1,880	373
Disposals	-	-	-	(10,812)
Impairment	-	-	-	-
At 31 December	13,921	261	12,580	261
Accumulated depreciation				
At 1 January	(6,846)	(123)	(5,460)	(5,460)
Charge for the period	(1,576)	(54)	(1,386)	(60)
Disposals	-	-	-	5,397
At 31 December	(8,422)	(177)	(6,846)	(123)
Net book value				
At 31 December	5,499	84	5,734	138
Net Book Value of Finance Lease Assets	26		79	
Capital Expenditure Commitments	-		528	

On 1.1.2015 Viapath Group LLP transferred the majority of the non-current assets under its control to Viapath Services LLP. The transfer was made at the assets Net Book Value.

10. TRADE AND OTHER RECEIVABLES

Trade and other receivables falling due within one year:

	Consolidated 2016 £ `000	Group 2016 £ `000	Consolidated 2015 £ `000	Group 2015 £ `000
Trade receivables	7,116	29	5,766	46
Impairment provision for trade receivables	(1,564)	(29)	(294)	(46)
Total trade receivables	5,552	-	5,472	-
Other amounts recoverable on contracts	441	441	441	441
Amounts owed by members (note 16)	11,692	500	11,001	1,374
Other receivables	195	50	96	68
Amounts owed from HMRC	-	341	-	-
Prepayments and other accrued income	2,350	894	1,917	1,581
Intercompany debtors	-	36,892	-	29,842
Total receivables falling due within 1 year	20,230	39,118	18,926	33,306

Analysis of trade receivables:

	2016 £ `000	2016 £ `000	2015 £ `000	2015 £ `000
Not overdue	4,943	-	3,973	-
30 – 60 days	14	-	608	-
61 – 90 days	275	-	8	-
91 – 120 days	194	-	402	-
Over 120 days	1,712	29	776	46
	7,138	29	5,767	46

Movement in trade receivables impairment provision:

	2016 £ `000	2016 £ `000	2015 £ `000	2015 £ `000
Balance as at 1 January	294	46	44	44
Increase/(Decrease) in impairment provision	1,270	(17)	250	2
Utilised as write off/(back)	-	-	-	-
Balance as at 31 December	1,564	29	294	46

Trade and other receivables falling due after one year:

	2015 £ `000	2015 £ `000	2015 £ `000	2015 £ `000
Amounts recoverable on contracts	515	515	955	955
Total receivables falling due after 1 year	515	515	955	955

Amounts recoverable on contracts relate to pre-contract and transition costs incurred on the GSTT, King's and Bedford contracts. These costs have been recognised in accordance with the accounting policy as set out in the Significant Accounting Policies – Contracts note on page 20 of these accounts. The Members estimate that the carrying amount of trade receivables approximates their fair value.

11. INVENTORIES

	Consolidated	Group	Consolidated	Group
	2016	2016	2015	2015
	£ '000	£ '000	£ '000	£ '000
Stock ready for use by the business	3,292	7	3,330	1

Inventories represent reagents, stains and other materials consumed in the pathology testing process. The Members estimate that the carrying amount of inventories approximates their fair value. No inventories have been pledged as security.

12. CASH AND CASH EQUIVALENTS

	Consolidated	Group	Consolidated	Group
	2016	2016	2015	2015
	£ '000	£ '000	£ '000	£ '000
Cash at bank and in hand	5,796	3,197	7,274	2,110

13. TRADE AND OTHER PAYABLES

a) Trade and other payables falling due within one year:

	Consolidated	Group	Consolidated	Group
	2016	2016	2015	2015
	£ '000	£ '000	£ '000	£ '000
Trade payables	7,200	270	9,646	4,137
Amounts owed to members (note 16)	6,649	190	7,426	93
Other taxes and social security	1,677	168	1,443	153
Accruals	3,042	2,154	2,616	748
Deferred income	6,566	9	5,983	9
Amount owed to HMRC	73	-	-	-
Member loan repayments (note)	5,500	5,500	-	-
Intercompany Creditor	-	6,566	-	6,243
Total payables falling due within 1 year	30,707	14,857	27,114	11,383
	2016	2016	2015	2015
	£ '000	£ '000	£ '000	£ '000
Finance lease creditor	-	-	32	-
Member loan repayments (note)	9,531	8,770	14,271	14,271
Intercompany Creditor	-	15,755	-	8,000
Total payables falling due after one year	9,531	24,525	14,303	22,271

Amounts owed to members are due within 30 days of the balance sheet date and do not bear interest.

14. PROVISIONS

	Consolidated	Group	Consolidated	Group
	2016	2016	2015	2015
	£ '000	£ '000	£ '000	£ '000
Provisions consist of:				
Restructuring Provision	30	-	-	-
Onerous Contract Provisions	294	293	-	-
Other	475	-	-	-
Total Provisions	799	293	-	-

Other provisions consist of commercially sensitive information that, if disclosed, may lead to financial loss for Viapath.

IAS 37 provides options for restricted disclosures where management believe that disclosure may lead or contribute to unnecessary financial loss, Viapath has taken advantage of this restriction.

