

ViiV Healthcare Limited
(Registered number: 6876960)

Directors' report and financial statements
for the year ended 31st December 2011



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ViiV Healthcare Limited

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ViiV Healthcare Limited

Directors' report for the year ended 31st December 2011

The Directors submit their report and the audited consolidated financial statements for ViiV Healthcare for the year ended 31st December 2011

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

Principal activities

ViiV Healthcare is a specialist HIV group of companies focused solely on the research, development and commercialisation of HIV medicines. The Group is owned 85% by GlaxoSmithKline plc ("GSK") and 15% by Pfizer Inc ("Pfizer").

The Group continues to have ongoing arrangements with GSK and Pfizer as disclosed in Note 25.

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

The Company is domiciled within the UK.

Review of business

Financial highlights

During the year the Group's revenue increased to £1,537 million (2010: £1,469 million) and profit after tax of £422 million (2010: £404 million). Operating profit excluding the impact of intangible asset write offs increased to £802 million (2010: £791 million).

The Group continued to generate cash from operating activities of £385 million (2010: £891 million) whilst returning £793 million (2010: £116 million) to shareholders through ordinary dividend payments. Cash generated from operations decreased compared to the prior year as a result of 2011 including a full year of operations post formation and timing differences in the settlement of other payables. Cash and cash equivalents decreased from £971 million to £518 million.

The Group's results for the year can be found on page 12.

Operational highlights

The company's growth was primarily driven by *Epzicom/Kivexa* (up 24% to £613 million) and *Selzentry/Celsentri* (up 40% to £107 million) offset by a decline in the mature portfolio (down 8% to £817 million).

The *Epzicom/Kivexa sales* growth was driven by strong performances in North America and Europe. In North America sales of *Epzicom* were £260 million, up 13% reflecting a relatively equal mix of volume and price growth. Europe sales of *Kivexa* were £268 million, up 23% primarily driven by volume growth partly offset by price cuts. The volume growth in Europe benefited from an improved positioning in regional and local guidelines. *Kivexa* continues to grow in Japan and a number of emerging markets including Asia Pacific and Mexico.

The *Selzentry/Celsentri sales* growth was primarily driven by an increase in third agent market share. In North America sales were £48 million up 39% and in Europe sales were £49 million up 26%.

The decline in the mature portfolio (including *Combivir* which declined 8% to £307 million) is primarily driven by a decline in the western markets as a result of newer treatment options.

ViiV Healthcare began to encounter generic competition in the USA at the end of the fourth quarter to two of its products, *Combivir* and *Epivir*.

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Directors' report for the year ended 31st December 2011

Access and Care

The Group's comprehensive approach to improving access to medicines remains critical to the business. The multifaceted global access to medicines programme covers 135 countries including middle income, low income, least developed and sub-Saharan Africa countries.

The Group continues to offer royalty-free voluntary licenses and not for profit pricing in all low income, least developed and sub-Saharan Africa countries. This reaches a total of 69 countries, equating to 75% of all people living with HIV. We approach middle income countries on a case-by-case basis, taking into account local needs. We then apply a tiered pricing policy based on gross domestic product to improve affordability.

We have made great progress through our community partnerships, connections and collaborations with the broader HIV community. Our Positive Action Vida Digna programme continues to grow, including an extension to El Salvador and five additional countries in Central America. The programme works to tackle the stigma and discrimination against men who have sex with men (MSM), sex workers, transgender individuals, injecting drug users and people living with HIV. In the USA, we extended the Positive Action Southern Initiative to a total of eight states. This is a collaborative, community-focused programme designed to address gaps in services that support care, treatment and improving adherence among individuals living with HIV/AIDS.

We have broadened the reach and scope of our Positive Action for Children Fund aimed at providing support and delivering prevention of mother-to-child transmission of HIV (PMTCT) services. This work is closely aligned with UNAIDS' Global Plan towards the elimination of new HIV infections among children by 2015. One highlight was the new 'small grants programme'. This supports 81 community based projects in 21 countries across the globe aimed at improving the health and welfare of women, children and families affected by HIV. The programme also provided a specific funding stream to address the impact of gender-based sexual violence in the Democratic Republic of Congo.

Key performance indicators

The key performance indicators for the Group are considered to be revenue, operating profit, profit after tax and cash and cash equivalents. Details can be found in the financial highlights section above.

Results and dividends

The Group's results for the financial year are shown in the consolidated income statement on page 12.

The Directors propose an interim ordinary dividend of £170 million in respect of the year ended 31st December 2011 being £20,791 per Class A Share, £8,385 per Class B Share and £8,095 per Class C Share.

Preferential dividends of £37 million (2010: nil) are proposed in respect of the year ended 31st December 2011 following the performance conditions being met on a number of products. The dividends payable to each class of shareholder are £4,614 per Class A Share, £1,554 per Class B Share and £1,561 per Class C Share.

The Directors proposed and paid two interim ordinary dividends amounting to £793 million in respect of the year ended 31st December 2010.

The first interim ordinary dividend of £250 million being £30,575 per Class A Share, £12,330 per Class B Share and £11,905 per Class C Share was paid on the 29th March 2011.

The second interim ordinary dividend of £543 million being £66,364 per Class A Share, £26,763 per Class B Share and £25,839 per Class C Share was paid on the 30th June 2011.

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Directors' report for the year ended 31st December 2011

Principal risks and uncertainties

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

For each of the risks described below, the Group has implemented a system of internal control that involves policies and procedures, communication and training programmes, supervision and monitoring processes for escalating issues to the appropriate level of senior management. Such a system helps facilitate the Group's ability to respond appropriately to risks and to achieve Group objectives and helps ensure compliance with applicable laws, regulations and internal policies.

The Group's operating model includes a flexible cost base with no manufacturing or R&D infrastructure which can be flexed should there be an unforeseen risk to the business.

It is not possible, however, for the Group to implement controls to respond to all the risks that it may face, and there can be no assurance that the steps the Group has taken to address certain risks will manage these risks effectively or at all.

Intellectual property issues

In the pharmaceutical industry expiry or loss of patents has the potential to materially impact on product revenues as generic producers market competing products at a significantly lower price. This may lead to significant reductions in revenue over a relatively short period of time. Patents can be challenged at any time and the protection provided can vary between jurisdictions.

Pricing and access issues

Pharmaceutical products are subject to price controls or pressures and other restrictions in many markets. There are a number of markets where governments intervene directly by setting the price for specific products. In addition, there are markets where major purchasers of pharmaceuticals are able to exert substantial price pressure and limit access to certain products. The Group cannot accurately predict whether existing pressures, controls and restrictions will increase or whether new controls, pressures and restrictions will arise which may materially affect the Group's results.

Product competition

The Group operates in a competitive market. Our products can experience competition with other branded products and generic pharmaceuticals which treat similar diseases. Significant product innovations, technical advances or incremental price competition by competitors may materially impact the Group's revenue.

Pipeline success

The continued development of effective new products is critical in driving future revenue and earnings growth. It is also required to replace older products where loss of exclusivity can lead to reductions in revenue. The research and development of new products often requires a significant investment over a number of years. There can be no assurances that the resulting product will meet clinical and commercial objectives or meet the regulatory standards.

ViiV Healthcare Limited

Directors' report for the year ended 31st December 2011

Changing regulatory and business environment

The Group is subject to a broad range of regulatory controls on the testing, approval, manufacturing and marketing of its products. Changes in the regulatory environment can increase the likelihood of product failure in the R&D phase and increase the cost of production. This can materially affect the Group's performance.

Global financial crisis and eurozone debt crisis

Concerns about credit risk (in particular that of sovereigns) and the eurozone crisis have recently intensified. The large sovereign debts and/or fiscal deficits of a number of European countries have raised concerns regarding the financial condition of financial institutions with direct or indirect exposure to these countries. The default or a significant decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system. It could adversely affect some of the markets in which the Group operates and the businesses and economic condition and prospects of the Group's customers, counterparties or creditors, directly or indirectly, in ways which are difficult to predict. The Group is monitoring its exposure in these markets and has put steps in place to limit exposure to these risks.

Directors

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

C Herman	
J Heslop	Resigned on 31/03/11
Z Hong	
A Hussain	
D Learmouth	
D Limet	
A Mackenzie	
I McCubbin	
D Redfern	Appointed on 01/04/11
E Strahlman	

Directors' indemnity

The service contract of each of the Directors of the Group contains an indemnity in respect of liabilities arising out of third party proceedings to which he or she is party by reason of his or her engagement in the business of the Group. In addition, the parent company (ViiV Healthcare Limited) has provided indemnities to those of its employees who serve as Directors of certain other Group undertakings. These indemnities are in respect of liabilities arising out of third party proceedings to which the relevant individual is a party by reason of his or her engagement in the business of the Group undertaking.

Research and Development

The Group is responsible for instigating and funding research and development activities, which are carried out by GlaxoSmithKline plc, Pfizer Inc and their affiliates.

In October 2010, Shionogi-ViiV Healthcare LLC announced the start of their Phase III development programme for their HIV Integrase inhibitor, Dolutegravir (S/GSK1349572). A further phase III trial for a fixed dose combination "572-Tr1"(572/Epzicom/Kivexa) was initiated in February 2011.

ViiV Healthcare Limited
Directors' report for the year ended 31st December 2011

Employees

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

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

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

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

Payment policy

The Company operates procedures to ensure that suppliers are paid on time. In particular, the Company seeks

- to settle terms of payment with suppliers when agreeing the terms of the transaction,
- to ensure that suppliers are made aware of the agreed terms of payment, and
- to abide by the terms of payment.

The procedures include arrangements for accelerated payment of small suppliers.

Payment performance

At the 31st December 2011, the average number of days' payable outstanding represented by trade payables of the Company was nil (2010: nil).

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Directors' report for the year ended 31st December 2011

Political and charitable donations

The Group made no political donations during the year (2010 nil) Charitable donations of £11.5 million (2010 £6.5 million) were made via the 'Positive Action for Children' fund

Financial instruments

Information regarding the Group's risk exposure to and management of financial instruments is disclosed in Note 29 to the financial statements

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

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

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

In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent, and
- state whether IFRS as adopted by the European Union and IFRS as issued by the IASB have been followed, subject to any material departures disclosed and explained in the Group financial statements

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

Disclosure of information to auditors

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

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

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

ViiV Healthcare Limited

Directors' report for the year ended 31st December 2011

Going concern basis

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

Independent auditors

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

On behalf of the Board

A handwritten signature in black ink, appearing to be 'D Limet', written over a horizontal line.

