



ViiV Healthcare Limited

Annual Report 2010

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Registered number 06876960

Registered office address 980 Great West Road, Brentford, Middlesex, United Kingdom TW8 9GS

ViiV Healthcare Limited

Contents

Directors' report	3
Independent auditors' report	9
Consolidated income statement	11
Consolidated statement of comprehensive income	11
Consolidated balance sheet	12
Consolidated statement of changes in equity	13
Consolidated cash flow statement	14
Notes to the financial statements	15
Financial statements of ViiV Healthcare Limited prepared under UK GAAP	60

ViiV Healthcare Limited

Directors' report

Directors' report for the year ended 31st December 2010

The Directors submit their report and the audited consolidated financial statements for ViiV Healthcare for the year ended 31st December 2010

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 parent company was formed on 14th April 2009 and began trading on 30th October 2009 when the Group was formed through the combination of the existing HIV businesses of GlaxoSmithKline plc ("GSK") and Pfizer Inc ("Pfizer"). The Group is owned 85% by GSK and 15% by 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 first full year of trading the Group has delivered revenues of £1,469 million and profit after tax of £404 million. The Group increased cash and cash equivalents to £971 million after returning £116 million to shareholders through an ordinary dividend. The Group's results for the year can be found on page 11.

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.

Operational highlights

The Group has continued to develop since its formation throughout 2010. Key infrastructure and trade routes have been put in place including the strategic focus on International markets through the establishment of a number of regional hubs in Asia-Pacific, CIS and Latin America.

There has been an overall upward trend in *Kivexa/Epzicom* sales reflecting the role of nucleoside reverse transcriptase inhibitors (NRTI's) as a mainstay of treatment in HIV.

The growth of *Selzentry (Maraviroc)* was supported by the wide acceptance of genotypic testing across Europe and increasing first-line use in the United States. This was supported by country launches in Poland, Romania, Australia, Japan and Mexico.

Access & Care

ViiV Healthcare is dedicated to supporting communities affected by the HIV epidemic and developing innovative approaches to improve access to medicines. The Group has implemented a "Not for Profit" pricing structure targeted at 69 of the world's least developed, lowest income countries and Sub-Saharan Africa where 80% of the world's HIV sufferers reside.

ViiV Healthcare Limited

Directors' report

In 2010 the Company announced a further groundbreaking move by making its entire current and future antiretroviral (ARV) portfolio available to generic manufacturers through royalty-free voluntary licences to these 69 countries

Care of paediatric HIV and the prevention of mother-to-child transmission is a major unmet need in HIV treatments. To that end, ViiV Healthcare formed key partnerships with the Elizabeth Glaser Paediatric AIDS Foundation and amFAR to improve care for women, infants and children

The Group supports the Positive Action for Children Fund, the community-led fund designed to support mothers and children affected by HIV and to prevent mother-to-child transmission of the virus. During the year the fund made its first round of donations giving more than £3 million to community projects. A further request for information at the end of the year expanded the Fund's reach and scope to meet this millennium development goal

Key performance indicators

The key performance indicators for the Group are considered to be revenue, 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 11

The Directors propose an interim ordinary dividend of £250 million in respect of the period ended 31st December 2010 being £30,575 per Class A share, £12,330 per Class B share and £11,905 per Class C share

The Directors proposed and paid an ordinary dividend of £116 million in respect of the period ended 31st December 2009 being £14,205 per Class A Share, £5,724 per Class B Share and £5,583 per Class C Share based on the number of Class A, B and C shares as at 9th June 2010

No preferential dividend is proposed to the holders of Class A, B and C shares in respect of either the period ended 31st December 2010 or the period ended 31st December 2009 as the performance conditions required to declare a preferential dividend were not met

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

ViiV Healthcare Limited

Directors' report

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.

Changing regulatory and business environment

The Group is subject to a broad range of regulatory controls on the testing, approval and 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.

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 Heiman	Appointed on 30/10/09	
J Heslop	Appointed on 14/04/09	Resigned on 31/03/11
Z Hong	Appointed on 30/10/09	
A Hussain	Appointed on 30/10/09	
D Learmouth	Appointed on 30/10/09	
D Limet	Appointed on 30/10/09	
M Mackay	Appointed on 30/10/09	Resigned on 07/06/10
A Mackenzie	Appointed on 09/06/10	
I McCubbin	Appointed on 30/10/09	
D Redfern	Appointed on 01/04/11	
E Strahlman	Appointed on 30/10/09	

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 addition the Group has entered into several licensing initiatives that have strengthened the pipeline, particularly in the later stages.

In October 2010, Shionogi-ViiV Healthcare LLC announced the start of their Phase III development programme for their HIV Integrase inhibitor (1349572). A further phase III trial for a fixed dose combination “572-Tri” (572/Epzicom/Kivexa) was initiated in February 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.

ViiV Healthcare Limited

Directors' report

The procedures include arrangements for accelerated payment of small suppliers

Payment performance

At the 31st December 2010, the average number of days' payable outstanding represented by trade payables of the Company was nil. Comparative figures for 2009 are not presented due to the formation of the Company within the period.

Subsequent Events

David Redfern has been named Chairman of the Board for ViiV Healthcare Limited, effective 1 April 2011, following the retirement of Julian Heslop, effective 31 March 2011.

Political and charitable donations

The Group made no political donations during the year (2009 - £nil). Charitable donations of £6.5 million (2009 - £nil) 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 elected to prepare 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,
- 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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.

ViiV Healthcare Limited

Directors' report

Disclosure of information to auditors

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

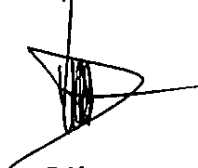
- so far as he or she is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's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

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

By order of the Board

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

D Limet

3 May 2011

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 31 December 2010 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 7, 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.

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 31 December 2010 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.

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.

