GlaxoSmithKline Capital plc
(Registered number: 2258699)

Annual Report

for the year ended 31 December 2017

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

GlaxoSmithKline Capital plc
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Annual Report

for the year ended 31 December 2017

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GlaxoSmithKline Capital plc
(Registered number: 2258699)

Strategic report for the year ended 31 December 2017

The Directors present their Strategic report on GlaxoSmithKline Capital plc (the "Company") for the year ended 31 December 2017.

Principal activities and future developments

The Company is a member of the GlaxoSmithKline Group (the "Group"). The principal activities of the Company during the financial year were the issuance of notes under the Group's European Medium Term Note programme and the provision of financial services to other companies within the Group.

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

Review of business

The Company made a profit for the financial year of £8,318,000 (2016: £11,297,000), which will be transferred to reserves. The Directors are of the opinion that the current level of activity and the year-end financial position are satisfactory and will remain so in the foreseeable future.

At 31 December 2017, the Company had in issue £9,026,788,000 European Medium Term Notes and £1,473,973,000 US Medium Term Notes (2016: £7,874,858,000 and £3,214,961,000 respectively) which mature at dates between 2019 and 2045. All notes currently in issue pay interest on a fixed rate basis.

During the year, the $2 billion 1.500% US Medium Term Note matured in May 2017 and the €1.25 billion 5.625% European Medium Term Note matured in December 2017.

On 5 September 2017, three new bonds totalling €2.4 billion were issued under the Group's European Medium Term Note programme as follows:

- €1.2 billion (£1.1 billion) 0.000% European Medium Term Note 2020;
- €700 million (£640 million) 1.000% European Medium Term Note 2026; and
- €500 million (£457 million) 1.375% European Medium Term Note 2029.

Principal risks and uncertainties

The Directors of GlaxoSmithKline plc manage the risks of the Group at a group level, rather than at an individual statutory entity level. For this reason, the Company's Directors believe that a discussion of the Group's risks would not be appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's 2017 Annual Report which does not form part of this report.

Key Performance Indicators (KPIs)

The Directors of the Group manage the Group's operations on an operating segment basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The development, performance and position of the Group are discussed in the Group's 2017 Annual Report which does not form part of this report.

By order of the Board

Mr A Walker
For and on behalf of Glaxo Group Limited
Corporate Director
5 April 2018

Directors' report for the year ended 31 December 2017

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

Results and dividends

The Company's profit for the financial year is shown in the income statement on page 12.

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

Internal control framework

The Internal Control Framework is the means by which the Group ensures compliance with laws and regulations, the reliability of financial reporting and comprehensive risk management. The Directors of the Group are accountable for evaluating and approving the effectiveness of the internal controls, including financial, operational and compliance controls, and risk management processes operated by the Group.

To ensure effective governance and promote an ethical culture, the Group has in place the Risk Oversight and Compliance Council. This team of senior leaders is mandated by the Board to assist the Audit and Risk Committee in overseeing risk management and internal control activities. It also provides the business units with a framework for risk management and upward escalation of significant risks, of which the Company operates within. Further information on the Group's Internal Control Framework is discussed in the Group's 2017 Annual Report which does not form part of this report.

Financial risk management

The Company issues notes under the Group's European Medium Term Note programme in order to meet anticipated funding requirements. The strategy is to diversify liquidity sources using a range of facilities and to maintain broad access to funding markets. Details of derivative financial instruments and hedging, and further information on risk management policies, exposures to market, credit and liquidity risk are disclosed in Note 2(l) and 4 respectively.

Previously, the Company had entered into treasury gilt locks to manage interest rate risk on its forecasted Euro and Sterling denominated notes issued under the Group's European Medium Term Note programme. In 2017, the Company entered into forward starting interest rate swaps to manage the interest rate risk on its forecasted Euro denominated notes.

At 31 December 2017, none of the Company's total debt issuances were exposed to floating interest rates and interest is paid on a fixed rate basis.

Directors and their interests

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

Mr S Dingemans
Edinburgh Pharmaceutical Industries Limited
Glaxo Group Limited

No Director had, during the year or at the end of the year, any material interest in any contract of significance to the Company's business with the exception of the Corporate Directors (Edinburgh Pharmaceutical Industries Limited and Glaxo Group Limited), where such an interest may arise in the ordinary course of business. A corporate director is a legal person (legal entity of the Group), as opposed to a natural person (an individual) director.

Directors' report for the year ended 31 December 2017

Directors' indemnity

Each of the Directors benefits from an indemnity given by the Company under its articles of association. This indemnity is in respect of liabilities incurred by the Director in the execution and discharge of their duties.