D Limet

Director

29th March 2012

ViiV Healthcare Limited

Independent auditors' report to the members of ViiV Healthcare Limited

We have audited the group financial statements of ViiV Healthcare Limited for the year ended 31st December 2011 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated cash flow statement and the related notes, including a reconciliation to US GAAP. 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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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 group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. 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 group financial statements

- give a true and fair view of the state of the group's affairs as at 31st December 2011 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the group financial statements, the group in addition to complying with its legal obligation to apply 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.

ViiV Healthcare Limited

Independent auditors' report to the members of ViiV Healthcare Limited

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements

Matters on which we are required to report by exception

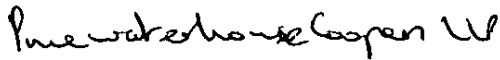
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matters

We have reported separately on the parent company financial statements of ViiV Healthcare Limited for the year ended 31st December 2011

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

29th March 2012

ViiV Healthcare Limited
Consolidated income statement
For the year ended 31st December 2011

	Notes	2011 £'000	2010 £'000
Turnover	5	1,536,512	1,469,249
Cost of sales		(329,999)	(344,254)
Gross profit		1,206,513	1,124,995
Selling, general and administration		(261,403)	(206,811)
Research and development		(171,220)	(127,174)
Operating profit		773,890	791,010
Share of after tax losses of joint ventures	10	(30,587)	(25,550)
Finance income	8	2,897	1,287
Finance expense	9	(92,164)	(113,223)
Profit before taxation		654,036	653,524
Taxation	11	(232,370)	(249,556)
Profit after taxation for the year		421,666	403,968

Consolidated statement of comprehensive income
For the year ended 31st December 2011

	2011 £'000	2010 £'000
Profit for the year	421,666	403,968
Exchange movements on overseas net assets	(14,014)	5,401
Tax on exchange movements	555	-
Actuarial losses on defined benefit plans	(785)	(1,023)
Deferred tax on actuarial movements in defined benefit plans	229	254
Other comprehensive (loss)/income for the year	(14,015)	4,632
Total comprehensive income for the year	407,651	408,600

ViiV Healthcare Limited
Consolidated balance sheet
As at 31st December 2011

	Notes	2011 £'000	2010 £'000
Non-current assets			
Property, plant and equipment	13	1,024	146
Goodwill	14	210,695	212,611
Other intangible assets	15	557,735	622,500
Investments in joint ventures	10	8,271	9,606
Deferred tax assets	11	45,831	37,547
Other non-current assets	16	546	148
Total non-current assets		824,102	882,558
Current assets			
Inventories	17	37,009	33,554
Current tax recoverable		32,038	18,963
Trade and other receivables	18	402,220	333,172
Derivative financial assets	29	566	269
Cash and cash equivalents	19	518,403	971,053
Total current assets		990,236	1,357,011
Total assets		1,814,338	2,239,569
Current liabilities			
Short-term borrowings and overdrafts		(385)	-
Trade and other payables	20	(512,502)	(545,746)
Derivative financial liabilities	29	(535)	(759)
Current tax payable		(44,620)	(90,669)
Short-term provisions	21	(2,464)	-
Total current liabilities		(560,506)	(637,174)
Non-current liabilities			
Long-term borrowings		(536)	-
Deferred tax liabilities	11	(130,631)	(145,846)
Other provisions	21	(4,442)	(4,486)
Other non-current liabilities	22	(626,737)	(575,610)
Total non-current liabilities		(762,346)	(725,942)
Total liabilities		(1,322,852)	(1,363,116)
Net assets		491,486	876,453
Equity			
Share capital	23	10	10
Retained earnings		1,225,608	1,522,782
Merger reserve		(78,349)	(78,482)
Other reserves		(655,783)	(567,857)
Total equity		491,486	876,453

The financial statements on pages 12 to 56 were approved by the Board of Directors on 29th March 2012 and signed on its behalf by


D Linet
Director

ViiV Healthcare Limited
Consolidated statement of changes in equity
For the year ended 31st December 2011

	Share capital	Retained earnings	Merger reserve	Other reserves	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1st January 2010	1,040,310	79,145	(72,455)	(463,000)	584,000
Profit for the year	-	403,968	-	-	403,968
Additional value attributed to original contribution of assets	-	-	(7,753)	7,753	-
Other comprehensive income for the year	-	2,906	1,726	-	4,632
Transfer of finance expense related to preferential dividend	-	112,610	-	(112,610)	-
Ordinary dividends to shareholders	-	(116,147)	-	-	(116,147)
Ordinary share capital reduction	(1,040,300)	1,040,300	-	-	-
At 31st December 2010	10	1,522,782	(78,482)	(567,857)	876,453
Profit for the year	-	421,666	-	-	421,666
Other comprehensive (loss)/income for the year	-	(14,148)	133	-	(14,015)
Transfer of finance expense related to preferential dividend	-	87,926	-	(87,926)	-
Ordinary dividends to shareholders	-	(792,618)	-	-	(792,618)
At 31st December 2011	10	1,225,608	(78,349)	(655,783)	491,486

Other reserves represents the preferential dividends payable to shareholders (Note 23) and additional value attributed to the original contribution of the former GSK HIV business in Canada in October 2009 following finalisation of the value of the contribution at that date

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

ViiV Healthcare Limited
Consolidated cash flow statement
For the year ended 31st December 2011

	Notes	2011 £'000	2010 £'000
Cash flow from operating activities			
Profit after taxation for the year		421,666	403,968
Adjustments reconciling profit after tax to operating cash flows	26	276,998	749,523
Cash generated from operations		698,664	1,153,491
Taxation paid		(313,815)	(262,414)
Net cash inflow from operating activities		384,849	891,077
Cash flow from investing activities			
Purchase of property, plant and equipment		(2,013)	(142)
Proceeds from sale of property, plant and equipment		314	-
Purchase of intangible assets		-	(22,783)
Interest received		2,375	1,286
Investment in joint ventures		(31,804)	(19,427)
Dividends received from joint ventures		2,405	3,256
Net cash outflow from investing activities		(28,723)	(37,810)
Cash flow from financing activities			
Net repayment of obligation under finance leases		(313)	-
Interest paid		(3,810)	(604)
Dividends paid to shareholders		(792,618)	(116,147)
Other financing items		(5,463)	(2,602)
Net cash outflow from financing activities		(802,204)	(119,353)
(Decrease)/Increase in cash and bank overdrafts		(446,078)	733,914
Exchange adjustments		(6,618)	493
Cash and bank overdrafts at beginning of year		971,053	236,646
Cash and bank overdrafts at end of year		518,357	971,053
Cash and bank overdrafts at end of year comprise			
Cash and cash equivalents	19	518,403	971,053
Overdrafts		(46)	-
		518,357	971,053

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2011

1. Presentation of the financial statements

Description of business

ViiV Healthcare Limited is a specialist HIV group focused solely on the research, development and commercialisation of HIV medicines. The Group was established as a collaboration between GSK and Pfizer.

Compliance with applicable law and IFRS

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

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

Composition of financial statements

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

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

Accounting convention

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

Financial period

These financial statements cover the financial year from 1st January to 31st December 2011, with comparative figures for the financial year from 1st January to 31st December 2010.

Composition of the Group

A list of the subsidiary and associated undertakings which, in the opinion of the Directors, principally affected the amount of profit or the net assets of the Group is given in Note 32, 'Principal Group companies'.

Accounting principles and policies

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

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2011

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

Parent company financial statements

The financial statements of the parent company, ViiV Healthcare Limited, have been prepared in accordance with UK GAAP and with UK accounting presentation. The company balance sheet is presented on page 60 and the accounting policies are given on page 61.

2. Accounting principles and policies

Consolidation

The consolidated financial statements include

- the assets and liabilities, and the results and cash flows, of the Company and its subsidiaries
- the Group's share of the results and net assets of joint ventures

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

Entities over which the Group has the power to govern the financial and operating policies are accounted for as subsidiaries. Where the Group has the ability to exercise joint control, the entities are accounted for as joint ventures. The results, assets and liabilities of joint ventures are incorporated into the consolidated financial statements using the equity method of accounting.

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

Transactions and balances between subsidiaries are eliminated and no profit before tax is taken on sales between subsidiaries until the products are sold to customers outside the Group. The relevant proportion of profits on transactions with joint ventures is also deferred until the products are sold to third parties. Deferred tax relief on unrealised intra-Group profit is accounted for only to the extent that it is considered recoverable.

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

Business combinations

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

Where not all of the equity of a subsidiary is acquired the non-controlling interest is recognised either at fair value or at the non-controlling interest's share of the net assets of the subsidiary on a case-by-case basis. Changes in the Group's share of the ownership percentage of subsidiaries are accounted for within equity.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2011

Foreign currency translation

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

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

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

Revenue

Revenue is recognised in the income statement when goods or services are supplied or made available to external customers against orders received, title and risk of loss is passed to the customer, reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete. Turnover represents net invoice value after the deduction of discounts and allowances given and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third party analyses, market research data and internally generated information. Value added tax and other sales taxes are excluded from revenue.

Where the Group co-promotes a product and the third party records the sale, the Group records its share of revenue as co-promotion income within turnover. The nature of co-promotion activities is such that the Group records no costs of sales.

Expenditure

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

Research and development

Research and development expenditure is charged to the income statement in the period 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. Property, plant and equipment used for research and development is depreciated in accordance with the Group's policy.

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Legal and other disputes

Provision is made for the anticipated settlement costs of legal or other disputes against the Group where an outflow of resources is considered probable and a reliable estimate can be made of the likely outcome. In addition, provision is made for legal or other expenses arising from claims received or other disputes. In respect of product liability claims related to products where there is sufficient history of claims made and settlements, an incurred but not reported (IBNR) actuarial technique is used to determine a reasonable estimate of the Group's exposure to unasserted claims for those products and a provision is made on that basis.

No provision is made for other unasserted claims. In respect of a number of legal proceedings in which the Group is involved, it is not possible to make a reliable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. In these cases, the Group may disclose information with respect to the nature and facts of the case but no provision is typically made. Costs associated with claims made by the Group against third parties are charged to the income statement as they are incurred.

Pensions and other post-employment benefits

Employees of the Group in the UK and US participate in various pension and post-employment schemes of GlaxoSmithKline affiliates. These schemes include both defined benefit and defined contribution schemes. The Group recognises the cost charged by the GlaxoSmithKline affiliate for the participation of ViiV Healthcare employees in the pension and post-employment schemes as an expense in the period in which it is incurred.

The Group also operates some other overseas pension arrangements provided by state schemes, by defined contribution schemes, whereby retirement benefits are determined by the value of funds arising from contributions paid in respect of each employee, or by defined benefit schemes, whereby retirement benefits are based on employee pensionable remuneration and length of service.