ViiV Healthcare Limited

Independent auditors' report to the members of ViiV Healthcare Limited

Matters on which we are required to report by exception

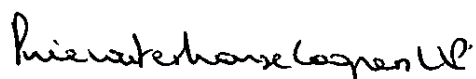
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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 31 December 2010

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

3 May 2011

ViiV Healthcare Limited
Consolidated income statement
For the year ended 31st December 2010

	Notes	2010 £'000	For the period from 14/04/2009 to 31/12/2009 (unaudited) £'000
Turnover	5	1,469,249	249,157
Cost of sales		(344,254)	(61,538)
Gross profit		1,124,995	187,619
Selling, general and administration		(206,811)	(37,140)
Research and development		(127,174)	(25,399)
Operating profit	6,7	791,010	125,080
Share of after tax profits of joint ventures	10	(25,550)	192
Finance income	8	1,287	113
Finance expense	9	(113,223)	(81)
Profit before taxation		653,524	125,304
Taxation	11	(249,556)	(46,798)
Profit after taxation for the period		403,968	78,506

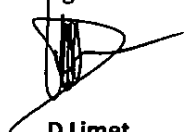
Consolidated statement of comprehensive income
For the year ended 31st December 2010

	2010 £'000	For the period from 14/04/2009 to 31/12/2009 (unaudited) £'000
Profit for the period	403,968	78,506
Exchange movements on overseas net assets	5,401	395
Actuarial losses on defined benefit plans	(1,023)	(27)
Deferred tax on actuarial movements in defined benefit plans	254	7
Other comprehensive income for the period	4,632	375
Total comprehensive income for the period	408,600	78,881

ViiV Healthcare Limited
Consolidated balance sheet
As at 31st December 2010

	Notes	2010 £'000	2009 (unaudited) £'000
Non-current assets			
Property, plant and equipment	13	146	42
Goodwill	14	212,611	213,914
Other intangible assets	15	622,500	627,805
Investments in joint ventures	10	9,606	8,131
Deferred tax assets	11	37,547	16,238
Other non-current assets	16	148	51
Total non-current assets		882,558	866,181
Current assets			
Inventories	17	33,554	24,731
Current tax recoverable		18,963	-
Trade and other receivables	18	333,172	309,703
Derivative financial assets		269	91
Cash and cash equivalents	19	971,053	236,714
Total current assets		1,357,011	571,239
Total assets		2,239,569	1,437,420
Current liabilities			
Short-term borrowings and overdrafts		-	(68)
Trade and other payables	20	(545,746)	(175,170)
Derivative financial liabilities	29	(759)	(358)
Current tax payable		(90,669)	(34,134)
Total current liabilities		(637,174)	(209,730)
Non-current liabilities			
Deferred tax liabilities	11	(145,846)	(174,621)
Other provisions	21	(4,486)	(1,255)
Other non-current liabilities	22	(575,610)	(467,814)
Total non-current liabilities		(725,942)	(643,690)
Total liabilities		(1,363,116)	(853,420)
Net assets		876,453	584,000
Equity			
Share capital	23	10	1,040,310
Retained earnings	24	1,522,782	79,145
Merger reserve	24	(78,482)	(72,455)
Other reserves	24	(567,857)	(463,000)
Total equity		876,453	584,000

The financial statements on pages 11 to 59 were approved by the Board of Directors on 3 May 2011 and signed on its behalf by



D Limet
Director

ViiV Healthcare Limited
Consolidated statement of changes in equity
For the year ended 31st December 2010

	Share capital	Retained earnings	Merger reserve	Other reserves	Total equity
	£'000	£'000	£'000	£'000	£'000
At 14th April 2009 (unaudited)	-	-	-	-	-
Profit for the period (unaudited)	-	78,506	-	-	78,506
Other comprehensive income for the year (unaudited)	-	639	(264)	-	375
Preferential dividends to shareholders (unaudited)	-	-	-	(463,000)	(463,000)
Ordinary shares issued (unaudited)	1,040,310	-	(72,191)	-	968,119
At 31st December 2009 (unaudited)	1,040,310	79,145	(72,455)	(463,000)	584,000
Profit for the period	-	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

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 2010

	Notes	2010 £'000	For the period from 14/04/09 to 31/12/09 (unaudited) £'000
Cash flow from operating activities			
Profit after taxation for the period		403,968	78,506
Adjustments reconciling profit after tax to operating cash flows	26	749,523	5,718
Cash generated from operations		1,153,491	84,224
Taxation paid		(262,414)	(30,448)
Net cash inflow from operating activities		891,077	53,776
Cash flow from investing activities			
Purchase of property, plant and equipment		(142)	(27)
Purchase of intangible assets		(22,783)	(33,700)
Interest received		1,286	113
Investment in joint ventures		(19,427)	-
Dividends received from joint ventures		3,256	-
Net cash outflow from investing activities		(37,810)	(33,614)
Cash flow from financing activities			
Issue of share capital	23	-	218,877
Interest paid		(604)	-
Dividends paid to shareholders		(116,147)	-
Other financing items		(2,602)	(25)
Net cash (outflow)/inflow from financing activities		(119,353)	218,852
Increase in cash and bank overdrafts		733,914	239,014
Exchange adjustments		493	(2,368)
Cash and bank overdrafts at beginning of period		236,646	-
Cash and bank overdrafts at end of period		971,053	236,646
Cash and bank overdrafts at end of period comprise			
Cash and cash equivalents	19	971,053	236,714
Overdrafts		-	(68)
		971,053	236,646

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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 GlaxoSmithKline plc and Pfizer Inc.

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 2010, with comparative figures for the financial period from 14th April to 31st December 2009.

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 2010

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 63 and the accounting policies are given on page 64

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 period

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 and 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

The Group adopted IFRS 3 (revised) 'Business combinations' from 1st January 2010 IFRS 3(Revised) was implemented prospectively with no restatement of comparative information

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

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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.

Foreign currency translation

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

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. Pharmaceutical turnover includes co-promotion revenue of £8.7 million (2009 – nil).

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. Manufacturing start-up costs between validation and the achievement of normal production are expensed as incurred. 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.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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 Group recognises the cost charged by the GlaxoSmithKline affiliate for the participation of ViiV Healthcare employees in the schemes as an expense in the period in which it is incurred. The Group therefore accounts for these incentive schemes on a cash-settled basis.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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 |

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 costs incurred by the Group and associated with acquired licences, patents, know-how or marketing rights are

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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 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, intangible assets with indefinite useful lives 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.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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 following new and amended accounting standards and IFRIC interpretations have been issued by the IASB and are likely to affect future Annual Reports, although, in their current forms, none is expected to have a material impact on the results or financial position of the Group.