In addition, each of the Directors, who is an individual, benefits from an indemnity given by another Group company, GlaxoSmithKline Services Unlimited. This indemnity is in respect of liabilities arising out of third party proceedings to which the Director is a party by virtue of his or her engagement in the business of the Company.

Directors' interests

The following interests of the Director in office in the shares of the ultimate parent undertaking, GlaxoSmithKline plc, at the year-end have been notified to the Company.

	Ordinary Shares			
	At 31 Dec 2016	Acquired	Disposed	**At 31 Dec 2017**
Shares				
Mr S Dingemans	186,434	87,818	(32,529)	**241,723**
	At 31 Dec 2016	Granted	Exercised/ lapsed	**At 31 Dec 2017**
Options				
Mr S Dingemans	-	29,931	(29,931)	**-**
	At 31 Dec 2016	Granted	Exercised/ lapsed	**At 31 Dec 2017**
Share Save				
Mr S Dingemans	712	248	(238)	**722**
	At 31 Dec 2016	Granted	Exercised/ lapsed	**At 31 Dec 2017**
Performance Share Plans				
Mr S Dingemans	643,346	222,513	(207,650)	**658,209**
	At 31 Dec 2016	Granted	Exercised/ lapsed	**At 31 Dec 2017**
Deferred Annual Bonus Plan				
Mr S Dingemans	153,622	66,423	(44,895)	**175,150**

All share awards are over ordinary shares of GlaxoSmithKline plc.

Further details of the above-mentioned Plans are disclosed in the 2017 Annual Report of GlaxoSmithKline plc.

Directors’ report for the year ended 31 December 2017

Statement of directors’ responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 “Reduced Disclosure Framework”, and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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 Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

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

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

Governance

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

Disclosure of information to auditors

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

Directors' report for the year ended 31 December 2017

Independent auditors

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

By order of the Board

Mr A Walker
For and on behalf of Glaxo Group Limited
Corporate Director
5 April 2018

Independent auditors' report to the members of GlaxoSmithKline Capital plc

Report on the audit of the financial statements

Opinion

In our opinion, GlaxoSmithKline Capital plc's financial statements:

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

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

Our opinion is consistent with our reporting to those charged with governance.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

- Overall materiality: £52.5 million (2016: £50.1 million), based on 0.5% of external debt.
- Full scope statutory audit.
- Risk of material misstatement in long-term borrowings.
- Risk of material misstatement in intercompany loans.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Independent auditors' report to the members of GlaxoSmithKline Capital plc

The scope of our audit (continued)

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We designed audit procedures that focused on the risk of non-compliance related to the Data Protection Act, the Money Laundering Act, Corporation tax laws and regulations and the Companies Act 2006. Our tests included inspecting monthly Treasury Management Group meeting minutes for identification of any breaches of laws and regulations and reviewing board meeting minutes. We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Risk of material misstatement in long-term borrowings GlaxoSmithKline Capital plc issues external borrowings under its EMTN and US Shelf programme on behalf of other GlaxoSmithKline Group entities. This is the entity's principal activity. As at 31 December 2017 £10.5 billion of external debt was held by GlaxoSmithKline Capital plc. The risk being completeness and valuation of the long term borrowings.	Our approach in respect of long term borrowings was underpinned by the testing of key controls, including those surrounding new debt issuances and repayment of existing debt. We substantively tested the additions and payments of external debt, recalculating the subsequent amortised cost of borrowings as of the year end as well as comparing the fair value disclosures to external independent sources. We determined that this testing provided us with sufficient audit evidence that new debt issuances and repayments of existing debt had been recorded appropriately.

Independent auditors' report to the members of GlaxoSmithKline Capital plc

Key audit matter	How our audit addressed the key audit matter
Risk of material misstatement in intercompany loans The external bonds issued by GlaxoSmithKline Capital plc are subsequently on lent to fellow Group entities. These intercompany loans match the external borrowings in both terms and maturity. The risk being the recoverability of intercompany receivables.	Our approach in respect of intercompany loans was underpinned by the testing of key controls, including those surrounding intercompany positions. We agreed the intercompany loans balances through matching within the group-wide consolidation system and substantively tested the recoverability of the intercompany loans by assessing the financial position of each relevant entity. We determined that this testing provided us with sufficient audit evidence that intercompany loans had been recorded appropriately.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