The Group recognises the cost of providing pensions under state schemes and defined contribution schemes as an expense in the period in which it is incurred.

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

Pension scheme assets are measured at fair value at the balance sheet date. Actuarial gains and losses, differences between the expected and actual returns of assets and the effect of changes in actuarial assumptions, are recognised in the statement of comprehensive income in the year in which they arise.

Employee share plans

Incentives in the form of shares in the Group's ultimate parent company, GlaxoSmithKline plc, are provided to employees under share option and share award schemes. These schemes are operated by GlaxoSmithKline affiliates. The fair values of these options and awards are calculated at their grant dates using a Black-Scholes option pricing model and charged to the income statement over the relevant vesting period. At the end of each reporting period, the Group revises its charge based on the number of options expected to vest, where appropriate.

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Dividends

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

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

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

Property, plant and equipment

Property, plant and equipment (PP&E) is stated at the cost of purchase or construction less provisions for depreciation and impairment. Financing costs are capitalised within the cost of qualifying assets in construction.

Depreciation is calculated to write off the cost less residual value of PP&E using the straight-line basis over the expected useful life. Residual values and lives are reviewed, and where appropriate adjusted, annually. The normal expected useful lives of the major categories of PP&E are:

- | | |
|--------------------------|----------------|
| • Plant and machinery | 10 to 20 years |
| • Fixtures and equipment | 3 to 10 years |
| • Leased assets | Lease term |

On disposal of PP&E, the cost and related accumulated depreciation and impairments are removed from the financial statements and the net amount less any proceeds is taken to the income statement.

Leases

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

Goodwill

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

Other intangible assets

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

Licences, patents, know-how and marketing rights separately acquired or acquired as part of a business combination are amortised over their estimated useful lives, generally not exceeding 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. Contingent milestone payments are recognised at the point that the contingent event becomes certain. Any development

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costs incurred by the Group and associated with acquired licences, patents, know-how or marketing rights are written off to the income statement when incurred, unless the criteria for recognition of an internally generated intangible asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable

The costs of acquiring and developing computer software for internal use and internet sites for external use are capitalised as intangible fixed assets where the software or site supports a significant business system and the expenditure leads to the creation of a durable asset. ERP systems software is amortised over seven to ten years and other computer software over three to five years

Impairment of non-current assets

The carrying values of all non-current assets are reviewed for impairment when there is an indication that the assets might be impaired. Additionally, goodwill and intangible assets which are not yet available for use are tested for impairment annually. Any provision for impairment is charged to the income statement in the year concerned. Impairments of goodwill are not reversed. Impairment losses on other non-current assets are only reversed if there has been a change in estimates used to determine recoverable amounts and only to the extent that the revised recoverable amounts do not exceed the carrying values that would have existed, net of depreciation or amortisation, had no impairments been recognised

Investments in joint ventures

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

Inventories

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

Trade receivables

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

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

Trade payables

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

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Cash and cash equivalents

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

Taxation

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date. Deferred tax liabilities and assets are not discounted.

Derivative financial instruments and hedging

Derivative financial instruments are used to manage exposure to market risks from treasury operations. The principle derivative instrument used by the Group is forward foreign exchange contracts. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are classified as held-for-trading and are carried in the balance sheet at fair value.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Discounting

Where the time effect of money is material, balances are discounted to current values using appropriate rates of interest. The unwinding of the discounts is recorded in finance income and finance costs.

New Accounting requirements

The IASB's annual improvements project was published in May 2010 and most of the changes are effective from 1st January 2011 and did not have a material impact on the consolidated financial statements. The project makes minor amendments to a number of Standards in areas including consolidation, business combinations and financial instruments.

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The following new and amended accounting standards have not yet been applied in the preparation of the consolidated financial statements

New IFRSs		Effective for periods beginning on or after
IFRS 9	Financial instruments	1st January 2015
IFRS 10	Consolidated financial statements	1st January 2013
IFRS 11	Joint arrangements	1st January 2013
IFRS 12	Disclosure of interests in other entities	1st January 2013
IFRS 13	Fair value measurement	1st January 2013
Amendments and revisions to IFRSs		
IFRS 7	Financial instruments Disclosures – Transfers of financial assets	1st January 2012
IFRS 7	Financial instruments Disclosures – Offsetting financial assets and financial liabilities	1st January 2013
IAS 1	Presentation of financial statements	1st January 2013
IAS 12	Income taxes	1st January 2012
IAS 19	Employee benefits	1st January 2013
IAS 32	Financial instruments Presentation	1st January 2014

3. Key accounting judgements and estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts of assets, liabilities, 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

Turnover

Revenue is recognised when the title and risk of loss is passed to the customer and reliable estimates can be made of relevant deductions. Gross turnover is reduced by rebates, discounts, allowances and product returns given or expected to be given, which vary by product arrangements and buying groups. These arrangements with purchasing organisations are dependent upon the submission of claims some time after the initial recognition of the sale. Accruals are made at the time of sale for the estimated rebates, discounts or allowances payable or returns to be made, based on available market information and historical experience.

Because the amounts are estimated they may not fully reflect the final outcome, and the amounts are subject to change dependent upon, amongst other things, the types of buying group and product sales mix.

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

Taxation

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

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

Preferential dividends

Preferential dividends are contingent on the achievement of certain performance criteria on assets provided by, or acquired from, GlaxoSmithKline and Pfizer affiliates. The Group recognises liabilities in respect of these preferential dividends which are reported at amortised cost and re-measured at each reporting date to reflect any changes in expectation of the amounts to be paid (see Note 22).

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

Goodwill

Goodwill arising on business combinations is capitalised and allocated to an appropriate cash generating unit. It is deemed to have an indefinite life and so is not amortised. Annual impairment tests of the relevant cash generating units are performed. Impairment tests are based on established market multiples or risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment tests, as set out in Note 14, 'Goodwill', to change with a consequent adverse effect on the future results of the Group.

Other intangible assets

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

Both initial valuations and valuations for subsequent impairment tests are based on established market multiples or risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse effect on the future results of the Group.

Legal and other disputes

The Group provides for anticipated settlement costs where an outflow of resources is considered probable and a reasonable estimate may be made of the likely outcome of the dispute and legal and other expenses arising from claims against the Group.

The ultimate liability for legal claims may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations. The position could change over time and, therefore, there can be no assurance that any losses that result from the outcome of any legal proceedings will not exceed the amount of the provisions reported in the Group's financial statements by a material amount.

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Global financial crisis and eurozone debt crisis

Concerns about credit risk (in particular that of sovereigns) and the eurozone crisis have recently intensified. The large sovereign debts and/or fiscal deficits of a number of European countries have raised concerns regarding the financial condition of financial institutions with direct or indirect exposure to these countries. The default or a significant decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system. It could adversely affect some of the markets in which the Group operates and the businesses and economic condition and prospects of the Group's customers, counterparties or creditors, directly or indirectly, in ways which are difficult to predict. The Group is monitoring its exposure in these markets and has put steps in place to limit exposure to these risks.

4. Exchange rates

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

	2011	2010
Average rates		
£/US\$	1.61	1.55
£/Euro	1.15	1.16
£/Yen	128	136
£/Russian Rouble	47.3	47.1
Year end rates		
£/US\$	1.55	1.56
£/Euro	1.20	1.17
£/Yen	120	127
£/Russian Rouble	49.9	47.8

5. Turnover

Turnover by geography	2011 £'000	2010 £'000
North America	715,443	721,612
Europe	560,075	555,647
International	256,739	191,990
Corporate	4,255	-
	1,536,512	1,469,249

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6. Operating Profit

	2011 £'000	2010 £'000
The following items have been included in operating profit:		
Employee costs (Note 7)	60,406	51,506
Depreciation of property, plant and equipment (Note 13)	936	29
Amortisation of intangible assets (Note 15)	34,771	33,515
Write-off of intangible assets (Note 15)	28,167	-
Net foreign exchange losses	6,875	10,755
Inventories		
Cost of inventories included in cost of sales	208,702	218,380
Operating lease rentals		
Minimum lease payments	526	353
Contingent rents	218	155
Sub-lease payments	145	147
Fees payable to the Company's auditor and its associates		
Audit of parent company and consolidated financial statements	458	478
Audit of financial statements of the Group's UK and overseas subsidiaries, pursuant to legislation	387	299
Audit and assurance services	845	777
All other services, including regulatory, compliance and treasury related services	134	26
	979	803

7. Employee Costs

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

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

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

Full details of the UK and US pension schemes and employee share schemes can be found in the Annual Report of GlaxoSmithKline plc for the year ended 31st December 2011.

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

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	2011 £'000	2010 £'000
Wages and salaries	47,884	43,163
Social security costs	6,163	5,818
State Pension and other post-employment costs	1,066	809
Cost of share-based incentive plans	1,978	983
Severance and other costs from integration and restructuring activities	3,315	733
	60,406	51,506

	2011	2010
The average number of persons employed by the Group (including Directors) during the year	510	483

All employees are employed to conduct selling, general and administration activities

The average number of Group employees excludes temporary and contract staff. The average number of persons employed by the Company in 2011 was nil (2010: nil)

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

	2011 £'000	2010 £'000
Wages and salaries	5,243	4,354
Social security costs	273	215
Pension and other post-employment costs	415	289
Cost of share-based incentive plans	626	378
	6,557	5,236

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

	2011 £'000	2010 £'000
Fees and salaries	417	396
Other benefits	25	40
Annual bonus	388	363
	830	799

Retirement benefits accrued under defined benefit schemes sponsored by sister companies within the GSK group for one Director

One Director received shares and share options under long term incentive plans in respect of qualifying services to the Group. No Director exercised share options during the year.

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8. Finance income

	2011	2010
	£'000	£'000
Interest income arising from		
Cash and cash equivalents	1,952	1,287
Receivables	850	-
Fair value movements on derivatives at fair value through profit and loss	95	-
	2,897	1,287

9. Finance expense

	2011	2010
	£'000	£'000
Interest expense arising on		
Financial liabilities at amortised cost	3,749	607
Fair value movements on derivatives at fair value through profit and loss	487	6
Re-measurement of preferential dividends liability	26,912	52,288
Unwinding of discounts on preferential dividends liability	61,014	60,322
Unwinding of discounts on other long-term payables	2	-
	92,164	113,223

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10. Joint ventures

	2011 £'000	2010 £'000
At 1st January	9,606	8,131
Exchange adjustments	(147)	678
Additions	31,804	29,603
Dividends received from joint ventures	(2,405)	(3,256)
Share of retained loss in the year	(30,587)	(25,550)
At 31st December	8,271	9,606

Investments in joint ventures principally arise from 50% interests in two joint ventures, Shionogi-ViiV Healthcare Holdings, L P, which is developing specified chemical compounds, and ViiV Healthcare Shire Canada Inc, which primarily co-markets *Combivir*, *Trizivir* and *Epivir* in certain territories. During the year, the Group received a dividend of £2.4 million (2010: £3.3 million) from ViiV Healthcare Shire Canada Inc and contributed £31.8 million (2010: £29.6 million) to Shionogi-ViiV Healthcare Holdings, L P.