An amendment to IAS 32 'Financial instruments: Presentation – Classification of rights issues' was issued in October 2009 and will be implemented by the Group from 1st January 2011. The amendment requires an issue of rights to acquire additional shares to all existing shareholders to be recognised in equity, regardless of the currency of the shares.

The IASB's annual improvements project was published in May 2010 and most of the changes are effective from 1st January 2011. The project makes minor amendments to a number of standards in areas including consolidation, business combinations and financial instruments.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

IAS 24 (Revised) 'Related party disclosures' was issued in November 2009 and will be implemented by the Group from 1st January 2011. The revised Standard clarifies the definition of a related party and provides some exemptions for government related entities.

IFRIC 19 'Extinguishing financial liabilities with equity instruments' was issued in November 2009 and will be implemented by the Group from 1st January 2011. The interpretation addresses the accounting by an entity that issues equity instruments in order to settle a financial liability in part or in full.

An amendment to IFRIC 14 'Pre-payments of a minimum funding requirement' was issued in November 2009 and will be implemented by the Group from 1st January 2011. The amendment permits a voluntary prepayment of a minimum funding requirement to be recognised as an asset.

The following new standards and interpretations have not yet been endorsed by the EU.

IFRS 9 'Financial instruments' was first issued in November 2009 and amended in October 2010 and will be implemented by the Group from 1st January 2013. The Standard will eventually replace IAS 39 and covers the classification, measurement and derecognition of financial assets and financial liabilities. The IASB intends to expand IFRS 9 to add new requirements for impairment and hedge accounting and to become a complete replacement of IAS 39 by the end of 2011.

An amendment to IFRS 7 'Disclosures – Transfers of financial assets' was issued in October 2010 and will be implemented by the Group from 1st January 2012. The amendment requires additional disclosures regarding the risk exposures relating to transfers of financial assets.

An amendment to IAS 12 'Deferred tax – recovery of underlying assets' was issued in December 2010 and will be implemented by the Group from 1st January 2012. The amendment requires that the deferred tax on non-depreciable assets measured using the revaluation model should be calculated on a sale basis.

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.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

Taxation

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

The Group believes that it has made adequate provision for any liabilities likely to arise from assessments by 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.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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.

4. Exchange rates

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

	2010	2009 (unaudited)
Average rates:		
£/US\$	1.55	1.56
£/Euro	1.16	1.12
£/Yen	136	146
£/Russian Rouble	47.1	49.4
Period end rates:		
£/US\$	1.56	1.61
£/Euro	1.17	1.13
£/Yen	127	150
£/Russian Rouble	47.8	48.9

5. Turnover

Turnover by geography	2010 £'000	For the period from 14/04/09 to 31/12/09 (unaudited) £'000
North America	721,612	130,226
Europe	555,647	83,482
International	191,990	35,449
	1,469,249	249,157

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

6. Operating Profit

	2010 £'000	For the period from 14/04/09 to 31/12/09 (unaudited) £'000
The following items have been included in operating profit:		
Employee costs (Note 7)	51,506	8,948
Amortisation of intangible assets (Note 15)	33,515	5,503
Net foreign exchange losses	10,755	4,890
Inventories		
Cost of inventories included in cost of sales	218,380	28,327
Operating lease rentals		
Minimum lease payments	353	3
Contingent rents	155	-
Sub-lease payments	147	23
Fees payable to the Company's auditor and its associates		
Audit of parent company and consolidated financial statements	478	7
Audit of accounts of the Group's UK and overseas subsidiaries, pursuant to legislation	299	32
Audit and assurance services	777	39
Other services	26	55
	803	94

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 2010.

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.

	2010 £'000	For the period from 14/04/09 to 31/12/09 (unaudited) £'000
Wages and salaries	43,163	7,877
Social security costs	5,818	779
State Pension and other post-employment costs	809	154
Cost of share-based incentive plans	983	138
Severance and other costs from integration and restructuring activities	733	-
	51,506	8,948

	2010	For the period from 14/04/09 to 31/12/09 (unaudited)
The average number of persons employed by the Group (including Directors) during the period.	483	218

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 2010 was nil (2009: nil).

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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

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

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

	2010
	£'000
Fees and salaries	396
Other benefits	40
Annual bonus	363
	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

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

8. Finance income

	2010 £'000	For the period from 14/04/09 to 31/12/09 (unaudited) £'000
Interest income arising from cash and cash equivalents	1,287	113
	1,287	113

9. Finance expense

	2010 £'000	For the period from 14/04/09 to 31/12/09 (unaudited) £'000
Interest expense arising on		
Financial liabilities at amortised cost	607	(2)
Fair value movements on derivatives at fair value through profit or loss	6	83
Re-measurement of other long term payables	52,288	-
Unwinding of discounts on other long term payables	60,322	-
	113,223	81

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

10. Joint ventures

	2010 £'000	2009 (unaudited) £'000
At start of period	8,131	-
Exchange adjustments	678	411
Additions	29,603	7,528
Dividends received from joint ventures	(3,256)	-
Share of retained (loss)/profit in the year	(25,550)	192
At 31st December	9,606	8,131

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 Shire Canada, which primarily co-markets *Combivir*, *Trizivir* and *Epivir* in certain territories. During the year, the Group received a dividend of £3.3 million from ViiV Shire Canada and contributed £29.6 million to Shionogi-ViiV Healthcare Holdings.