Onerous contract provisions are contracts under which the fair value of the benefit of the contract is exceeded by the cost of meeting the financial obligations of the contract.

15. MEMBERS' INTEREST**Consolidated**

	Members' capital	Other reserves	Cash loans due to members	Non-cash loans to members	Total
	£ '000	£ '000	£ '000	£ '000	£ '000
Balance at 1 January 2014	3,331	(515)	12,271	2,000	17,087
Profit for the financial period available for discretionary division among members	-	1,399	-	-	1,399
Balance at 1 January 2015	3,331	884	12,271	2,000	18,486
Loans introduced from members	-	-	360	400	760
Profit for the financial year available for discretionary division among members	-	1,297	-	-	1,297
Balance at 31 December 2016	3,331	2,181	12,631	2,400	20,543

Group

	Members' capital	Other reserves	Cash loans due to members	Non-cash loans to members	Total
	£ '000	£ '000	£ '000	£ '000	£ '000
Balance at 1 January 2014	3,331	(515)	12,271	2,000	17,087
Profit for the financial period available for discretionary division among members	-	78	-	-	78
Balance at 1 January 2015	3,331	(436)	12,271	2,000	17,165
Loans introduced from members	-	-	-	-	-
Profit for the financial year available for discretionary division among members	-	478	-	-	478
Balance at 31 December 2016	3,331	42	12,271	2,000	17,643

16. RELATED PARTY TRANSACTIONS

During the year, as part of its normal business operations, the LLP entered into a substantial number of transactions with its members; Guy's and St Thomas' NHS Foundation Trust, King's College Hospital NHS Foundation Trust and Serco Limited.

Trading transactions

During the year ended 31 December 2016, the LLP entered into the following trading transactions with its members:

Consolidated (at 31st December 2016)

	Sales	Purchases	Amounts owed from related party at	Amounts owed to related party at
	£ '000	£ '000	£ '000	£ '000
Guy's and St Thomas' NHS Foundation Trust	49,302	7,261	5,471	2,770
Serco Limited	-	218	133	320
King's College Hospital NHS Foundation Trust	25,465	5,557	6,090	3,559
Total	74,767	13,036	11,694	6,649

Consolidated (at 31st December 2015)

	Sales	Purchases	Amounts owed from related party at	Amounts owed to related party at
	£ '000	£ '000	£ '000	£ '000
Guy's and St Thomas' NHS Foundation Trust	50,508	6,743	4,640	3,183
Serco Limited	-	496	37	174
King's College Hospital NHS Foundation Trust	25,972	3,358	6,324	4,002
Total	76,480	10,597	11,001	7,359

Material related party transactions can be summarised as follows:

Guy's and St Thomas' NHS Foundation Trust:

Under the contracts with Guys and St Thomas' NHS Foundation Trust (GSTT) Viapath provides a full range of laboratory and pathology services to GSTT: amounts invoiced in the year were £49m (2015: £51m).

Purchases from GSTT by Viapath relate to the services the trust provides to Viapath Services LLP in order to offer a functioning laboratory within the hospital site, for example waste collection and utilities. During 2016 the total invoices received from GSTT was £7m (2015: £7m). An interest charge of £0.1m has been recognised in statement of comprehensive income in relation to the loan from GSTT (2015: £0.1m).

Serco Limited:

Serco charged an amount of £0.2m in 2016 (2015: £0.2m) under Serco Services Agreement (SSA) for IT, Payroll and finance charges. An interest charge of £0.2m (2015: £0.2m) has been recognised in statement of comprehensive income

King's College Hospital NHS Foundation Trust:

Under contracts with King's College hospital NHS Foundation Trust (KCH) Viapath provides a full range of laboratory and pathology services to KCH: amounts invoiced in the year were £25m (2015: £26m). As for GSTT, Viapath provide functioning laboratory services to KCH. Total invoices received in year from KCH totalled £6m (2015: £3m).

An interest charge of £0.1m has been recognised in statement of comprehensive income in relation to the loan from KCH (2015: £0.1m).

17. ANALYSIS OF NET DEBT

Consolidated	31-Dec-15	Cash flow Movement	Interest Charge	Non-cash	31-Dec-16
	£ `000	£ `000	£ `000	£ `000	£ `000
Cash and cash equivalents					
Cash	7,274	(1,478)	-	-	5,796
Current liabilities					
finance leases	(69)	32	(2)	(32)	(71)
Non-current liabilities					
finance leases	(32)	-	-	32	-
loans over one year	(14,271)	-	-	(760)	(15,031)
Net debt	(7,098)	(1,446)	(2)	(760)	(9,306)

Cash and cash equivalents comprise cash balances at major UK banks. There are no bank overdrafts.

18. FINANCIAL RISK MANAGEMENT**Capital risk management**

The LLP's capital structure and policies are regularly reviewed to ensure that they remain relevant to the business and its plans for growth. The LLP is financed by the three members via capital and loans.

