Financial statements

In this section

Directors' statement
of responsibilities

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

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required 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 that the Group financial statements comply with IFRS as adopted by the European Union and IFRS as issued by the IASB, subject to any material departures disclosed and explained in the Group financial statements;
- prepare the financial statements on a 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 and the Remuneration report comply with the Companies Act 2006 and Article 4 of the IAS Regulation. 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.

The Group financial statements for the year ended 31 December 2014, comprising principal statements and supporting notes, are set out in 'Financial statements' on pages 136 to 210 of this report. The responsibilities of the auditors in relation to the Group financial statements are set out in the Independent Auditors' report on pages 131 to 135.

The Group financial statements for the year ended 31 December 2014 are included in the Annual Report, which is published in printed form and made available on our website. The Directors are responsible for the maintenance and integrity of the Annual Report on our website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

Each of the current Directors, whose names and functions are listed in the Corporate Governance section of the Annual Report 2014 confirms that, to the best of his or her knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU and IFRS as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and risk sections of the Annual Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to auditors

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

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

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

Going concern basis

Pages 48 to 70 contain information on the performance of the Group, its financial position, cash flows, net debt position and borrowing facilities. Further information, including Treasury risk management policies, exposures to market and credit risk and hedging activities, is given in Note 41 to the financial statements, 'Financial instruments and related disclosures'. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control

The Board, through the Audit & Risk Committee, has reviewed the assessment of risks and the internal control framework that operates in GSK and has considered the effectiveness of the system of internal control in operation in the Group for the year covered by this Annual Report and up to the date of its approval by the Board of Directors.

The UK Corporate Governance Code

The Board considers that GlaxoSmithKline plc applies the principles and provisions of the UK Corporate Governance Code maintained by the Financial Reporting Council, as described in the Corporate Governance section on pages 78 to 95, and has complied with its provisions. The Board further considers that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

As required by the Financial Conduct Authority's Listing Rules, the auditors have considered the Directors' statement of compliance in relation to those points of the UK Corporate Governance Code which are specified for their review.

Annual Report

The Annual Report for the year ended 31 December 2014, comprising the Report of the Directors, the Remuneration report, the Financial statements and additional information for investors, has been approved by the Board of Directors and signed on its behalf by

Sir Christopher Gent
Chairman
26 February 2015

Independent Auditors' report
to the members of GlaxoSmithKline plc

Report on the Group financial statements

Our opinion
In our opinion, the Group financial statements defined below:

- give a true and fair view of the state of the Group's affairs at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

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

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

What we have audited
GlaxoSmithKline plc's Group financial statements comprise:

- the consolidated balance sheet at 31 December 2014;
- the consolidated income statement and statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Group financial statements comprises applicable law and IFRSs as adopted by the European Union.

Our audit approach
Overview:

Materiality
- Overall group materiality: £215 million which represents 4% of profit before tax, adding back certain non-recurring items.

Audit scope
- Our audit included full scope audits of 24 reporting components with specific audit procedures performed at a further 32 reporting components.
- Taken together, the components at which audit work was performed accounted for 68% of consolidated revenue and 74% of consolidated profit before tax and covered all components that individually contributed more than 2% of revenue and profit before tax.

Areas of focus
- Rebates, discounts, allowances and returns in the US Pharmaceuticals and Vaccines business
- Transformation of the Group's finance processes
- Potential implications of alleged illegal acts
- Litigation
- Carrying value of goodwill and intangible assets
- Uncertain tax positions

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the Group 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. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as areas of focus in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the Group financial statements as a whole. Any comments we make on the results of our procedures should be read in this context. For each area of focus below, where appropriate, we evaluated the design and tested the operating effectiveness of key internal controls over financial reporting, including testing the operation of IT systems from which financial information is generated. This is not a complete list of all risks identified by our audit.