GlaxoSmithKline Capital plc is a member of the GlaxoSmithKline Group. The company's principal activity is the issuance of notes under the Group's European and US Medium Term Note programme and the provision of financing services to other companies within the Group.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£52.5 million (2016: £50.1 million).
How we determined it	0.5% of external debt.
Rationale for benchmark applied	GlaxoSmithKline Capital plc is the main UK debt issuer of the GlaxoSmithKline Group. The entity on lends the proceeds to other Group entities applying a small margin on the on lending. The primary role of the entity is to issue external debt, and as such we believe that the external debt balance is the most appropriate benchmark in assessing the performance of the entity and is a generally accepted auditing benchmark.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £2.6 million (2016: £2.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditors’ report to the members of GlaxoSmithKline Capital plc

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors’ report

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

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

Independent auditors' report to the members of GlaxoSmithKline Capital plc

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 1 December 1993 to audit the financial statements for the year ended 31 December 1994 and subsequent financial periods. The period of total uninterrupted engagement is 24 years, covering the years ended 31 December 1994 to 31 December 2017.

Independent auditors' report to the members of GlaxoSmithKline Capital plc

Other matters

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
5 April 2018

GlaxoSmithKline Capital plc

Income statement
for the year ended 31 December 2017

	Note	**2017** £'000	2016 £'000
Other operating (loss)/income		**(824)**	2,711
Finance income	8	**387,262**	399,340
Finance expense	9	**(376,137)**	(387,930)
Operating profit	6	**10,301**	14,121
Profit before taxation		**10,301**	14,121
Tax on profit	10	**(1,983)**	(2,824)
Profit for the financial year		**8,318**	11,297

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

The notes on pages 17 to 29 are an integral part of these financial statements.

GlaxoSmithKline Capital plc

Statement of comprehensive income for the year ended 31 December 2017

	Note	**2017** **£'000**	2016 £'000
Profit for the financial year		**8,318**	11,297
Items that may be subsequently reclassified to the income statement:			
Fair value movements on cash flow hedges		**(3,943)**	-
Reclassification of cash flow hedges to the income statement		**1,118**	954
Deferred tax on cash flow hedges	10	**480**	(283)
Other comprehensive (loss)/income for the financial year		**(2,345)**	671
Total comprehensive income for the financial year		**5,973**	11,968

The notes on pages 17 to 29 are an integral part of these financial statements.

GlaxoSmithKline Capital plc

Balance Sheet
as at 31 December 2017

	Note	**2017** £'000	2016 £'000
Non-current assets			
Deferred tax assets		**2,373**	1,893
Loans and receivables		**10,434,878**	8,353,138
Total non-current assets		**10,437,251**	8,355,031
Current assets			
Loans and receivables		**101,855**	2,767,682
Prepayment and accrued income		**107,833**	110,223
Cash and cash equivalents		**1**	2
Total current assets		**209,689**	2,877,907
Total assets		**10,646,940**	11,232,938
Current liabilities			
Other payables		**(4,864)**	(5,026)
Short-term borrowings		**-**	(2,679,716)
Accruals and deferred income	15	**(103,680)**	(106,431)
Total current liabilities		**(108,544)**	(2,791,173)
Net current assets		**101,145**	86,734
Total assets less current liabilities		**10,538,396**	8,441,765
Non-current liabilities			
Long-term borrowings		**(10,500,761)**	(8,410,103)
Total non-current liabilities		**(10,500,761)**	(8,410,103)
Total liabilities		**(10,609,305)**	(11,201,276)
Net assets		**37,635**	31,662
Equity			
Called up share capital		**100**	100
Other reserves		**(11,588)**	(9,243)
Retained earnings		**49,123**	40,805
Total equity		**37,635**	31,662

The notes on pages 17 to 29 are an integral part of these financial statements.

The financial statements on pages 17 to 29 were approved by the Board of Directors on 5 April 2018 and signed on its behalf by:

Mr A Walker
For and on behalf of Glaxo Group Limited
Corporate Director

GlaxoSmithKline Capital plc

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

	Called up share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2016	100	(9,914)	29,508	19,694
Profit for the year	-	-	11,297	11,297
Other comprehensive income for the financial year	-	671	-	671
At 31 December 2016	100	(9,243)	40,805	31,662
Profit for the year	-	-	8,318	8,318
Other comprehensive loss for the financial year	-	(2,345)	-	(2,345)
At 31 December 2017	**100**	**(11,588)**	**49,123**	**37,635**

The notes on pages 17 to 29 are an integral part of these financial statements.

Cash flow statement
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flow from operating activities			
Operating profit		**10,301**	14,121
Adjustments reconciling operating profit to operating cash flows		**5,775**	9,277
Net cash inflow from operating activities	18	**16,076**	23,398
Cash flow from financing activities			
Proceeds from borrowings		**2,183,800**	-
Repayment of borrowings		**(2,639,347)**	-
Loans provided to Group undertakings		**(2,183,800)**	-
Loan repayments received from Group undertakings		**2,619,680**	-
Increase/(decrease) in other receivables with Group undertakings		**3,590**	(23,398)
Net cash outflow from financing activities		**(16,077)**	(23,398)
Net movement in cash in the year		**(1)**	-
Cash at beginning of year		**2**	2
Movement in cash		**(1)**	-
Cash at end of year		**1**	2

The notes on pages 17 to 29 are an integral part of these financial statements.