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

	2010 £'000	2009 (unaudited) £'000
Income statement		
Turnover	27,553	25,503
Expenses	(78,653)	(18,545)
(Loss)/Profit after tax	(51,100)	6,958
Balance Sheet		
Assets	49,710	6,977
Liabilities	(19,046)	(505)
Net Assets	30,664	6,472

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

11. Taxation

Taxation charge based on profits for the year	2010 £'000	For the period from 14/04/09 to 31/12/09 (unaudited) £'000
UK corporation tax at the UK statutory rate	144,383	17,272
	144,383	17,272
Overseas taxation	154,792	47,826
Current taxation	299,175	65,098
Deferred taxation	(49,619)	(18,300)
	249,556	46,798

Reconciliation of the taxation rate on Group profits	2010 %	For the period from 14/04/09 to 31/12/09 (unaudited) %
UK statutory rate of taxation	28.0	28.0
Differences in overseas taxation rates	6.1	7.0
Changes in tax rates	(0.6)	-
R&D credits	(0.1)	-
Non-deductible expenses	4.9	3.0
Other differences	-	(0.2)
Prior year items	(0.1)	-
Tax rate	38.2	37.8

Tax on items charged to equity and statement of comprehensive income	2010 £'000	2009 (unaudited) £'000
Current taxation		
Share based payments	-	-
Foreign exchange movements	-	-
	-	-
Deferred taxation		
Share based payments	-	-
Defined benefit plans	254	7
	254	7
Total credit to equity and statement of comprehensive income	254	7

The deferred tax was credited to the statement of comprehensive income

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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 £452m (2009 - £53m). The deferred tax on unremitted earnings at 31 December 2010 is estimated to be 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.

Deferred taxation assets/(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 taxation assets at 1st January 2010 (unaudited)	-	-	2,528	315	13,395	-	16,238
Deferred taxation liabilities at 1st January 2010 (unaudited)	-	(174,765)	-	-	144	-	(174,621)
At 1st January 2010 (unaudited)	-	(174,765)	2,528	315	13,539	-	(158,383)
Exchange adjustments	(7)	14	-	5	199	-	211
Credit/(charge) to income statement	(54)	17,168	23,777	(209)	8,937	-	49,619
Credit to statement of comprehensive income	-	-	-	-	254	-	254
At 31st December 2010	(61)	(157,583)	26,305	111	22,929	-	(108,299)
Deferred tax assets at 31st December 2010	22	2,514	26,305	111	23,141	(14,546)	37,547
Deferred tax liabilities at 31st December 2010	(83)	(160,097)	-	-	(212)	14,546	(145,846)

The deferred tax credit to income relating to changes in tax rates is £5.3 million. This reflects the reduction in the UK tax rate from 28% to 27% 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 2010, the Group had recognised a deferred tax asset of £0.1 million (2009 - £0.2 million) in respect of income tax losses of approximately £0.3 million (2009 - £0.7 million). The Group had no capital losses at 31st December 2010. Deferred tax assets are recognised where it is probable that future taxable profit will be available to utilise losses.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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.

In June 2010, the Chancellor of the Exchequer announced that the main rate of UK corporation tax would reduce from 28% to 27% with effect from 1 April 2011. This tax change was substantively enacted in July 2010 and therefore the effect of the change on the deferred tax balances as at 31 December 2010 has been included in the figures above, resulting in a credit of £5.3m. On 23 March 2011 the Chancellor announced an additional 1% reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. The effect of the change would be to create an additional credit of approximately £5.3 million. This has not been reflected in the figures above as it is not substantively enacted at the balance sheet date. The Chancellor proposed further changes to reduce the rate by one per cent per annum to 23 per cent by 1 April 2014, but again these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further changes from 26 per cent to 23 per cent, if these applied to the deferred tax balance at 31 December 2010, would be to further reduce the deferred tax liability by approximately £15.9 million.

In November 2010 the UK Government reconfirmed its intention to introduce a 'patent box' regime which would apply a reduced rate of corporation tax to income from patents with effect from April 2013, following a period of consultation. The UK government also continues to consult with business on proposed changes to legislation relating to controlled foreign companies. The majority of these changes are expected to be enacted in 2012.

12. Dividends

The Directors proposed and paid an ordinary dividend of £116.1 million in respect of the period ended 31st December 2009 being £14,205 per Class A Share, £5,724 per Class B Share and £5,583 per Class C Share based on the number of Class A, B and C shares as at 9th June 2010. There were no ordinary dividends paid during 2009.

No preferential dividend is proposed to the holders of Class A, B and C shares in respect of either the period ended 31st December 2010 or the period ended 31st December 2009 as the performance conditions required to declare a preferential dividend were not met.

The Directors propose an interim ordinary dividend of £250 million in respect of the period ended 31st December 2010 being £30,575 per Class A share, £12,330 per Class B share and £11,905 per Class C share.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

13. Property, plant and equipment

	Plant and equipment £'000	Assets in construction £'000	Total £'000
Cost at 14th April 2009 (unaudited)	-	-	-
Additions (unaudited)	27	16	43
Cost at 31st December 2009 (unaudited)	27	16	43
Exchange adjustments	3	4	7
Additions	4	122	126
Cost at 31st December 2010	34	142	176
Depreciation at 14th April 2009 (unaudited)	-	-	-
Charge for the year (unaudited)	(1)	-	(1)
Depreciation at 31st December 2009 (unaudited)	(1)	-	(1)
Exchange adjustments	-	-	-
Charge for the year	(29)	-	(29)
Depreciation at 31st December 2010	(30)	-	(30)
Net book value at 31st December 2009 (unaudited)	26	16	42
Net book value at 31st December 2010	4	142	146

14. Goodwill

	2010 £'000	2009 (unaudited) £'000
Cost at start of period	213,914	-
Exchange adjustments	(1,303)	840
Additions through business combinations	-	213,074
Cost at 31st December	212,611	213,914
Net book value at start of period	213,914	-
Net book value at 31st December	212,611	213,914

Goodwill predominantly relates to the acquisition of the Pfizer HIV business as disclosed in note 27

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 (2009: £99 million), Europe £113 million (2009: £114 million) and International £1 million (2009: £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 11.5% is applied to the projected risk-adjusted post-tax cash flows and terminal value (derived using a 2.5% terminal growth rate).