Name	Principal activity	Country of incorporation or registration	Percentage shareholding
Shionogi-ViiV Healthcare Holdings L P	Research and development	USA	50
ViiV Healthcare Shire Canada Inc	Marketing	Canada	50

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

	2011 £'000	2010 £'000
Income statement		
Turnover	27,155	27,553
Expenses	(88,329)	(78,653)
Loss after tax	(61,174)	(51,100)
Balance Sheet		
Assets	43,997	49,710
Liabilities	(30,485)	(19,046)
Net Assets	13,512	30,664

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11. Taxation

Taxation charge based on profits for the year	2011 £'000	2010 £'000
UK corporation tax at the UK statutory rate	94,965	144,383
Overseas taxation	160,789	154,792
Current taxation	255,754	299,175
Deferred taxation	(23,384)	(49,619)
	232,370	249,556

Reconciliation of the taxation rate on Group profits	2011 %	2010 %
UK statutory rate of taxation	26.5	28.0
Differences in overseas taxation rates	6.7	6.1
Changes in tax rates	(2.0)	(0.6)
R&D credits	(0.1)	(0.1)
Non-deductible expenses	5.1	4.9
Other differences	0.1	-
Prior year items	(0.8)	(0.1)
Tax rate	35.5	38.2

Tax on items charged to equity and statement of comprehensive income	2011 £'000	2010 £'000
Current taxation		
Foreign exchange movements	555	-
	555	-
Deferred taxation		
Defined benefit plans	229	254
	229	254
Total credit to equity and statement of comprehensive income	784	254

The deferred tax was credited to the statement of comprehensive income

The Group operates in countries where the tax rate differs from the UK tax rate. The impact of these overseas taxes on the overall rate of tax is shown above. The Group is required under IFRS to create a deferred tax asset in respect of unrealised intercompany profit arising on inventory held by the Group at the year-end by applying the tax rate of the country in which the inventory is held (rather than the tax rate of the country where the profit was originally made and the tax paid, which is the practice under UK and US GAAP).

No provision has been made for taxation which would arise on the distribution of profits retained by overseas subsidiaries on the grounds that the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the future. The aggregate amount of these unremitted profits at the balance sheet date was approximately £208 million (2010: £452 million). The deferred tax on unremitted earnings at 31st December 2011 is estimated to be nil (2010: nil), which relates to taxes repayable on repatriation and dividend withholding taxes levied by overseas tax jurisdictions. UK legislation relating to company distributions provides exemption from tax for most repatriated profits, subject to certain exceptions.

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Movement in deferred tax assets and liabilities	Accelerated capital allowances £'000	Intangibles £'000	Intra-group profit £'000	Tax losses £'000	Other net temporary differences £'000	Offset within countries £'000	Total £'000
Deferred tax assets at 1st January 2011	22	2,514	26,305	111	23,141	(14,546)	37,547
Deferred tax liabilities at 1st January 2011	(83)	(160,097)	-	-	(212)	14,546	(145,846)
At 1st January 2011	(61)	(157,583)	26,305	111	22,929	-	(108,299)
Exchange adjustments	-	9	-	-	(123)	-	(114)
Credit/(charge) to income statement	276	19,548	(720)	(111)	4,391	-	23,384
Credit to statement of comprehensive income	-	-	-	-	229	-	229
At 31st December 2011	215	(138,026)	25,585	-	27,426	-	(84,800)
Deferred tax assets at 31st December 2011	215	2,208	25,585	-	27,569	(9,746)	45,831
Deferred tax liabilities at 31st December 2011	-	(140,234)	-	-	(143)	9,746	(130,631)

The deferred tax credit to income relating to changes in tax rates is £12.8 million (2010: £5.3 million). This reflects the reduction in the UK tax rate from 27% to 25% as it has been substantively enacted. All other deferred tax movements arise from the origination and reversal of temporary differences. Other net temporary differences include accrued expenses and other provisions.

At 31st December 2011, the Group had recognised a deferred tax asset of nil (2010: £0.1 million) in respect of income tax losses of approximately nil (2010: £0.3 million). The Group had no capital losses at 31st December 2011 (2010: nil). Deferred tax assets are recognised where it is probable that future taxable profit will be available to utilise losses.

Factors affecting the tax charge in future years

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

On 21st March 2012 the Chancellor announced a further reduction in the main rate of UK corporation tax to 24% with effect from 1st April 2012. This change became substantively enacted on 26th March 2012. The effect of the change would create an additional reduction in the deferred tax liability at 31st December 2011 of approximately £4.1 million. This has not been reflected in the figures above as the rate change was not substantively enacted at the balance sheet date. The Chancellor also proposed changes to further reduce the main rate of corporation tax by 1% per annum to 22% by 1st April 2014. These changes have not yet been substantively enacted and are not reflected in the figures above. The effect of the further reductions from 24% to 22%, if these applied to the deferred tax balance at 31st December 2011, would be to further reduce the deferred tax liability by approximately £8.2 million.

The UK Government has proposed some significant changes to the UK taxation system, with the introduction of a "patent box" regime which, following a period of further consultation, would apply a 10% rate of UK corporation tax to income from patents from 1st April 2013, together with numerous changes to controlled foreign companies' legislation. The majority of these changes are expected to be included in Finance Bill 2012 with substantive enactment taking place during 2012. The impact of the proposed changes is currently being considered and will be incorporated in the reported figures on substantive enactment.

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12. Dividends

The Directors propose an interim ordinary dividend of £170 million in respect of the year ended 31st December 2011 being £20,791 per Class A Share, £8,385 per Class B Share and £8,095 per Class C Share

Preferential dividends of £37 million (2010 nil) are proposed in respect of the year ended 31st December 2011 following the performance conditions on a number of products being met. The dividends payable to each class of shareholder are £4,614 per Class A Share, £1,554 per Class B Share and £1,561 per Class C Share

The Directors proposed and paid two interim ordinary dividends amounting to £793 million in respect of the year ended 31st December 2010

The first interim ordinary dividend of £250 million being £30,575 per Class A Share, £12,330 per Class B Share and £11,905 per Class C Share was paid on the 29th March 2011

The second interim ordinary dividend of £543 million being £66,364 per Class A Share, £26,763 per Class B Share and £25,839 per Class C Share was paid on the 30th June 2011

13. Property, plant and equipment

	Plant and equipment £'000	Assets in construction £'000	Land and building £'000	Total £'000
Cost at 1st January 2010	27	16	-	43
Exchange adjustments	3	4	-	7
Additions	4	122	-	126
Cost at 31st December 2010	34	142	-	176
Exchange adjustments	36	-	1	37
Additions	1,997	-	16	2,013
Transfer to Plant and equipment	142	(142)	-	-
Disposals and write offs	(200)	-	-	(200)
Cost at 31st December 2011	2,009	-	17	2,026
Depreciation at 1st January 2010	(1)	-	-	(1)
Exchange adjustments	-	-	-	-
Charge for the year	(29)	-	-	(29)
Depreciation at 31st December 2010	(30)	-	-	(30)
Exchange adjustments	(24)	-	-	(24)
Charge for the year	(936)	-	-	(936)
Depreciation at 31st December 2011	(990)	-	-	(990)
Impairment at 31st December 2010	-	-	-	-
Exchange adjustments	-	-	-	-
Disposals and write-offs	(8)	-	-	(8)
Impairment losses	(4)	-	-	(4)
Impairment at 31st December 2011	(12)	-	-	(12)
Net book value at 31st December 2010	4	142	-	146
Net book value at 31st December 2011	1,007	-	17	1,024

Included in plant and equipment are leased assets with a cost of £2 million (2010 nil), accumulated depreciation of £1 million (2010 nil), and a net book value of £1 million (2010 nil)

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14. Goodwill

	2011 £'000	2010 £'000
Cost at 1st January	212,611	213,914
Exchange adjustments	(1,916)	(1,303)
Cost at 31st December	210,695	212,611
Net book value at 1st January	212,611	213,914
Net book value at 31st December	210,695	212,611

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

Goodwill is allocated to cash generating units which are tested for impairment at least annually. The cash generating units to which the goodwill is allocated is as follows: North America £99 million (2010: £99 million), Europe £111 million (2010: £113 million) and International £1 million (2010: £1 million).

The recoverable amounts of the cash generating units are assessed using a fair value less costs to sell model. Fair value is calculated using a discounted cash flow model based on the Group's acquisition valuation model. A post-tax discount rate of 10.0% is applied to the projected risk-adjusted post-tax cash flows and terminal value (derived using a 0% terminal growth rate). The period of specific forecast cash flows used in the valuation model is 5 years.

Key assumptions include the sales growth rates (determined by internal forecasts, based on internal and external market information), profit margins (determined by past experience and adjusted for expected changes) and discount rates (based on Group WACC).

Testing completed in 2011 identified no impairments of goodwill. The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

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15. Other intangible assets

	Computer software £'000	Licences, patents etc £'000	Total £'000
Cost at 1st January 2010	-	633,296	633,296
Exchange adjustments	26	3,969	3,995
Additions	5,701	18,674	24,375
Cost at 31st December 2010	5,727	655,939	661,666
Exchange adjustments	23	(1,004)	(981)
Disposals and write-offs	-	(28,167)	(28,167)
Cost at 31st December 2011	5,750	626,768	632,518
Amortisation at 1st January 2010	-	(5,491)	(5,491)
Exchange adjustments	(16)	(144)	(160)
Charge for the year	(831)	(32,684)	(33,515)
Amortisation at 31st December 2010	(847)	(38,319)	(39,166)
Exchange adjustments	(6)	(282)	(288)
Charge for the year	(2,178)	(32,593)	(34,771)
Amortisation at 31st December 2011	(3,031)	(71,194)	(74,225)
Impairment at 1st January 2010	-	-	-
Impairment at 31st December 2010	-	-	-
Exchange adjustments	-	-	-
Impairment losses	(558)	-	(558)
Impairment at 31st December 2011	(558)	-	(558)
Net book value at 31st December 2010	4,880	617,620	622,500
Net book value at 31st December 2011	2,161	555,574	557,735

Amortisation has been charged through selling, general and administration costs in the income statement. Write-offs of £28.2 million were included in research and development in 2011 (2010: nil) in relation to assets no longer being actively pursued.