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

1 Presentation of the financial statements

General information
GlaxoSmithKline Capital plc (the "Company") is a member of the GlaxoSmithKline Group (the "Group"). The Company's principal activity is the issuance of notes under the Group's European Medium Term Note programme and the provision of financial services to other companies within the Group.

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

These financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 as applicable to companies using FRS101.

Disclosure exemptions adopted

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

- Paragraph 38 of IAS 1 "Presentation of financial statements" comparative information requirements in respect of:
  - paragraph 79(a) (iv) of IAS 1;

- The following paragraphs of IAS 1 "Presentation of financial statements":
  - 16 (statement of compliance with all IFRS); and
  - 38B-D (additional comparative information)

- Paragraph 30 and 31 of IAS 8 "Accounting policies, changes in accounting estimates and errors" (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);

- Paragraph 17 of IAS 24 "Related party disclosures" (key management compensation); and

- The requirements in IAS 24 "Related party disclosures" to disclose related party transactions entered into between two or more wholly owned members of a group.

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

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

2 Summary of significant accounting policies (continued)

(b) Ultimate and immediate parent undertaking

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

(c) Foreign currency transactions

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

(d) Other operating income

Management service fees are recognised in other operating income on an accruals basis.

(e) Finance income and expense

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

(f) Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables represent intercompany balances with other Group undertakings, which are carried at amortised cost using the effective interest method.

(g) Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

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

2 Summary of significant accounting policies (continued)

(i) Other payables

Other payables are initially recognised at fair value and then held at amortised cost using the effective interest method. Long-term payables are discounted where the effect is material.

(j) Borrowings

All borrowings, which comprise notes issued under the Group's European Medium Term Note programme, are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

(k) Taxation

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

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

(l) Derivative financial instruments and hedging

Derivative financial instruments can be used by the Company to manage exposure to market risks. The Company does not hold or issue derivative financial instruments for trading or speculative purposes and does not currently hold any derivative financial instruments. 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 derivatives designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedges are effective. Ineffective portions are recognised in profit or loss immediately. Amounts deferred in other comprehensive income are reclassified to the income statement when the hedged item affects profit or loss.

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

The Company carries a balance in other comprehensive income that arose from using treasury gilt locks and forward starting interest rate swaps for pre-hedging fluctuations in long-term interest rates when pricing bonds issued in prior and current years.

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.

(a) Taxation

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

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

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

4 Financial risk management

Risk management is carried out by the Group's Corporate Treasury under policies and procedures approved annually by the Group's Board of Directors, most recently on 20 July 2017. The role of Corporate Treasury is to monitor and manage the Group's external and internal funding requirements and financial risks, covering foreign exchange, interest rate, liquidity, and credit risks in support of the Group's strategic objectives. A Treasury Management Group meeting, chaired by the Group's Chief Financial Officer, also takes place on a monthly basis to review treasury activities.

(a) Market risk

(i) *Foreign exchange risk*

The Company is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US dollar and Euro, in respect of bonds issued under the Group's European Medium Term Note programme.

The net proceeds of bond issuances received are subsequently advanced as loans to other Group undertakings in the same currency which minimises the foreign translation exposure within the Company. On this basis, foreign exchange risk is not considered material and the Company has not prepared a sensitivity analysis.

(ii) *Interest rate risk*

The Group's objective is to minimise the effective net interest cost and to balance the mix of debt at fixed and floating interest rates over time. The policy on interest rate risk management limits the amount of floating interest payments to a prescribed percentage of operating profit.

The Company's interest rate risk arises mainly from deposits with Group undertakings and cash held at floating rates which expose the Company to interest rate risk. The Company has borrowings, comprised of notes issued under the Group's European Medium Term Note programme, which are at fixed rates and expose the Company to fair value interest rate risk.

The table below hypothetically shows the Company's sensitivity to changes in interest rates in relation to Euro, Sterling and US dollar floating rate financial assets. If interest rates applicable to floating rate financial assets were to have increased by 1% (100 basis points), and assuming all other variables had remained constant, it is estimated that the Company's finance income for 2017 would have increased by approximately £1,018,000 (2016: £1,064,000 increase in finance income).