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 2010 identified no impairments of goodwill.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

15. Other intangible assets

	Computer software £'000	Licences, patents etc £'000	Total £'000
Cost at 14th April 2009 (unaudited)	-	-	-
Exchange adjustments (unaudited)	-	(824)	(824)
Additions (unaudited)	-	634,120	634,120
Cost at 31st December 2009 (unaudited)	-	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
Amortisation at 14th April 2009 (unaudited)	-	-	-
Exchange adjustments (unaudited)	-	12	12
Charge for the period (unaudited)	-	(5,503)	(5,503)
Amortisation at 31st December 2009 (unaudited)	-	(5,491)	(5,491)
Exchange adjustments	(1)	(144)	(145)
Charge for the year	(831)	(32,684)	(33,515)
Disposals and write-offs	(15)	-	(15)
Amortisation at 31st December 2010	(847)	(38,319)	(39,166)
Net book value at 31st December 2009 (unaudited)	-	627,805	627,805
Net book value at 31st December 2010	4,880	617,620	622,500

Amortisation has been charged through selling, general and administration costs in the income statement

The book values and remaining amortisation periods of individually material assets are as follows

Asset	Asset description	End of amortisation period	Book value	
			2010 £'000	2009 (unaudited) £'000
<i>Selzentry/Celsentri</i>	CCRS antagonist	2030	299,171	317,375
<i>Viracept</i>	Protease inhibitor	2022	10,316	17,818
Shire JV-related	Sales and Marketing Service Agreement	2016	20,742	21,991
UK-453061	Non-nucleoside reverse transcriptase inhibitor (in development)	N/A	254,538	254,538
2248761 (IDX899)	Non-nucleoside reverse transcriptase inhibitor (in development)	N/A	29,070	11,707
Other			8,663	4,376
			622,500	627,805

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

16. Other non-current assets

	2010 £'000	2009 (unaudited) £'000
Pension schemes in surplus	78	-
Other receivables	70	51
	148	51

17. Inventories

	2010 £'000	2009 (unaudited) £'000
Finished goods	33,554	24,731
	33,554	24,731

18. Trade and other receivables

	2010 £'000	2009 (unaudited) £'000
Trade receivables	263,736	196,981
Other prepayments and accrued income	584	15
Interest receivable	1	-
Employee loans and advances	161	51
Other receivables	68,690	112,656
	333,172	309,703
Bad and doubtful debt provision		
At start of period	-	-
Exchange adjustments	5	-
Charge for the period	(1,015)	-
Subsequent recoveries of amounts provided for	17	-
At 31st December	(993)	-

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

19. Cash and cash equivalents

	2010	2009
	£'000	(unaudited) £'000
Cash at bank and in hand	51,036	78,788
Short-term deposits	920,017	157,926
	971,053	236,714

20. Trade and other payables

	2010	2009
	£'000	(unaudited) £'000
Trade payables	117,379	36,882
Wages and salaries	7,148	4,077
Social security	3,859	559
Other payables	8,252	29,887
Deferred income	1,691	88
Customer return and rebate accruals	234,267	53,949
Other accruals	173,150	49,728
	545,746	175,170

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.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

21. Other Provisions

	Employee related provisions £'000	Other provisions £'000	Total £'000
At 14th April 2009 (unaudited)	-	-	-
Exchange adjustments (unaudited)	18	-	18
Charge for the period (unaudited)	1	(10)	(9)
Utilised (unaudited)	63	-	63
Transfer to pensions obligations (unaudited)	27	-	27
Reclassifications and other movements (unaudited)	1,108	48	1,156
At 31st December 2009 (unaudited)	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
To be settled within one year	-	135	135
To be settled after one year	4,351	-	4,351
At 31st December 2010	4,351	135	4,486

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

22. Other non-current liabilities

	2010 £'000	2009 (unaudited) £'000
Preferential dividends	575,610	463,000
Other non-current liabilities	-	4,814
	575,610	467,814

Preferential dividends are discussed in Notes 2 and 3

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

23. Share Capital

	Class A shares		Class B shares		Class C Shares		Total	
	Number	£'000	Number	£'000	Number	£'000	Number	£'000
At 14th April	-	-	-	-	-	-	-	-
Issue of new shares	6,950	723,016	2,788	290,038	262	27,256	10,000	1,040,310
Re-designation of shares	-	-	69	7,178	(69)	(7,178)	-	-
At 31st December 2009	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

On 30th October 2009 the parent company allotted the following shares 6,950 Class A Shares with a nominal value of £104,031 each, 2,788 Class B Shares with nominal value of £104,031 each and 262 Class C Shares with a nominal value of £104,031 each On the same date the Company's one issued Ordinary Share of £1 each was re-designated as a Subscriber Share of £1

On 18th December 2009 the Company approved the re-designation of 69 of the Company's Class C Shares of £104,031 each as Class B Shares of £104,031 each

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 discretionary 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 (SHA), subject to certain extraordinary corporate matters, which require prior written approval of Pfizer as defined in clause 4 of the SHA

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

24. Movements in equity

Retained earnings, merger reserve and other reserves amounted to £876 million at 31st December 2010 (2009 – £(456 million)) of which a loss of £28 million (2009 profit – £1 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 14th April 2009 (unaudited)	-	-	-	-
Exchange movements on overseas net assets (unaudited)	659	(264)	-	395
At 31st December 2009 (unaudited)	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

The merger reserve and other reserves are non-distributable

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 ViiV Healthcare trading entity is not yet

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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. The amount receivable by the Group is detailed below.

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

	GlaxoSmithKline group of companies		Pfizer group of companies	
	2010 £'000	For the period from 14/04/09 to 31/12/09 (unaudited) £'000	2010 £'000	For the period from 14/04/09 to 31/12/09 (unaudited) £'000
Sale of goods	437,375	105,741	-	-
Purchase of goods and services	423,092	93,641	105,360	14,239
Amounts (payable)/receivable at 31 December	(152,495)	186,359	(15,899)	-
Net economic benefit receivables	10,539	69,935	2,580	10,627
Preferential Dividend liability	(285,482)	(214,000)	(290,126)	(249,000)

During the year, both the Group and Shionogi & Co. Ltd. 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 2010, the Group provided services to the joint venture of £42.5 million. At 31st December 2010, the balance due to the Group from the joint venture was £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 2010, the Group provided services to the joint venture of £4.5 million (2009 – £0.9 million). At 31st December 2010, the balance due to the Group from the joint venture was £3.2 million (2009 – nil).