The book values of individually material assets are as follows:

Asset description	End of amortisation period	2011 £'000	2010 £'000
Marketed asset	2030	274,298	299,171
Assets in development	N/A	254,538	283,608
Other assets		28,899	39,721
		557,735	622,500

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16. Other non-current assets

	2011 £'000	2010 £'000
Pension schemes in surplus	31	78
Other receivables	515	70
	546	148

17. Inventories

	2011 £'000	2010 £'000
Work in progress	5,429	-
Finished goods	31,580	33,554
	37,009	33,554

18. Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	326,547	263,736
Other prepayments and accrued income	590	584
Interest receivable	2	1
Employee loans and advances	237	161
Other receivables	74,844	68,690
	402,220	333,172

Bad and doubtful debt provision

At start of year	(993)	-
Exchange adjustments	(170)	5
Charge for the year	(5,797)	(1,015)
Subsequent recoveries of amounts provided for	866	17
Utilised	58	-
At 31st December	(6,036)	(993)

19. Cash and cash equivalents

	2011 £'000	2010 £'000
Cash at bank and in hand	21,756	51,036
Short-term deposits	496,647	920,017
	518,403	971,053

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20. Trade and other payables

	2011 £'000	2010 £'000
Trade payables	106,088	117,379
Wages and salaries	14,153	7,148
Social security	1,709	3,859
Other payables	7,314	8,252
Deferred income	1,133	1,691
Customer return and rebate accruals	168,182	234,267
Other accruals	177,117	173,150
Preferential dividends due within one year	36,806	-
	512,502	545,746

Customer return and rebate accruals are provided for by the Group at the point of sale in respect of the estimated rebates, discounts or allowances payable to customers, principally in the USA. Provisions are made at the time of sale but the actual amounts paid are based on claims made some time after the initial recognition of the sale. As the amounts are estimated they may not fully reflect the final outcome and the amounts are subject to change dependent upon, amongst other things, the types of buying group and product sales mix. The level of provision is reviewed and adjusted quarterly in the light of historic experience of actual rebates, discounts or allowances given and returns made and any changes in arrangements. Future events could cause the assumptions on which the provisions are based to change, which could affect the future results of the Group.

21. Other Provisions

	Employee related provisions £'000	Other provisions £'000	Total £'000
At 1st January 2010	1,217	38	1,255
Exchange adjustments	32	(2)	30
Charge for the year	1,078	136	1,214
Utilised	(333)	-	(333)
Transfer to pensions obligations	968	-	968
Reclassifications and other movements	1,389	(37)	1,352
At 31st December 2010	4,351	135	4,486
Exchange adjustments	(95)	(13)	(108)
Charge for the year	2,749	249	2,998
Utilised	(1,093)	-	(1,093)
Transfer to pensions obligations	580	-	580
Reclassifications and other movements	43	-	43
At 31st December 2011	6,535	371	6,906
To be settled within one year	2,093	371	2,464
To be settled after one year	4,442	-	4,442
At 31st December 2011	6,535	371	6,906

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

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22. Other non-current liabilities

	2011 £'000	2010 £'000
Preferential dividends	626,730	575,610
Other non-current liabilities	7	-
	626,737	575,610

Preferential dividends are discussed in Notes 2 and 3

23. Share Capital

	Class A shares		Class B shares		Class C Shares		Total	
	Number	£'000	Number	£'000	Number	£'000	Number	£'000
At 1st January 2010	6,950	723,016	2,857	297,216	193	20,078	10,000	1,040,310
Capital Reduction	-	(723,009)	-	(297,213)	-	(20,078)	-	(1,040,300)
Re-designation of shares	-	-	(59)	-	59	-	-	-
At 31st December 2010	6,950	7	2,798	3	252	-	10,000	10
At 31st December 2011	6,950	7	2,798	3	252	-	10,000	10

On 18th March 2010 the Company undertook a share capital reduction whereby the nominal value of the Company's Class A, B and C Shares of £104,031 each was reduced to a nominal value of £1 each. This resulted in the transfer of £1,040,300,000 to profit and loss account reserves, which is considered to be distributable. On the same date the company's one issued Subscriber Share of £1 each was cancelled.

On 9th June 2010 the Company approved the re-designation of 59 of the Company's Class B Shares of £1 each as Class C Shares of £1 each.

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

Voting rights are in line with equity shares as defined in the Shareholders Agreement, subject to certain extraordinary corporate matters, which require prior written approval of Pfizer.

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24. Movements in equity

Retained earnings, merger reserve and other reserves amounted to £491 million at 31st December 2011 (2010 £876 million) of which a loss of £61 million (2010 loss £28 million) relates to joint ventures. The cumulative translation exchange in equity is shown below in the following table.

	Retained earnings £'000	Merger Reserve £'000	Other Reserves £'000	Total £'000
At 1st January 2010	659	(264)	-	395
Exchange movements on overseas net assets	3,675	1,726	-	5,401
At 31st December 2010	4,334	1,462	-	5,796
Exchange movements on overseas net assets	(14,147)	133	-	(14,014)
At 31st December 2011	(9,813)	1,595	-	(8,218)

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

25. Related party transactions

The Group is 85% owned by GlaxoSmithKline Mercury Limited (a wholly owned subsidiary of the GlaxoSmithKline plc group of companies), 13.8% by PHIVCO Luxembourg Sarl and 1.2% by PHIVCO Corp (both members of the Pfizer Inc group of companies). During the year the Group undertook significant transactions with entities from within both the GlaxoSmithKline and Pfizer groups of companies.

Entities from within the GlaxoSmithKline group of companies supplied goods to and purchased goods from the Group during the year. In addition, entities from within the GlaxoSmithKline group of companies were engaged to provide support function services to the Group under 'Transitional Services Agreements' including regulatory and safety services, financial management and reporting, human resources, payroll services, IT support, property management, legal services, contract manufacturing, management of the Group's UK and US pension schemes, and management of the Group's employee share schemes. In addition, the Group operates separate agreements with GlaxoSmithKline affiliates for the provision of research and development and for toll-manufacturing services.

Entities from within the Pfizer group of companies supplied goods to the Group during the year as well as providing regulatory, financial reporting and legal services under a 'Transitional Services Agreement'. In addition, the Group operates separate agreements with Pfizer affiliates for the provision of research and development and for toll-manufacturing services.

During the formation of the Group arrangements were entered into for the payment of preferential dividends to GlaxoSmithKline and Pfizer subject to achieving agreed sales targets and development milestones. Once the preferential dividends become payable they are to be paid prior to the payment of an ordinary dividend to the Group's shareholders. Amounts included within the balance sheet for the expected payments to each party are included in the table below.

The Group also recognises net economic benefit payments receivable from other GlaxoSmithKline and Pfizer group companies. These payments arise where HIV products are continuing to be sold by other GlaxoSmithKline plc and Pfizer Inc group companies because the VirV Healthcare trading entity is not yet operational or due to legal or local operating restrictions. At the transaction date the future value of these payments was estimated and deemed part of the initial contribution of assets.

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

	GlaxoSmithKline group of companies		Pfizer group of companies	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Sale of goods	236,527	437,375	4,255	-
Purchase of goods and services	429,130	423,092	126,188	105,360
Amounts (payable)/receivable at 31st December	(18,771)	(152,495)	(1,373)	(15,899)
Net economic benefit receivables	-	10,539	-	2,580
Preferential Dividend liability	(352,425)	(285,482)	(311,111)	(290,126)

During the year, both the Group and Shionogi & Co Limited entered into transactions with their 50/50 US joint venture company in support of the research and development activities conducted by that joint venture company. During 2011, the Group provided services to the joint venture of £60.7 million (2010: £42.5 million). At 31st December 2011, the balance due to the Group from the joint venture was £26.2 million (2010: £19.9 million).

During the year, both the Group and Shire Canada Inc entered into transactions with their 50/50 Canadian joint venture company in support of the selling and marketing activities conducted by that joint venture company. During 2011, the Group provided services to the joint venture of £5.1 million (2010: £4.5 million). At 31st December 2011, the balance due from the Group to the joint venture was £2.8 million (2010: £3.2 million).

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

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26. Adjustments reconciling profit after tax to operating cash flows

	2011 £'000	2010 £'000
Profit after tax	421,666	403,968
Add back		
Tax on profits	232,370	249,556
Share of after-tax loss/(profits) of joint ventures	30,587	25,550
Finance cost net of finance income	89,267	111,936
Depreciation	936	29
Amortisation of intangible assets	34,771	33,515
Impairment and asset write off	28,729	-
Profit on sale of property, plant and equipment	(106)	-
Changes in working capital		
Increase in inventories	(2,759)	(7,287)
Increase in trade receivables	(65,495)	(63,770)
(Increase)/decrease in other receivables	(6,448)	14,584
Increase/(decrease) in trade payables	(11,563)	80,016
Increase/(decrease) in other payables	(57,917)	302,421
Increase in pension and other provisions	1,708	2,177
Other	2,918	796
	276,998	749,523
Cash generated from operations	698,664	1,153,491

27. Acquisitions

There have been no acquisitions during the year ended 31st December 2011 or the year ended 31st December 2010

28. Commitments

	2011 £'000	2010 £'000
Commitments under non-cancellable leases and other contracts		
Payments due within one year	5,434	3,202
Payments due between one and five years	855	1,291
Payments due after five years	102	-
Total commitments	6,391	4,493

29. Financial instruments and related disclosures

The Group reports in Sterling and pays dividends out of Sterling profits. GSK's Corporate Treasury function is employed as a service provider to manage and monitor the Group's external and internal funding requirements and financial risks in support of the Group's strategic objectives. Treasury activities are governed by policies and procedures approved by the Group Board of Directors, most recently on 19th March 2010.

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

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

Capital management

The Group manages its capital to ensure that entities in the Group are able to operate as going concerns whilst availing themselves of intercompany funding where appropriate. The capital structure of the Group consists wholly of shareholders' equity (see "Consolidated statement of changes in equity" on page 14). The Board reviews the Group's annual dividend policy which is established in accordance with parameters set in the Shareholders' Agreement between GSK and Pfizer.

The Group operates on a global basis, through a number of subsidiary companies and the existing sales networks of GlaxoSmithKline plc and Pfizer Inc. With significant levels of patent or trademark protection, the Group's pharmaceutical products compete largely on product efficacy or differentiation rather than on price.

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

Operating cash flow is used to fund investment in research and development of new products. It is also used to make routine outflows of capital expenditure, tax and dividends.

Total equity of the Group has decreased from £876.5 million in 2010 to £491.5 million in 2011. The decrease of £385 million principally represents ordinary dividends paid of £792.6 million partially offset by the retained profit for the year.