	2017 Increase in income £'000	2016 Increase in income £'000
1% (100 basis points) increase in Euro interest rates (2016: 1%)	**398**	375
1% (100 basis points) increase in Sterling interest rates (2016: 1%)	**450**	350
1% (100 basis points) increase in US dollar interest rates (2016: 1%)	**170**	339

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

4 Financial risk management (continued)

(a) Market risk (continued)

The tables below illustrate the currency and interest rate profiles arising from the Company's borrowings, loans and receivable balances.

Currency and interest rate risk profile of borrowings

	Fixed rate		
At 31 December 2017	**Weighted average interest rate**	**Average years for which rate is fixed**	**Total**
Currency	**%**		**£'000**
US dollar	**3.0**	**2**	**(1,473,973)**
Sterling	**5.0**	**20**	**(4,053,006)**
Euro	**1.5**	**7**	**(4,973,782)**
Total borrowings	**3.2**	**10**	**(10,500,761)**

	Fixed rate		
At 31 December 2016	Weighted average interest rate	Average years for which rate is fixed	Total
Currency	%		£'000
US dollars	2.2	3	(3,214,961)
Sterling	5.0	21	(4,050,413)
Euro	3.0	5	(3,824,445)
Total borrowings	3.4	10	(11,089,819)

Currency and interest rate risk profile of loans and receivables

At 31 December 2017	**Fixed rate**	**Floating rate**	**Total**
Currency	**£'000**	**£'000**	**£'000**
US dollars	**1,464,741**	**17,003**	**1,481,744**
Sterling	**4,024,022**	**45,025**	**4,069,047**
Euro	**4,946,115**	**39,827**	**4,985,942**
Total loans and receivables	**10,434,878**	**101,855**	**10,536,733**

At 31 December 2016	Fixed rate	Floating rate	Total
Currency	£'000	£'000	£'000
US dollars	3,196,145	33,887	3,230,032
Sterling	4,024,023	34,996	4,059,019
Euro	3,794,309	37,460	3,831,769
Total loans and receivables	11,014,477	106,343	11,120,820

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

4 Financial risk management (continued)

Net currency exposure

	2017	2016
	£'000	£'000
US dollars	**7,771**	15,071
Euro	**12,160**	7,324
	19,931	22,395

(b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Group sets global counterparty limits for each of its banking and investment counterparties based on long-term credit ratings from Standard and Poor's and Moody's Investor Services ("Moody's"). Usage of these limits is monitored daily and Corporate Treasury actively manages its exposure to credit risk, reducing surplus cash balances wherever possible.

There are no financial assets that are past due or impaired as at 31 December 2017 (2016: £nil).

The Company did not hold any collateral as security or obtained other credit enhancements as at 31 December 2017 (2016: £nil).

The Company considers its maximum exposure to credit risk at 31 December 2017, without taking into account any collateral held or other credit enhancements, to be £10,644,567,000 (2016: £11,231,045,000) being the total of the Company's financial assets of which the balances are all held within the GlaxoSmithKline Group, see Note 16.

(c) Liquidity risk

Liquidity is managed centrally by the Group by borrowing in order to meet anticipated funding requirements. The Group's cash flow forecast and funding requirements are monitored on a monthly basis by the Treasury Management Group and the strategy is to have diversified liquidity sources using a range of facilities and to maintain broad access to funding markets.

5 Capital management

The Group's financial strategy supports its strategic priorities and is regularly reviewed by the Board. The capital structure of the Group is managed through an appropriate mix of debt and equity in order to optimise returns to shareholders whilst maintaining the Group's credit ratings that provide the Company with flexibility to access debt capital markets on attractive terms under the Group's European Medium Term Note programme.

The capital structure of the Company consists of net debt of £10,500,760,000 (2016: £11,089,817,000) and shareholders' funds of £37,635,000 (2017: £31,662,000) (see Statement of changes in equity).

6 Operating profit

	2017	2016
	£'000	£'000
The following items have been (charged)/credited in operating profit:		
Exchange (losses)/gains on foreign currency transactions	**(768)**	2,758
Management fee	**(56)**	(47)

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

6 Operating profit (continued)

GlaxoSmithKline Services Unlimited provides various services and facilities to the Company including finance and administrative services for which a management fee was charged of £56,254 in 2017 compared with £47,085 in 2016. Included in the management fee is a charge for auditors' remuneration of £35,575 (2016: £35,945).

The disclosure of fees payable to the auditor and its associates for other (non-audit) services has not been made and has been disclosed in the Group's 2017 Annual Report which does not form part of this report.

7 Employees

All of the Group's UK employees are remunerated by GlaxoSmithKline Services Unlimited and receive no remuneration from the Company. A management fee is charged by GlaxoSmithKline Services Unlimited for services provided to the Company (see Note 6). The Company has no employees.