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

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

26. Adjustments reconciling profit after tax to operating cash flows

	2010 £'000	For the period from 14/04/09 to 31/12/09 (unaudited) £'000
Profit after tax	403,968	78,506
add back		
Tax on profits	249,556	46,798
Share of after-tax loss/(profits) of joint ventures	25,550	(192)
Finance cost net of finance income	111,936	(32)
Depreciation	29	1
Amortisation of intangible assets	33,515	5,503
Changes in working capital		
Increase in inventories	(7,287)	(14,389)
Increase in trade receivables	(63,770)	(199,822)
Decrease in other receivables	14,584	15,739
Increase in trade payables	80,016	37,323
Increase in other payables	302,421	112,695
Increase in pension and other provisions	2,177	1,210
Other	796	884
	749,523	5,718
Cash generated from operations	1,153,491	84,224

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

27. Acquisitions

2010

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

2009

On 30th October 2009, the Group acquired Pfizer Inc 's HIV business. The consideration provided representing 15% of the net equity value of the combined ViiV Healthcare Group, contingent consideration and transaction costs, was valued at £396 million. This was represented by £595 million of intangible assets, £172 million of deferred tax liability, £21 million of other net assets, £201 million of goodwill representing the economies of scale gained from the combination of the businesses and the potential for growth of Pfizer's HIV products within ViiV Healthcare, and Pfizer's right to receive preferential dividends amounting to an estimated £249 million from ViiV Healthcare Limited based on the sales performance of certain products.

The acquired Pfizer HIV business had a turnover of £89 million and a loss after tax of £39 million in 2009.

	Fair Value £'000
Net assets acquired	
Intangible assets	595
Other assets including cash and cash equivalents	21
Deferred tax provision	(172)
	444
Preferential dividend liability	(249)
Goodwill	201
Total consideration	396

28. Commitments

	2010 £'000	2009 (unaudited) £'000
Commitments under non-cancellable leases and other contracts		
Rental payments due within one year	3,202	236
Rental payments due between one and five years	1,291	201
Rental payments due after five years	-	-
Total commitments	4,493	437

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, meets 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. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

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 13). 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 increased from £584.0 million in 2009 to £876.5 million in 2010. The increase of £292.5 million principally represents the retained profit for the year, partially offset by ordinary dividends paid of £116.1 million.

Liquidity risk

The Group has substantial cash and cash equivalents, which amounted to £971.1 million at 31st December 2010. We also benefit from strong positive cash flow from operating units.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

Market risk

Interest rate risk management

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

Foreign exchange risk management

Foreign currency transaction exposures arising on internal and external trade flows are 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 Chief Financial Officer. We manage the cash surpluses or borrowing requirements of subsidiary companies centrally using forward contracts to hedge future repayments back into the originating currency.

Credit risk

The Group considers its maximum credit risk to be £1,296.1 million (2009 – £546.4 million) which is the total of the Group's financial assets. This represents £971.1 million of cash and cash equivalents and £325.0 million of trade and other receivables and derivative financial assets. See page 46 for details on the Group's total financial assets.

The Group's greatest concentration of credit risk is £336.3 million invested in US Treasury and Treasury repo only money market funds which bear credit exposure to the US Government. In 2009, the greatest concentration of credit risk was £160.9 million with HSBC. The current HSBC credit rating is Aa2.

Treasury-related credit risk

The Group has continued to maintain its conservative approach to counterparty risk throughout 2010. 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				
	Aaa/AAA £'000	Aa2/AA £'000	Aa3/AA- £'000	A1/A+ £'000	Total £'000
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	179,795	971,053
2009					
Bank balances and deposits	-	161,179	-	1,444	162,623
US Treasury & Treasury repo only money market funds	74,091	-	-	-	74,091
Total	74,091	161,179	-	1,444	236,714

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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 £920.0 million at 31st December 2010, all available within three months. The Group invests centrally managed liquid assets in bank deposits and AAA/Aaa rated US Treasuries and US Treasury repo only money market funds 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'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 of 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 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 wholesaler's amount to approximately 87% of the Group's US sales. At 31st December 2010, the Group had trade receivables due from these three wholesalers totalling £73.7 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'). In any other country, no customer accounts for more than 5% of the trade receivables balance.

Fair value of financial assets and liabilities

The table on page 46 presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 31st December 2010 and 31st December 2009. 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

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

Financial assets and financial liabilities

	2010		2009 (unaudited)	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Cash and cash equivalents	971,053	971,053	236,714	236,714
Loans and receivables				
Trade and other receivables and Other non-current assets in scope of IAS 39	324,730	324,730	309,559	309,559
Held-for-trading derivative financial assets	269	269	91	91
Total financial assets	1,296,052	1,296,052	546,364	546,364
Financial liabilities measured at amortised cost				
Borrowings				
Bank loans and overdrafts	-	-	(68)	(68)
Trade and other payables and Other non- current liabilities in scope of IAS 39	(1,110,379)	(1,110,379)	(641,993)	(641,993)
Held-for-trading derivative liabilities	(759)	(759)	(358)	(358)
Total financial liabilities	(1,111,138)	(1,111,138)	(642,419)	(642,419)
Net financial assets and financial liabilities	184,914	184,914	(96,055)	(96,055)

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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 the below financial assets and liabilities is considered to be a Level 2 methodology.

Financial assets at fair value	2010	2009
	Total	Total
	£'000	£'000
At 31st December		
Held-for-trading financial assets		
Derivatives	269	91
	269	91
Financial liabilities at fair value	2010	2009
	Total	Total
	£'000	£'000
At 31st December		
Held-for-trading financial liabilities		
Derivatives	(759)	(358)
	(759)	(358)

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.

	2010	2009
	£'000	(unaudited)
		£'000
Trade and other receivables (note 18)	333,172	309,703
Other non-current assets (note 16)	148	51
	333,320	309,754
Analysed as		
Financial assets in scope of IAS 39	324,730	309,559
Other assets	8,590	195
	333,320	309,754

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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

	2010 £'000	2009 (unaudited) £'000
Past due by 1-30 days	8,237	-
Past due by 31-90 days	2,035	-
Past due by 91-180 days	476	-
Past due by 181-365 days	248	-
Past due by more than 365 days	-	-
	10,996	-

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.