Liquidity risk

The Group benefits from strong positive cash flow from operating units and has substantial cash and cash equivalents, which amounted to £518.4 million at 31st December 2011 (2010: £971.1 million).

Market risk

Interest rate risk management

The Group has no significant external debt and therefore no significant exposure to changes in interest rates. The Group earns interest income on its cash and therefore benefits from an increase in interest rates. The impact of a decrease in interest rates is limited (see interest rate sensitivity).

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Foreign exchange risk management

Foreign currency transaction exposures arising on internal and external trade flows are not hedged. The exposure of overseas operating subsidiaries to transaction risk is managed by matching local currency income with local currency costs and by maintaining intercompany payment terms of 30 days or less. Exceptional foreign currency cash flows may be hedged selectively as approved by the CFO. We manage the cash surpluses or borrowing requirements of subsidiary companies centrally using forward contracts to hedge future repayments back into the originating currency.

Derivative financial instruments

The principal amount on foreign exchange contracts of £166 million (2010: £78 million) is the gross total of outstanding positions at the balance sheet date. All contracts are for periods of 12 months or less. At 31st December 2011, the Group held outstanding foreign exchange contracts consisting primarily of currency swaps with a total fair value of nil (2010: £0.5 million credit) which represent hedges of intercompany loans and deposits, but are not designated as accounting hedges. Changes in fair value are taken to profit and loss in the period to offset the exchange gains and losses on the related intercompany lending and borrowing.

Credit risk

The Group considers its maximum credit risk to be £882.3 million (2010: £1,296.1 million) which is the total of the Group's financial assets. This represents £518.4 million of cash and cash equivalents and £363.9 million of trade and other receivables and derivative financial assets. See page 44 for details on the Group's total financial assets.

The Group's greatest concentration of credit risk is £203.6 million invested in US Treasury and Treasury repo only money market funds which bear credit exposure to the US Government. In 2010, the greatest concentration of credit risk was £336.3 million also invested in US Treasury and Treasury repo only money market funds.

Treasury-related credit risk

The Group has continued to maintain its conservative approach to counterparty risk throughout 2011. The aggregate credit risk in respect of financial instruments that the Group may have with one counterparty is limited by reference to the long-term credit ratings assigned for that counterparty by Moody's Investors Service ("Moody's") and Standard and Poor's. The table below sets out the credit ratings of counterparties for cash and cash equivalents. The derivatives held by the group are not significant.

	Credit rating of counterparty						Total £'000
	Aaa/AAA £'000	Aa1/AA+ £'000	Aa2/AA £'000	Aa3/AA- £'000	A1/A+ £'000	A2/A £'000	
2011							
Bank balances and deposits	-	-	-	104,608	202,017	8,163	314,788
US Treasury & Treasury repo only money market funds	-	203,615	-	-	-	-	203,615
Total	-	203,615	-	104,608	202,017	8,163	518,403
2010							
Bank balances and deposits	-	-	257,934	200,000	176,795	-	634,729
US Treasury & Treasury repo only money market funds	336,324	-	-	-	-	-	336,324
Total	336,324	-	257,934	200,000	176,795	-	971,053

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The credit ratings in the above tables are as assigned by Moody's and Standard and Poor's respectively. Where the opinion of the two rating agencies differs, the lower rating of the two is assigned to the counterparty.

Our centrally managed cash reserves amounted to £484.1 million at 31st December 2011, all available within three months. The Group invests centrally managed liquid assets in bank deposits and AAA/Aaa US Treasury and Treasury repo only money market funds (which bear credit exposure to the US Government (Aaa/AA+ rated)) with a minimum short-term credit rating of A-1/P-1.

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

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

Wholesale and retail credit risk

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

In the USA, in line with other pharmaceutical companies, the Group sells its products to a small number of wholesalers in addition to hospitals, pharmacies, physicians and other groups. Sales to the three largest wholesalers amount to approximately 89% of the Group's US sales. At 31st December 2011, the Group had trade receivables due from these three wholesalers totalling £76.5 million. The Group is exposed to a concentration of credit risk in respect of these wholesalers such that, if one or more of them encounters financial difficulty, it could materially and adversely affect the Group's financial results. However, the Group believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful debts (see Note 18, 'Trade and other receivables'). Outside the USA, no customer accounts for more than 5% of the Group's trade receivables balance.

Fair value of financial assets and liabilities

The table on page 44 presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 31st December 2011 and 31st December 2010. The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents - approximates to the carrying amount
- Short-term loans and overdrafts - approximates to the carrying amount because of the short maturity of these instruments
- Forward exchange contracts - based on market data and exchange rates at the balance sheet date
- Currency swaps - based on market data at the balance sheet date
- Receivables and payables - approximates to the carrying amount
- Preferential dividends - approximates to the carrying amount

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Financial assets and financial liabilities

	2011 Carrying value and Fair value £'000	2010 Carrying value and Fair value £'000
Cash and cash equivalents	518,403	971,053
Loans and receivables		
Trade and other receivables and Other non-current assets in scope of IAS 39	363,367	324,730
Held-for-trading derivative financial assets	566	269
Total financial assets	882,336	1,296,052
Financial liabilities measured at amortised cost		
Borrowings		
Bank loans and overdrafts	(46)	-
Obligations under finance leases	(875)	-
	(921)	-
Trade and other payables and Other non-current liabilities in scope of IAS 39	(1,132,919)	(1,110,379)
Held-for-trading derivative liabilities	(535)	(759)
Total financial liabilities	(1,134,375)	(1,111,138)
Net financial assets and financial liabilities	(252,039)	184,914

Held for trading derivatives comprise foreign exchange contracts

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

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

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

	2011	2010
	£'000	£'000
Trade and other receivables (note 18)	402,220	333,172
Other non-current assets (note 16)	546	148
	402,766	333,320
Analysed as		
Financial assets in scope of IAS 39	363,367	324,730
Other assets	39,399	8,590
	402,766	333,320

The following table shows the age of such financial assets which are past due and for which no provision for bad or doubtful debts has been made.

	2011	2010
	£'000	£'000
Past due by 1-30 days	11,124	8,237
Past due by 31-90 days	16,084	2,035
Past due by 91-180 days	21,033	476
Past due by 181-365 days	21,451	248
Past due by more than 365 days	4,165	-
	73,857	10,996

Trade receivables includes £66 million after provisions for bad and doubtful debts past due from state hospital authorities in Italy, Portugal and Spain. The Group is actively pursuing these debts and considers the net balance recoverable.

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

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

	2011	2010
	£'000	£'000
Trade and other payables (note 20)	(512,502)	(545,746)
Other non-current liabilities (note 22)	(626,737)	(575,610)
	(1,139,239)	(1,121,356)
Analysed as		
Financial liabilities in scope of IAS 39	(1,132,919)	(1,110,379)
Other liabilities	(6,320)	(10,977)
	(1,139,239)	(1,121,356)

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Sensitivity analysis

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

Foreign exchange sensitivity

The two major foreign currencies in which the Group's financial instruments are denominated are US Dollars and Euros. The Group has considered movements in these currencies over the last three years and has concluded that a 20% movement in rates is a reasonable benchmark. Financial instruments are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them. Intercompany loans which are fully hedged to maturity with a currency swap have been excluded from this analysis.

A 20% movement in rates is not deemed to have a material effect on income or equity.

Interest rate sensitivity

The table below shows the Group's sensitivity to interest rates on its floating rate Sterling and US dollar financial instruments, being the currencies in which the Group has historically held cash and cash equivalents. The group has considered movements in these interest rates over the last three years and has concluded that a 1% increase is a reasonable benchmark. A 1% movement in interest rates is not deemed to have a material effect on equity.

	2011	2010
	Increase in	Increase in
	income	income
	£'000	£'000
1% (100 basis points) increase in Sterling interest rates (2010: 2%)	4,289	11,644
1% (100 basis points) increase in US dollar interest rates (2010: 2%)	2,039	8,643

These interest rates could not be decreased by 1% as they are currently less than 1.0%. The maximum decrease in income would therefore be limited to £2.8 million and £0.3 million for Sterling and US Dollar interest rates respectively (2010: £3.4 million and £1.1 million). Interest rate movements, foreign currency derivatives, trade payables, trade receivables and other financial instruments not in net cash do not present a material exposure to the Group's balance sheet based on a 1% increase or decrease in these interest rates.

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

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

	Obligations under finance leases	Finance charge on obligations under finance leases	Trade payables and other liabilities not in net cash	Total
	£'000	£'000	£'000	£'000
At 31st December 2011				
Due in less than one year	(340)	(7)	(506,191)	(506,538)
Between one and five years	(535)	(11)	(203,560)	(204,106)
Between five and ten years	-	-	(530,229)	(530,229)
Greater than ten years	-	-	(851,797)	(851,797)
Gross contractual cash flows	(875)	(18)	(2,091,777)	(2,092,670)
At 31st December 2010				
Due in less than one year	-	-	(558,872)	(558,872)
Between one and five years	-	-	(151,032)	(151,032)
Between five and ten years	-	-	(588,316)	(588,316)
Greater than ten years	-	-	(788,970)	(788,970)
Gross contractual cash flows	-	-	(2,087,190)	(2,087,190)

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

	Receivables £'000	2011 Payables £'000	Receivables £'000	2010 Payables £'000
Less than one year	166,160	(166,098)	77,439	(77,934)
Gross contractual cash flows	166,160	(166,098)	77,439	(77,934)

30. Employee share schemes

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

Share option plan

Options are granted to employees to acquire shares at the grant price in GlaxoSmithKline plc. Grants are normally exercisable between three and ten years from the date of grant but may, under certain circumstances, vest earlier as set out within the various scheme rules. Options are granted at the market price ruling at the date of grant. The granting of restricted share awards 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 awards are granted to senior executives at no cost. The percentage of each award that vests is based upon the performance of the GSK Group over a three year measurement period. The performance conditions for the awards consist of two parts, each of which applies to 50% of the award. The first part of the performance condition compares GSK's EPS growth to the increase in the UK Retail Prices Index over the three year measurement period. The second part of the performance condition is based on the Group's three year operating profit compared to the three year plan. Grants of Performance share awards are normally exercisable at the end of the three year vesting and performance period.

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 GlaxoSmithKline plc 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 £2.0 million (2010: £0.9 million) and is considered immaterial for further disclosure.

31. Ultimate parent undertaking

GlaxoSmithKline plc, a company registered in England and Wales, is the Group's ultimate parent undertaking and controlling party. The largest group of undertakings for which group financial statements are prepared and which include the results of the ViiV Healthcare Limited Group are the consolidated financial statements of GlaxoSmithKline plc. Copies of the consolidated financial statements can be obtained from The Company Secretary, GlaxoSmithKline plc, 980 Great West Road, Brentford, Middlesex TW8 9GS. The immediate parent undertaking of the Group is GlaxoSmithKline Mercury Limited.