8 Finance income

	2017	2016
	£'000	£'000
Interest income arising from loans and receivables	**387,262**	399,340

9 Finance expense

	2016	2015
	£'000	£'000
Interest expense arising on financial liabilities at amortised cost	**(375,019)**	(386,976)
Reclassification of cash flow hedge from other comprehensive income	**(1,118)**	(954)
Total finance expense	**(376,137)**	(387,930)

10 Taxation

	2017	2016
Income tax expense on ordinary activities	**£'000**	£'000
Current tax:		
UK Corporation tax at 19.25% (2016: 20.00%)	**(1,983)**	(2,824)
Total current tax	**(1,983)**	(2,824)

The tax assessed for the year is no different (2016: no different) than the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20.00%). The offsetting differences are explained below:

	2017	2016
Reconciliation of total tax charge	**£'000**	£'000
Profit on ordinary activities before taxation	**10,301**	14,121
Profit on ordinary activities at the UK statutory rate of 19.25% (2016: 20.00%)	**(1,983)**	(2,824)
Effects of:		
Permanent disallowables - interest treated as paid by ultimate parent	**72,134**	77,369
Permanent deductions - Group relief received for no payment	**(72,134)**	(77,369)
Total tax charge for the year	**(1,983)**	(2,824)

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

10 Taxation (continued)

Factors that may affect future tax charges:

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. This will impact the Company's future current tax charge accordingly. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Tax (credit)/expense included in other comprehensive income	**2017** **£'000**	2016 £'000
Deferred tax:		
Fair value movements on cash flow hedges	**(480)**	162
Change in tax rates	**-**	121
Total tax (credit)/expense included in other comprehensive income	**(480)**	283

Movement in deferred tax assets and liabilities

	Other net temporary differences £'000	**Total** **£'000**
At 1 January 2017	1,893	**1,893**
Credit to comprehensive income	480	**480**
At 31 December 2017	2,373	**2,373**

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

	2017 **£'000**	2016 £'000
Deferred tax assets	**2,373**	1,893
Deferred tax liabilities	**-**	-
	2,373	1,893

11 Loans and receivables

	2017 **£'000**	2016 £'000
Amounts due within one year		
Amounts owed by Group undertakings	**101,855**	2,767,682
Amounts due after more than one year		
Amounts owed by Group undertakings	**10,434,878**	8,353,138
	10,536,733	11,120,820

Amounts due within one year are call accounts with Group undertakings of £45,025,000 (2016: £34,996,000) which are unsecured, repayable on demand and earn a market rate of interest (based on 1 week LIBOR minus 0.125%) that is consistent with the Group's policy, and includes deposits with Group undertakings of £56,830,000 (2016: £71,347,000) which are unsecured, repayable on demand and earn a market rate of interest (based on LIBOR minus 0.125%) that is consistent with the Group's policy.

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

11 Loans and receivables (continued)

Amounts due within one year also include the net proceeds of bond issuances that have been advanced as loans to Group undertakings of £nil (2016: £2,661,339,000, which were unsecured with interest charged between 1.77% and 5.76% per annum and repaid in 2017).

Amounts due after more than one year include the net proceeds of bond issuances that have been advanced as loans to Group undertakings totalling £10,434,878,000 (2016: £8,353,138,000), which are unsecured with interest charged at between 0.21% and 6.50% per annum and repayable at maturity dates between 2019 and 2045.

12 Prepayments and accrued income

	2017	2016
	£'000	£'000
Amounts due within one year	**107,833**	110,223

Accrued income relates to interest on amounts owed by Group undertakings (see Note 11).

13 Other payables

	2017	2016
	£'000	£'000
Amounts falling due within one year		
Amounts owed to Group undertakings	**(2,881)**	(2,202)
Corporation tax	**(1,983)**	(2,824)
	(4,864)	(5,026)

Amounts owed to Group undertakings are unsecured and repayable on demand.