	2010 £'000	2009 (unaudited) £'000
Trade and other payables (note 20)	(545,746)	(175,170)
Other non-current liabilities (note 22)	(575,610)	(467,814)
	(1,121,356)	(642,984)
Analysed as		
Financial liabilities in scope of IAS 39	(1,110,379)	(641,993)
Other liabilities	(10,977)	(991)
	(1,121,356)	(642,984)

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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 and on the basis of any hedge designations in place at 31st December. 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 table below shows the Group's sensitivity to foreign exchange rates on its US Dollar and Euro financial instruments. These two currencies are the major foreign currencies in which the Group's financial instruments are denominated. 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. In this table, 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.

	2010		2009 (Unaudited)	
	Increase in income £'000	Change in equity £'000	Increase in income £'000	Change in Equity £'000
20% appreciation of the US dollar	(794)	-	138	-
20% appreciation of the Euro	3,533	-	-	-

A 20% depreciation of the stated currencies would have an equal and opposite effect.

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 2% increase is a reasonable benchmark. A 2% movement in interest rates is not deemed to have a material effect on equity.

	2010	2009 (unaudited)
	Increase in income £'000	Increase in income £'000
2% (200 basis points) increase in Sterling interest rates	11,644	3,520
2% (200 basis points) increase in US dollar interest rates	8,643	1,478

These interest rates could not be decreased by 2% as they are currently less than 1.0%. The maximum decrease in income would therefore be limited to £3.4 million and £1.1 million for Sterling and US Dollar interest rates respectively (2009: £1.0 million and £0.2 million). Interest rate movements, foreign currency

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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 2% increase or decrease in these interest rates

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

	Trade payables and other liabilities not in net cash £'000
At 31st December 2010	
Due in less than one year	(558,872)
Between one and two years	(18,855)
Between two and three years	(32,782)
Between three and four years	(38,825)
Between four and five years	(60,570)
Between five and ten years	(588,316)
Greater than ten years	(788,970)
Gross contractual cash flows	(2,087,190)
At 31st December 2009	
Due in less than one year	(182,785)
Between one and two years	(13,942)
Between two and three years	(18,739)
Between three and four years	(34,403)
Between four and five years	(55,332)
Between five and ten years	(540,184)
Greater than ten years	(694,445)
Gross contractual cash flows	(1,539,830)

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

	2010		2009 (unaudited)	
	Receivables £'000	Payables £'000	Receivables £'000	Payables £'000
Less than one year	77,439	(77,934)	17,097	(17,256)
Gross contractual cash flows	77,439	(77,934)	17,097	(17,256)

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

Derivative financial instruments and hedging programmes

The following table sets out the fair values of derivatives held by the Group

	2010		2009	
	Fair value		Fair value	
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Foreign exchange contracts (principal amount £0.5 million (2009: £0.2 million))	269	(759)	91	(358)
Total derivative instruments (not designated as accounting hedges)	269	(759)	91	(358)
Analysed as				
Current	269	(759)	91	(358)
Non-current	-	-	-	-
Total	269	(759)	91	(358)

Derivative financial instruments

The principal amount on foreign exchange contracts is the net total of outstanding positions at the balance sheet date. All contracts are for periods of 12 months or less. At 31st December 2010, the Group held outstanding foreign exchange contracts consisting primarily of currency swaps with a total credit fair value of £0.5 million (2009 – £0.3 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.

30. Employee share schemes

The Group employs GlaxoSmithKline plc as a service provider for the provision of employee share schemes. Options are granted to employees to acquire shares at the grant price in GlaxoSmithKline plc and share award schemes, whereby awards are granted to employees to acquire shares in GlaxoSmithKline plc at no cost, subject to the achievement by the Group of specified performance targets.

The Group also operates a share award scheme, the 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. 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 under share option schemes are normally exercisable between three and ten years from the date of grant. Grants of restricted shares and share awards are normally exercisable at the end of the three year vesting/performance period. Options under the share option schemes are granted at the market price ruling at the date of grant.

The share based compensation charge has been recorded in the income statement as administrative expenses of £0.9 million (2009 - £0.1 million).

Option pricing

For the purposes of valuing options to arrive at the stock-based compensation charge, the Black-Scholes option pricing model has been used. The assumptions used in the model for 2009 and 2010 are as follows:

	2010	2009
Risk-free rate	0.8% - 1.9%	1.4% - 2.9%
Dividend yield	5.30%	5.2%
Volatility	26%-29%	24% - 29%
Expected lives of options granted under share option schemes	5 years	5 years
Weighted average share price for grants in the year	£12.04	£11.72

Volatility was determined based on the three year share price history. The fair value of performance share plan grants take into account market conditions. Expected lives of options were determined based on weighted average historic exercises of options.

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

Options outstanding

	Share option schemes - shares			Share option schemes - ADS		
	Number '000	Weighted exercise price	Weighted fair value	Number '000	Weighted exercise price	Weighted fair value
As at 31st December 2009	18	£11 77	-	12	\$33 63	
Options granted	160	£12 04	£1 19	100	\$31 43	\$3 40
Options exercised	-	-	-	-	-	-
Options cancelled	-	-	-	-	-	-
As at 31st December 2010	178	£12 01		112	\$31 67	
Range of exercise prices		£11 54 to £12 04			\$33 42 to \$38 14	
Weighted average remaining contractual life		7 45 years			7 46 years	
Average share price January – December 2010		£12 55			\$39 84	

Year of Grant	Share option schemes - shares			Share option schemes - ADS		
	Number '000	Weighted exercise price	Latest exercise date	Number '000	Weighted exercise price	Weighted fair value
2009	18	£11 77	20/07/2019	12	\$33 63	20/07/2019
2010	160	£12 04	19/07/2020	100	\$31 43	20/07/2020
Total	178	£12 01		112	\$31 67	

There has been no change in the effective exercise price of any outstanding options during the year

The number of options that were exercisable as at 31st December 2010 was nil (2009 – nil)

Options normally become exercisable from three years from the date of grant but may, under certain circumstances, vest earlier as set out within the various scheme rules

Performance share 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 GSK Group's three year trading profit compared to the three year plan.