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32. Principal group companies

The following represent the principal subsidiaries and joint ventures of the Group at 31st December 2011. Details are given of the principal country of operation, the location of the headquarters, the business sector and the business activities. The equity share capital of these undertakings is wholly owned by the Group except where its percentage interest is shown otherwise. All companies are incorporated in their principal country of operation except where stated.

	Location	Subsidiary/Joint Venture	Activity	%
Europe				
England	Brentford	ViiV Healthcare Trading Services UK Limited	e, f, m	100%
	Brentford	ViiV Healthcare Overseas Limited	h	100%
	Brentford	ViiV Healthcare UK Limited	m, i	100%
	Brentford	PHIVCO UK Limited	h, i	100%
	Brentford	PHIVCO UK II Limited	r, i	100%
Jersey	St Helier	ViiV Healthcare UK (No. 2) Limited	h	100%
	St Helier	PHIVCO Jersey Limited	h	100%
	St Helier	PHIVCO Jersey II Limited	h	100%
Belgium	Wavre	ViiV Healthcare sprl	m	100%
France	Marly le Roi	ViiV Healthcare SAS	m	100%
Germany	Munich	ViiV Healthcare GmbH	m	100%
Italy	Verona	ViiV Healthcare s r l	m	100%
Netherlands	Zeist	ViiV Healthcare B V	m	100%
Portugal	Alges	ViiV HIV Healthcare Unipessoal Limitada	m	100%
Spain	Madrid	Laboratorios ViiV Healthcare S L	m	100%
Switzerland	Muenchenbuchsee	ViiV Healthcare GmbH	m	100%
Americas				
USA	Wilmington	ViiV Healthcare Company	m, i	100%
	Wilmington	PHIVCO-1 LLC	i	100%
	Wilmington	PHIVCO-2 LLC	i	100%
Cayman Islands	George Town	Shionogi-ViiV Healthcare Holdings L P	r, i	50%
Canada	Calgary	ViiV Healthcare ULC	m	100%
	Mississauga	ViiV Healthcare Shire Canada Inc	m	50%
Mexico	Col. Santa Fe	ViiV Healthcare S de RL de CV	m	100%
Puerto Rico	Guaynabo	ViiV Healthcare Puerto Rico LLC	m	100%
International				

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Australia	Boronia	ViiV Healthcare Pty Limited	m	100%
South Africa	Bryanston	ViiV Healthcare (South Africa) (Proprietary) Limited	m	100%
Japan	Tokyo	ViiV Healthcare KK	m	100%

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

33. Legal Proceedings

On 26th July 2010, the Group received a subpoena from the Eastern District of New York's US Attorney's Office regarding sales and marketing practices for three HIV products, as well as educational programs, grants or payments to physicians regarding any drug used to treat HIV-infected adults. The Group is cooperating with the investigation.

Epzicom

On 27th June 2011, the Group received notice that Teva Pharmaceuticals ('Teva') had amended its ANDA for *Epzicom* (the combination of lamivudine and abacavir) to contain a Paragraph IV certification for two additional patents listed in the Orange Book, alleging the patents were invalid, unenforceable or not infringed. The patents challenged in this new certification relate to a method of treating HIV using the combination (expiring in 2016), and a certain crystal form of lamivudine (expiring in 2016). On 5th August 2011, the Group filed suit against Teva under the challenged patents in the United States District Court for the District of Delaware. A stay is in place against FDA approval of Teva's ANDA until the earlier of December 2013 or a decision adverse to the Group in the matter. The District Court has consolidated discovery in the *Epzicom* case with the Group's patent infringement suit against Lupin Ltd relating to *Trizivir*, as both cases involve the same patent covering the combination of lamivudine and abacavir.

Trizivir

On 18th May 2011, the Group received notice that Lupin Ltd ('Lupin') had filed an ANDA containing a Paragraph IV certification for *Trizivir* (the triple combination of lamivudine, AZT and abacavir) alleging that three patents listed in the Orange Book for *Trizivir* are either invalid, unenforceable or not infringed. These patents relate to a method of treating HIV using the triple combination (expiring in 2016), the hemisulfate salt of abacavir (expiring in 2018), and a certain crystal form of lamivudine (expiring in 2016). On 29th June 2011, the Group filed suit against Lupin under the patent covering the triple combination in the United States District Court for the District of Delaware. On 31st October 2011, the District Court consolidated the case for discovery with the Group's patent infringement suit involving Teva Pharmaceuticals and *Epzicom* pending in the same court. A stay is in place against FDA approval of Lupin's ANDA until the earlier of November 2013 or a decision adverse to the Group in the matter.

34. Summary of material differences between IFRS and US GAAP

Intangible fixed assets

Under IFRS, contingent milestone payments are recognised as intangible assets at the point that the contingent event becomes certain. Under US GAAP, before a compound receives regulatory approval, milestone payments made to third parties under contracted research and development arrangements are recorded as an expense when the specific milestone has been achieved. Only once a compound receives regulatory approval are any subsequent milestone payments recorded in intangible assets.

Preferential dividends

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

Taxation

Under IFRS, deferred tax is calculated using the tax rates of the inventory-holding companies and provided on unrealised intra-group profits to the extent that it is considered recoverable. Under US GAAP the deferred tax on unrealised intra-group profits is calculated using the tax rates of the supplying companies rather than the inventory-holding companies.

Net economic benefit payments

Under IFRS the Group recognises net economic benefit payments receivable from GlaxoSmithKline and Pfizer. These payments arise where HIV products contributed to the Group by GlaxoSmithKline and Pfizer are continuing to be sold by GlaxoSmithKline or Pfizer companies because the ViiV Healthcare trading entity is not yet operational or due to legal or local operating restrictions. Under US GAAP the net economic benefit payments receivable from GlaxoSmithKline are not recognised as they are due from an entity under common control. Where GlaxoSmithKline makes a net economic benefit payment under IFRS this is treated as the settlement of the receivable, under US GAAP this is treated as an additional capital contribution.

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

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Income statement for the year ended 31st December 2011

	IFRS 2011 £'000	Note 1	Note 2	Note 3	Note 4	US GAAP 2011 £'000
Revenues	1,536,512	-	-	-	-	1,536,512
Costs and expenses.						
Cost of sales	(329,999)	-	-	-	-	(329,999)
Selling, general and administrative expenses	(233,184)	-	-	-	-	(233,184)
Research and development expenses	(171,220)	-	-	17,097	-	(154,123)
Amortisation of intangible assets	(32,593)	-	-	-	-	(32,593)
Loss from affiliates	(30,587)	-	-	-	-	(30,587)
Other income/(deductions) - net	(84,893)	66,943	-	-	(11,249)	(29,199)
Income from continuing operations before provision for taxes on income	654,036	66,943	-	17,097	(11,249)	726,827
Provision for taxes on income	(232,370)	-	(2,706)	(6,497)	-	(241,573)
Net income	421,666	66,943	(2,706)	10,600	(11,249)	485,254
Other comprehensive income						
Exchange movements on overseas net assets and net investment hedges	(14,014)	-	-	-	-	(14,014)
Actuarial (losses) on defined benefit plans	(785)	-	-	-	-	(785)
Tax on exchange	555	-	-	-	-	555
Deferred tax on actuarial movements in defined benefit plans	229	-	-	-	-	229
Total comprehensive income	407,651	66,943	(2,706)	10,600	(11,249)	471,239

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Income statement for the year ended 31st December 2010

	IFRS 2010 £'000	Note 1	Note 2	Note 3	US GAAP 2010 £'000
Revenues	1,469,249	-	-	-	1,469,249
Costs and expenses.					
Cost of sales	(344,254)	-	-	-	(344,254)
Selling, general and administrative expenses	(163,372)	-	-	-	(163,372)
Research and development expenses	(127,174)	-	-	(17,097)	(144,271)
Amortisation of intangible assets	(32,684)	-	-	-	(32,684)
Loss from affiliates	(25,550)	-	-	-	(25,550)
Other income/(deductions) - net	(122,691)	71,482	-	-	(51,209)
Income from continuing operations before provision for taxes on income	653,524	71,482	-	(17,097)	707,909
Provision for taxes on income	(249,556)	-	(2,849)	6,497	(245,908)
Net income	403,968	71,482	(2,849)	(10,600)	462,001
Other comprehensive income					
Exchange movements on overseas net assets and net investment hedges	5,401	-	-	-	5,401
Actuarial (losses) on defined benefit plans	(1,023)	-	-	-	(1,023)
Tax on exchange	-	-	-	-	-
Deferred tax on actuarial movements in defined benefit plans	254	-	-	-	254
Total comprehensive income	408,600	71,482	(2,849)	(10,600)	466,633

Notes

- 1 Reversal of the unwinding of the discount and re-measurement of the liability for estimated future preferential dividends payable to GSK as the liability is not recognised under US GAAP
- 2 Adjustment to reflect the different method of calculation for the deferred tax on deferred profit in stock
- 3 Milestone payments made on assets in development are expensed under US GAAP but capitalised under IFRS. The milestone payment expensed in 2010 under US GAAP was reversed in 2011 as the asset in development was written-off under IFRS
- 4 Removal of the net economic benefit true-up from GlaxoSmithKline as this is a balance with an entity under common control

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Balance sheet as at 31st December 2011

	IFRS As at 31st December 2011 £'000	Note A	Note B	Note C	Note D	Note E	US GAAP as at 31st December 2011 £'000
Assets							
Cash and cash equivalents	518,403	-	-	-	-	-	518,403
Accounts Receivable	402,220	-	-	-	-	-	402,220
Inventories	37,009	-	-	-	-	-	37,009
Taxes and other current assets	32,604	29,216	-	-	(5,555)	-	56,265
Total current assets	990,236	29,216	-	-	(5,555)	-	1,013,897
Goodwill	210,695	-	-	-	-	-	210,695
Identifiable intangible assets, less accumulated amortisation	557,735	-	-	-	-	-	557,735
Investments in affiliates	8,271	-	-	-	-	-	8,271
Other assets, deferred taxes and deferred charges	47,401	(29,216)	-	-	-	-	18,185
Total assets	1,814,338	-	-	-	(5,555)	-	1,808,783
Liabilities and Shareholders' Equity							
Short-term borrowings and overdraft	(385)	-	-	-	-	-	(385)
Accounts payable	(106,088)	-	-	-	-	-	(106,088)
Income taxes payable	(44,620)	-	-	-	-	-	(44,620)
Other current liabilities (inc deferred taxes)	(409,413)	(7,953)	32,065	-	-	-	(385,301)
Total current liabilities	(560,506)	(7,953)	32,065	-	-	-	(536,394)
Other Provisions	(4,442)	-	-	-	-	-	(4,442)
Long-term borrowings	(536)	-	-	-	-	-	(536)
Deferred taxes	(130,631)	7,953	-	-	-	-	(122,678)
Other non-current liabilities	(626,737)	-	320,360	-	-	-	(306,377)
Total liabilities	(1,322,852)	-	352,425	-	-	-	(970,427)
Common stock	(10)	-	-	-	-	-	(10)
Additional paid in capital	-	-	-	(80,553)	-	-	(80,553)
Retained earnings (and Reserves)	(491,476)	(8,062)	(352,425)	80,553	5,555	-	(765,855)
Accumulated other comprehensive (income)/expense	-	8,062	-	-	-	-	8,062
Total shareholders' equity	(491,486)	-	(352,425)	-	5,555	-	(838,356)
Total liabilities and shareholders' equity	(1,814,338)	-	-	-	5,555	-	(1,808,783)