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

14 Borrowings

	2017	2016
	£'000	£'000
Amounts falling due within one year		
Loans payable:		
€ European Medium Term Notes	**-**	(1,067,597)
US$ US Medium Term Notes	**-**	(1,612,119)
	-	(2,679,716)
Amounts falling due after more than one year		
Loans payable:		
€ European Medium Term Notes	**(4,973,782)**	(2,756,848)
£ European Medium Term Notes	**(4,053,006)**	(4,050,413)
US$ US Medium Term Notes	**(1,473,973)**	(1,602,842)
	(10,500,761)	(8,410,103)
Total borrowings	**(10,500,761)**	(11,089,819)

14 Borrowings (continued)

Maturity of borrowings	**2017 £'000**	2016 £'000
In one year or less, or on demand		
1.500% US$ US Medium Term Note 2017	**-**	(1,612,119)
5.625% € European Medium Term Note 2017	**-**	(1,067,597)
	-	(2,679,716)
In more than one year, but not more than two years		
0.625% € European Medium Term Note 2019	**(1,323,623)**	-
	(1,323,623)	-
In more than two years, but not more than five years		
0.625% € European Medium Term Note 2019	**-**	(1,276,450)
0.000% € European Medium Term Note 2020	**(1,059,379)**	-
2.850% US$ US Medium Term Note 2022	**(1,473,973)**	-
	(2,533,352)	(1,276,450)
In more than five years		
2.850% US$ US Medium Term Note 2022	**-**	(1,602,842)
1.375% € European Medium Term Note 2024	**(876,117)**	(844,930)
4.000% € European Medium Term Note 2025	**(658,647)**	(635,468)
1.000% € European Medium Term Note 2026	**(617,178)**	-
3.375% £ European Medium Term Note 2027	**(593,400)**	(592,734)
1.375% € European Medium Term Note 2029	**(438,838)**	-
5.250% £ European Medium Term Note 2033	**(986,476)**	(985,626)
6.375% £ European Medium Term Note 2039	**(695,330)**	(695,110)
5.250% £ European Medium Term Note 2042	**(988,603)**	(988,133)
4.250% £ European Medium Term Note 2045	**(789,197)**	(788,810)
	(6,643,786)	(7,133,653)
Total borrowings	**(10,500,761)**	(11,089,819)

15 Accruals and deferred income

	2017 £'000	2016 £'000
Amounts falling due within one year	**(103,680)**	(106,431)

Accruals relates to interest payable on borrowings (see Note 14).

16 Fair value of financial assets and liabilities

The fair values of the financial assets and liabilities are included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

- Cash and cash equivalents – approximates to the carrying amount;
- Borrowings (European and US Medium Term Notes) - based on quoted market prices (a level 1 fair value measurement);
- Intercompany loans – approximates to the fair value of borrowings (European and US Medium Term Notes); and
- Receivables and payables – approximates to the carrying amount.

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

16 Fair value of financial assets and liabilities (continued)

The carrying amounts and the fair values of the Company's financial assets and liabilities at 31 December 2017 and 31 December 2016 are illustrated below.

	2017		2016	
	Carrying value	**Fair value**	Carrying value	Fair value
	£'000	**£'000**	£'000	£'000
Cash and cash equivalents	**1**	**1**	2	2
Loans and receivables:				
Other receivables	**107,833**	**107,833**	110,223	110,223
Amounts owed by Group undertakings	**10,536,733**	**12,413,202**	11,120,820	13,151,640
Total financial assets	**10,644,567**	**12,521,036**	11,231,045	13,261,865
Financial liabilities measured at amortised cost:				
£ European Medium Term Notes	**(4,053,006)**	**(5,688,556)**	(4,050,413)	(5,762,307)
€ European Medium Term Notes	**(4,973,782)**	**(5,221,979)**	(3,824,445)	(4,147,107)
US$ US Medium Term Notes	**(1,473,973)**	**(1,502,667)**	(3,214,961)	(3,242,226)
	(10,500,761)	**(12,413,202)**	(11,089,819)	(13,151,640)
Other payables	**(106,561)**	**(106,561)**	(108,633)	(108,633)
Total financial liabilities	**(10,607,322)**	**(12,519,763)**	(11,198,452)	(13,260,273)
Net financial assets and liabilities	**37,245**	**1,273**	32,593	1,592

The Company has no financial assets or liabilities measured at fair value through profit and loss.

Financial liabilities measured at amortised cost for which the fair value of £(12,413,202,000) (2016: £(13,151,640,000)) is disclosed in the table above are categorised as Level 1, where quoted prices in active markets are used. Similarly, amounts owed by Group undertakings, which include the net proceeds of bond issuances advanced as loans, also approximate to the fair value of these financial liabilities. All other assets and liabilities approximate to the carrying amount.

17 Contractual cash flows for non-derivative financial liabilities

The following table provides an analysis of the anticipated contractual cash flows including interest payable for the Company's non-derivative financial liabilities on an undiscounted basis. Interest is calculated based on debt held at 31 December without taking account of future issuance.