	Share option schemes - shares		Share option schemes - ADS	
	Number '000	Weighted fair value	Number '000	Weighted fair value
As at 31st December 2009	5		2	
Options granted	49	£12 04	20	\$32 66
Options exercised	-		-	
Options cancelled	-		-	
As at 31st December 2010	54		22	

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

Share value plan

The Group operates a Share Value Plan whereby awards are granted, in the form of GSK shares, to certain employees at no cost. The awards vest after three years. There are no performance criteria attached.

	Share option schemes - shares		Share option schemes - ADS	
	Number '000	Weighted fair value	Number '000	Weighted fair value
As at 31st December 2009	7		6	
Options granted	59	£10.04	50	\$31.44
Options exercised	-		-	
Options cancelled	-		-	
As at 31st December 2010	66		56	

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 Ltd.

32. Principal group companies

The following represent the principal subsidiary and joint ventures of the Group at 31st December 2010. 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%
	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	Genval	ViiV Healthcare sprl	m	100%
France	Marly le Roi	ViiV Healthcare SAS	m	100%

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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%
Asia Pacific				
Australia	Boronia	ViiV Healthcare Pty 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.

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.

VirV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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)
Deferred tax on actuarial movements in defined benefit plans	254	-	-	-	254
Total comprehensive income	408,600	-	-	-	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

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

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

ViiV Healthcare Limited
Notes to the financial statements
For the year ended 31st December 2010

assets and liabilities held by entities whose functional currencies are not GBP are recorded in retained earnings under IFRS and in accumulated other comprehensive income/expense under US GAAP

- B** Removal of the liability for estimated future preferential dividends payable to 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

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

The Directors are responsible for preparing the Company, ViiV Healthcare Limited financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the 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,
- state that with regard to the Company financial statements applicable UK Accounting Standards have been followed. The Directors confirm that they have complied with the above requirements in preparing 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

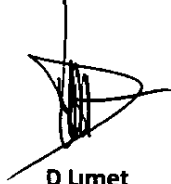
- so far as he or she is aware, there is no relevant audit information of which the Company's auditors are unaware, and

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.

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.

By order of the Board



D Limet

3 May 2010

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 31 December 2010 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 60, 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.

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 2010,
- 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
- we have not received all the information and explanations we require for our audit

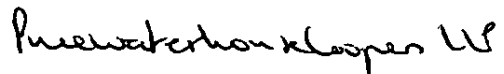
ViiV Healthcare Limited

Independent auditors' report to the members of ViiV Healthcare Limited

Other matters

We have reported separately on the group financial statements of ViiV Healthcare Limited for the year ended 31st December 2010

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

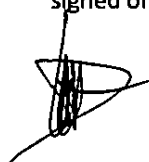
London

3 May 2011

ViiV Healthcare Limited
Company balance sheet – UK GAAP
at 31st December 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Investments	D	2,320,953	2,320,953
Current assets			
Debtors	E	21,003	84,417
Creditors' amounts falling due within one year	F	(14)	(7)
Net current assets		20,989	84,410
Total assets less current liabilities		2,341,942	2,405,363
Creditors' amounts falling due after one year	F	(1,934,737)	(1,828,058)
Net assets		407,205	577,305
Capital and reserves			
Called up share capital	G	10	1,040,310
Profit and loss account	H	922,764	(5)
Other reserves	H	(515,569)	(463,000)
Total shareholders' funds		407,205	577,305

The financial statements on pages 63 to 67 were approved by the Board of Directors on 3 May 2011 and signed of its behalf by



D Limet

Director

ViiV Healthcare Limited

Registered number 06876960

ViiV Healthcare Limited
Notes to the company balance sheet – UK GAAP
at 31st December 2010

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 2010, with comparative figures as at 31st December 2009.

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. 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 accounts 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.

ViiV Healthcare Limited
Notes to the company balance sheet – UK GAAP
at 31st December 2010

Investments in subsidiary companies

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

Impairment of investments

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

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 (2009: £7k) relating to the audit of the Company has been charged in operating profit.

D Fixed assets - investments

	2010 £'000	2009 £'000
Cost and carrying value at 1 January (2009: 14th April 2009)	2,320,953	-
Additions	-	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 2010 are given in Note I.

E Debtors

	2010 £'000	2009 £'000
Amounts due within one year		
Amounts owed by GlaxoSmithKline Group undertakings	18,295	67,110
Amounts owed by Pfizer Group undertakings	2,580	17,305
Taxation	128	2
	21,003	84,417

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

ViiV Healthcare Limited
Notes to the company balance sheet – UK GAAP
at 31st December 2010

F Creditors

	2010 £'000	2009 £'000
Amounts falling due within one year		
Accruals and other creditors	14	7
	14	7
Amounts due after one year		
Amounts owed to ViiV Healthcare Group undertakings	1,411,415	1,365,058
Other creditors	523,322	463,000
	1,934,737	1,828,058
	1,934,751	1,828,065

Other creditors represents future preferential dividends (Note G)

G Share Capital

	2010 Number of shares	2009 Number of shares	2010 £'000	2009 £'000
Issued and fully paid				
Class A Shares of £1 each	6,950	6,950	7	723,015
Class B Shares of £1 each	2,798	2,857	3	297,217
Class C Shares of £1 each	252	193	-	20,078
	10,000	10,000	10	1,040,310

On 30th October 2009 the parent Company allotted the following shares 6,950 Class A Shares with a nominal value of £723 million, 2,788 Class B Shares with nominal value of £290 million and 262 Class C Shares with a nominal value of £27 million On the same date the Company's one issued Ordinary Share of £1 was re-designated as a Subscriber Share of £1

On 18th December 2009 the Company approved the re-designation of 69 of the Company's Class C Shares of £104,031 each as Class B Shares of £104,031 each

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 discretionary 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

ViiV Healthcare Limited
Notes to the company balance sheet – UK GAAP
at 31st December 2010

H Reserves

	Profit and loss account £'000	Other reserves £'000	Total reserves £'000
At 14th April 2009	-	-	-
Loss for the financial period	(5)	-	(5)
Preferential dividends to shareholders	-	(463,000)	(463,000)
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

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 2010 are as follows

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

J Post Balance Sheet Events

David Redfern has been named Chairman of the Board for ViiV Healthcare Limited, effective 1 April 2011, following the retirement of Julian Heslop, effective 31 March 2011