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Balance sheet as at 31st December 2010

	IFRS As at 31st December 2010 £'000	Note A	Note B	Note C	Note D	Note E	US GAAP as at 31st December 2010 £'000
Assets							
Cash and cash equivalents	971,053	-	-	-	-	-	971,053
Accounts Receivable	333,172	-	-	(10,539)	-	-	322,633
Inventories	33,554	-	-	-	-	-	33,554
Taxes and other current assets	19,232	27,122	-	-	(2,849)	-	43,505
Total current assets	1,357,011	27,122	-	(10,539)	(2,849)	-	1,370,745
Goodwill	212,611	-	-	-	-	-	212,611
Identifiable intangible assets, less accumulated amortisation	622,500	-	-	-	-	(17,097)	605,403
Investments in affiliates	9,606	-	-	-	-	-	9,606
Other assets, deferred taxes and deferred charges	37,841	(27,122)	-	-	-	-	10,719
Total assets	2,239,569	-	-	(10,539)	(2,849)	(17,097)	2,209,084
Liabilities and Shareholders' Equity							
Accounts payable	(117,379)	-	-	-	-	-	(117,379)
Income taxes payable	(90,669)	-	-	-	-	-	(90,669)
Other current liabilities (inc deferred taxes)	(429,126)	(9,354)	-	-	-	-	(438,480)
Total current liabilities	(637,174)	(9,354)	-	-	-	-	(646,528)
Other Provisions	(4,486)	-	-	-	-	-	(4,486)
Deferred taxes	(145,846)	9,354	-	-	-	-	(136,492)
Other non-current liabilities	(575,610)	-	285,482	-	-	6,497	(283,631)
Total liabilities	(1,363,116)	-	285,482	-	-	6,497	(1,071,137)
Common stock	(10)	-	-	-	-	-	(10)
Additional paid in capital	-	-	-	(59,396)	-	-	(59,396)
Retained earnings (and Reserves)	(876,443)	5,397	(285,482)	69,935	2,849	10,600	(1,073,144)
Accumulated other comprehensive (income)/expense	-	(5,397)	-	-	-	-	(5,397)
Total shareholders' equity	(876,453)	-	(285,482)	10,539	2,849	10,600	(1,137,947)
Total liabilities and shareholders' equity	(2,239,569)	-	-	10,539	2,849	17,097	(2,209,084)

Notes

- A Reclassifications (i) under US GAAP the current portion of the deferred tax asset and liability is reclassified into current assets and current liabilities based on the classification of the underlying balance to which the deferred tax relates and (ii) foreign currency gains/losses on the translation of assets and liabilities held by entities whose functional currencies are not GBP are recorded in retained earnings under IFRS and in accumulated other comprehensive income/expense under US GAAP

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- B** Removal of the liability for estimated future preferential dividends payable to GlaxoSmithKline as this does not meet the conditions for recognition under SFAS 5 and is not contingent consideration arising on the business combination (unlike the dividends payable to Pfizer)
- C** Removal of the net economic benefit receivable from GlaxoSmithKline as this is a balance with an entity under common control. Payments received from GlaxoSmithKline are treated as additional capital contributions under US GAAP
- D** Adjustment to reflect the different method of calculation for the deferred tax on deferred profit in stock
- E** Milestone payments made on assets in development are expensed under US GAAP but capitalised under IFRS

ViiV Healthcare Limited

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

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

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

In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent, and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,

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

Disclosure of information to auditors

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

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

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

Going concern basis

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

Independent auditors

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

On behalf of the Board



D Limet

Director

29th March 2012

ViiV Healthcare Limited

Independent auditors' report to the members of ViiV Healthcare Limited

We have audited the parent company financial statements of ViiV Healthcare Limited for the year ended 31st December 2011 which comprise the Company Balance Sheet – UK GAAP and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 57, the directors are responsible for the preparation of the parent company 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 parent company 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.

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.

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 parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. 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 parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31st December 2011,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

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 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or

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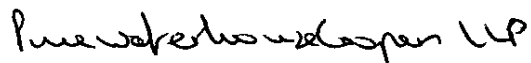
Independent auditors' report to the members of ViiV Healthcare Limited

- we have not received all the information and explanations we require for our audit

Other matters

We have reported separately on the group financial statements of ViiV Healthcare Limited for the year ended 31st December 2011

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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers LLP', is written over the printed name of the firm.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

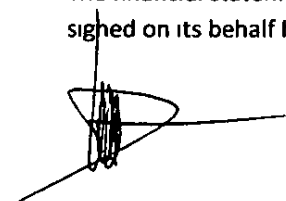
London

29th March 2012

ViiV Healthcare Limited
Company balance sheet – UK GAAP
at 31st December 2011

	Notes	2011 £000	2010 £000
Fixed assets			
Investments	D	2,320,953	2,320,953
Current assets			
Debtors	E	616	21,003
Creditors: amounts falling due within one year	F	(36,827)	(14)
Net current (liabilities)/assets		(36,211)	20,989
Total assets less current liabilities		2,284,742	2,341,942
Creditors: amounts falling due after one year	F	(1,853,817)	(1,934,737)
Net assets		430,925	407,205
Capital and reserves			
Called up share capital	G	10	10
Profit and loss account	H	926,805	922,764
Other reserves	H	(495,890)	(515,569)
Total shareholders' funds		430,925	407,205

The financial statements on pages 60 to 64 were approved by the Board of Directors on 29th March 2012 and signed on its behalf by



D Limet

Director

ViiV Healthcare Limited

Registered number 06876960

ViiV Healthcare Limited
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at 31st December 2011

A Presentation of the financial statements

Description of business

ViiV Healthcare Limited is the parent company of the ViiV Healthcare group of companies, a specialist HIV group focused solely on the research, development and commercialisation of HIV medicines. The Group was established by GlaxoSmithKline plc and Pfizer Inc.

Preparation of financial statements

The financial statements, which are prepared on a going concern basis, are drawn up in accordance with UK generally accepted accounting principles (UK GAAP) and with UK accounting presentation as at 31st December 2011, with comparative figures as at 31st December 2010.

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

Accounting convention and standards

The balance sheet has been prepared using the historical cost convention and complies with applicable UK accounting standards.

Accounting principles and policies

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

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

B Accounting policies

Foreign currency transactions

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

Dividends paid and received

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

Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated.

Investments in subsidiary companies

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

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Impairment of investments

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

Taxation

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

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

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

C Operating profit

A fee of £7k (2010: £7k) relating to the audit of the Company has been charged in operating profit.

D Fixed assets - investments

	2011	2010
	£'000	£'000
Cost and carrying value at 1 January	2,320,953	2,320,953
Cost and carrying value at 31st December	2,320,953	2,320,953

Details of the principal subsidiary undertakings of the Company as at 31st December 2011 are given in Note I.

E Debtors

	2011	2010
	£'000	£'000
Amounts due within one year		
Amounts owed by GlaxoSmithKline Group undertakings	-	18,295
Amounts owed by Pfizer Group undertakings	-	2,580
Taxation	616	128
	616	21,003

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

ViiV Healthcare Limited
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at 31st December 2011

F Creditors

	2011 £'000	2010 £'000
Amounts falling due within one year		
Accruals and other creditors	36,827	14
	36,827	14
Amounts due after one year		
Amounts owed to ViiV Healthcare Group undertakings	1,386,980	1,411,415
Other creditors	466,837	523,322
	1,853,817	1,934,737
	1,890,644	1,934,751

Other creditors represents future preferential dividends due to GlaxoSmithKline and Pfizer (Note G)

G Share Capital

	2011 Number of shares	2010 Number of shares	2011 £'000	2010 £'000
Issued and fully paid				
Class A Shares of £1 each	6,950	6,950	7	7
Class B Shares of £1 each	2,798	2,798	3	3
Class C Shares of £1 each	252	252	-	-
	10,000	10,000	10	10

On 18th March 2010 the Company undertook a share capital reduction whereby the nominal value of the Company's Class A, B and C Shares of £104,031 each was reduced to a nominal value of £1 each. This resulted in the transfer of £1,040,300,000 to profit and loss account reserves, which is considered to be distributable. On the same date the Company's one issued Subscriber Share of £1 was cancelled.

On 9th June 2010 the Company approved the re-designation of 59 of the Company's Class B Shares of £1 each as Class C Shares of £1 each.

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

The Directors proposed and paid two interim ordinary dividends amounting to £793 million in respect of the year ended 31st December 2010.

The first interim ordinary dividend of £250 million being £30,575 per Class A Share, £12,330 per Class B Share and £11,905 per Class C Share was paid on the 29th March 2011.

The second interim ordinary dividend of £543 million being £66,364 per Class A Share, £26,763 per Class B Share and £25,839 per Class C Share was paid on the 30th June 2011.

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H Reserves

	Profit and loss account £'000	Other reserves £'000	Total reserves £'000
At 31st December 2009	(5)	(463,000)	(463,005)
Loss for the financial year	(61,706)	-	(61,706)
Additional capital contributions arising from increase in fair value of investments through business combinations	-	7,753	7,753
Transfer of finance expense related to preferential dividend	60,322	(60,322)	-
Ordinary dividends to shareholders	(116,147)	-	(116,147)
Reduction of share capital	1,040,300	-	1,040,300
At 31st December 2010	922,764	(515,569)	407,195
Profit for the financial year	816,338	-	816,338
Transfer of finance expense related to preferential dividend	(19,679)	19,679	-
Ordinary dividends to shareholders	(792,618)	-	(792,618)
At 31st December 2011	926,805	(495,890)	430,915

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

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

I Principal subsidiaries

The principal subsidiaries of the Company as at 31st December 2011 are as follows

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