The carrying amounts of financial instruments are as follows:

	Consolidated 2016	Consolidated 2015
	£ `000	£ `000
Financial assets – loans and receivables		
Trade receivables	5,552	5,472
Other receivables	195	96
Amounts owed by members	11,692	11,001
Cash and cash equivalents	5,796	7,274
Financial liabilities – at amortised cost		
Trade payables	(7,200)	(9,646)
Loans due to members	(15,031)	(14,271)
Amounts owed to members	(6,649)	(7,426)
Other financial liabilities	(1,677)	
Net financial liabilities	(7,322)	(7,500)

The maximum exposure to credit risk in relation to financial assets at the reporting date is the carrying value. The LLP does not hold any collateral as security. The Members estimate that the carrying value of all financial instruments approximates to their fair value. The fair values have been determined using available market information and appropriate valuation methodology.

The principal risks arising from the LLP's use of financial assets and liabilities and details of how these risks are managed are set out in the Strategic Report beginning on page 6, under the heading 'financial risk management objectives and policies'.

Interest rate sensitivity analysis

The LLP is exposed to interest rate risk on the loans due to members at 2% above LIBOR. Loans due to members fall due on 30 June 2017 (£2.5m) followed by 31 December 2017 (£3.0m), 31 December 2018 (£3.0m) and 31 December 2019 (£3.7m).

If LIBOR interest rates increase by 1% the LLP shall be exposed to an increased interest charge of £121,750 per annum.

The maturity dates of financial assets/liabilities are as follows:

Maturity Assessment**Consolidated**

as at 31 December 2016	Less than 1 month £ '000	1 to 3 months £ '000	3 months to 1 year £ '000	Over 1 year £ '000	Total £ '000
Financial assets – loans and receivables					
Trade receivables (note 10)	4,943	289	1,185	720	7,137
Other receivables (note 10)	105	60	30	-	195
Amounts owed by members (note 10)	9,545	2,098	(534)	583	11,692
Cash and cash equivalents (note 12)	5,796	-	-	-	5,796
Financial liabilities – at amortised cost					-
Trade payables (note 13)	(4,827)	(2,280)	(93)	-	(7,200)
Loans due to members (note 15)	-	-	(5,500)	(9,531)	(15,031)
Amounts owed to members (note 13)	(4,718)	(1,684)	(247)	-	(6,649)
Net financial instruments	10,844	(1,517)	(5,159)	(8,228)	(4,060)

as at 31 December 2015	Less than 1 month £ '000	1 to 3 months £ '000	3 months to 1 year £ '000	Over 1 year £ '000	Total £ '000
Financial assets – loans and receivables					
Trade receivables (note 10)	3,973	616	883	-	5,472
Other receivables (note 10)			96		96
Amounts owed by members (note 10)	9,117	883	491	510	11,001
Cash and cash equivalents (note 12)	7,274				7,274
Financial liabilities – at amortised cost					
Trade payables (note 13)	(3,523)	(6,170)	183	(136)	(9,646)
Loans due to members (note 0)	-	-	-	(14,271)	(14,271)
Amounts owed to members (note 13)	(829)	(1,990)	(4,715)	108	(7,426)
Net financial instruments	16,012	(6,661)	(3,062)	(13,789)	(7,500)

19. LEASE COMMITMENTS**Operating leases**

Under the terms of the lease agreements, no contingent rents are payable.

The future minimum lease payments under operating leases are as follows:

	Consolidated	Group	Consolidated	Group
	2016	2016	2015	2015
	£ '000	£ '000	£ '000	£ '000
Within one year	175	9	189	9
Between one and five years	278	-	595	0
After five years	-	-	-	0
	453	9	784	9

Finance leases**Consolidated:**

Finance lease liabilities are payable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	2016	2015
	£ '000	£ '000	£ '000	£ '000
Within one year	32	65	27	63
In the second to fifth year inclusive	-	32	-	30
After five years	-	-	-	-
	32	97	27	93
Less: future finance charges on finance leases		(4)	(2)	(6)
Present value of lease obligations	32	93	25	87

There are no finance leases within Viapath Group LLP

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the LLPs lease obligations is approximately equal to their carrying amount.

20. DEFINED CONTRIBUTION PENSION SCHEMES

Pre-funded defined benefit pension schemes treated as defined contribution schemes.

Defined Benefit Schemes

The Consolidated business LLP paid employer contributions for the year ended 31 December 2016 of £2.576m (2015: £ 2.558m).

Defined contribution schemes

Some employees of the LLP benefit from employer contributions to the Serco managed Legal and General stakeholder pension scheme. The LLP paid employer contributions for the year ended 31 December 2016 of £0.769m (2015: £0.774m).

In all cases the schemes' assets are held separately from those of the LLP in contract-based arrangements.

21. SUBSIDIARY UNDERTAKINGS

The Consolidated financial statements include the balances of Viapath Analytics LLP (VA) registration number OC392043 and Viapath Services LLP (VS) registration number OC392044. Viapath Group LLP has guaranteed the liabilities of its subsidiaries, Viapath Analytics LLP and Viapath Services LLP under Section 479A and C of the Companies Act 2006 (as Amended). As such, VA and VS will take advantage of the audit exemption set out within Section 479A for the year ended 31 December 2016.