	2017		2016	
	Debt	**Interest on debt**	Debt	Interest on debt
	£'000	**£'000**	£'000	£'000
Due in less than one year	**-**	**(305,389)**	(2,681,279)	(367,440)
Between one and two years	**(1,327,434)**	**(305,389)**	-	(295,249)
Between two and three years	**(1,061,947)**	**(297,094)**	(1,282,051)	(295,249)
Between three and four years	**-**	**(297,091)**	-	(287,238)
Between four and five years	**(1,481,481)**	**(275,982)**	-	(287,234)
Between five and ten years	**(2,768,142)**	**(1,178,556)**	(3,108,630)	(1,180,179)
Greater than 10 years	**(3,942,478)**	**(2,262,168)**	(4,100,000)	(2,453,875)
Gross contractual cash flows	**(10,581,482)**	**(4,921,669)**	(11,171,960)	(5,166,464)

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

18 Adjustments reconciling operating profit to operating cash flows

	2017 £'000	2016 £'000
Operating profit for the year	**10,301**	14,121
Decrease/(increase) in other receivables	**2,390**	(4,831)
(Decrease)/increase in other payables	**(4,896)**	4,416
Exchange adjustments	**768**	(2,758)
Amortisation of bond costs	**10,338**	11,496
Fair value movements on cash flow hedges	**(3,943)**	-
Reclassification of cash flow hedges to the income statement	**1,118**	954
Net cash inflow from operating activities	**16,076**	23,398

19 Reconciliation of net cash flow to movement in net (debt)/surplus

	Other assets	**Liabilities from financing activities**			
	Cash and cash equivalents £'000	**Amounts owed by Group undertakings £'000**	**Borrowings – due within 1 year £'000**	**Borrowings – due after 1 year £'000**	**Total £'000**
Net surplus as at 1 January 2016	2	10,058,660	-	(10,042,319)	16,343
Cash flows	-	23,398	-	-	23,398
Foreign exchange adjustments	-	1,038,762	(400,900)	(635,104)	2,758
Other non-cash adjustments:					
Reclassification (long-term to short-term)	-	-	(2,275,615)	2,275,615	-
Amortisation	-	-	(3,201)	(8,295)	(11,496)
Net surplus as at 31 December 2016	2	11,120,820	(2,679,716)	(8,410,103)	31,003
Net surplus as at 1 January 2017	**2**	**11,120,820**	**(2,679,716)**	**(8,410,103)**	**31,003**
Cash flows	**(1)**	**(439,470)**	**2,639,347**	**(2,183,800)**	**16,076**
Foreign exchange adjustments	**-**	**(144,617)**	**41,918**	**101,931**	**(768)**
Other non-cash adjustments:					
Amortisation	**-**	**-**	**(1,549)**	**(8,789)**	**(10,338)**
Net surplus as at 31 December 2017	**1**	**10,536,733**	**-**	**(10,500,761)**	**35,973**

20 Called up share capital

	2017 Number of shares	2016 Number of shares	**2017 £'000**	2016 £'000
Authorised				
Ordinary Shares of £1 each (2016: £1 each)	**100,000**	100,000	**100**	100
Issued and fully paid				
Ordinary Shares of £1 each (2016: £1 each)	**100,000**	100,000	**100**	100

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

21 Other reserves

	Other reserves £'000	Retained earnings £'000	**Total reserves £'000**
At 1 January 2017	(9,243)	40,805	**31,562**
Transferred from income and expense in the year	-	8,318	**8,318**
Fair value movements on cash flow hedges	(3,943)	-	**(3,943)**
Reclassification of cash flow hedges to the income statement	1,118	-	**1,118**
Deferred tax effect of cash flow hedges	480	-	**480**
At 31 December 2017	(11,588)	49,123	**37,535**

The cash flow hedge reserve relates to the cumulative fair value changes of derivatives representing the pre-hedging of debt issuances. The reserve is amortised over the life of the subsequently issued bonds.

22 Contingent liabilities/assets

Group bank arrangement

The Company, together with fellow Group undertakings, has entered into a Group banking arrangement with the Company's principal bank. The bank holds the right to pay and apply funds from any account of the Company to settle any indebtedness to the bank of any other party to this agreement. The Company's maximum potential liability as at 31 December 2017 is limited to the amount held on its accounts with the bank. No loss is expected to accrue to the Company from the agreement.

23 Directors' remuneration

During the year, the Directors of the Company, with the exception of the Corporate Directors, were remunerated as executives of the Group and received no remuneration in respect of their services to the Company (2016: £nil). Corporate Directors received no remuneration during the year, either as executives of the Group or in respect of their services to the Company (2016: £nil).

24 Related party transactions

As a wholly owned subsidiary of the ultimate parent company, GlaxoSmithKline plc, advantage has been taken of the exemption afforded by FRS 101 "Reduced Disclosure Framework" not to disclose any related party transactions within the Group. There are no other related party transactions.