Independent Auditors' report
continued

Area of focus	How our audit addressed the area of focus
Rebates, discounts, allowances and returns in the US Pharmaceuticals and Vaccines business **Refer to Note 3 in the Group financial statements** The Group makes sales to various customers in the US that fall under certain commercial and government mandated contracts and reimbursement arrangements, of which the most significant are Medicaid and Medicare. The Group also provides a right of return to its customers for certain products. These arrangements result in deductions to gross sales in arriving at turnover and give rise to obligations for the Group to provide customers with rebates, discounts, allowances and the right of return, which for unsettled amounts are recognised as an accrual. We focused on this area because rebates, discounts, allowances and returns arrangements are complex and because establishing an appropriate accrual requires significant judgement and estimation by the Directors. The Directors have determined an accrual of £1.3 billion to be necessary at 31 December 2014.	We obtained management's calculations for accruals under applicable schemes and validated the assumptions used by reference to the Group's stated commercial policies, the terms of the applicable contracts, third party data related to patient enrolment in US government funded benefit schemes and historical levels of product returns. We compared the assumptions to contracted prices, historical rebates, discounts, allowances and returns levels (where relevant) and to current payment trends. We also considered the historical accuracy of the Group's estimates in previous years, including an evaluation of releases of accruals in 2014 following payments or settlements with US state authorities. We formed an independent expectation of the largest elements of the accrual at 31 December 2014 using third party data and compared this expectation to the actual accrual recognised by the Group. In undertaking this work, we considered the impact of the decrease in revenue for certain respiratory products, principally *Advair,* and relevant changes in pricing and billing arrangements in 2015 with commercial and government healthcare providers. Based on the procedures performed, we did not identify any material differences between our independent expectations and the accrual.
Transformation of the Group's finance processes The Group continues to rationalise and simplify its finance processes including the roll-out of an enterprise-wide resource planning system (ERP) through Core Business Services. In addition, financial transaction processes have continued to migrate to third party business process outsourcing locations (BPOs) and related accounting services have been centralised at in-house business service centres (BSCs). These changes represent a financial reporting risk while migrations are happening as controls and processes that have been established and embedded over a number of years are updated and migrated into the new ERP environment. There is an increased risk of breakdown in internal financial controls during the transition and an increased risk of inaccurate or incomplete migration of financial data, which would in turn increase risk of material misstatements in the Group financial statements.	We centrally managed the work performed by component audit teams at BPOs and BSCs, which consisted of controls and substantive testing, and conducted oversight visits to all of the BSC and BPO sites in Group audit scope (namely India, Malaysia, the US and the UK) to direct the work performed. We evaluated the design and tested the operating effectiveness of key automated and manual controls both before and after the migration to the centralised processing environment, including IT general controls and controls in respect of data migration between ERP systems. We also substantively tested the accuracy and completeness of data migration into the new ERP along with the controls over this process and we did not note any significant exceptions.
Potential implications of alleged illegal acts **Refer to Notes 3 and 45 in the Group financial statements** We incorporated this risk as an area of focus in our 2013 audit as a result of allegations of illegal acts carried out by the Group's Chinese Pharmaceuticals business. In addition, the Group is conducting investigations in a number of other markets. The Group has continued to co-operate with enquiries by the Department of Justice ('DoJ') in the US and by the Serious Fraud Office ('SFO') in the UK. The SFO announced in 2014 that it had commenced a criminal investigation into the Group's commercial practices. In addition, the Group announced in 2014 that it had paid a £301 million fine to the Chinese government in connection with these allegations. We focused on the following risks, which might have a material impact on the Group financial statements: ▪ That illegal acts similar to those previously alleged in China have occurred elsewhere in the Group; and ▪ That further fines and penalties might be forthcoming in respect of ongoing investigations into the Group's commercial practices that could give rise to the need for additional provisions or asset impairments outside of China.	We inspected the ruling from the Changsha Intermediate People's Court in Hunan Province, China in respect of the allegations of bribery in China. We validated that the amounts paid in the final settlement of this liability were consistent with the ruling. Using our specialist forensic knowledge, we independently assessed the scope and findings of the investigative work performed by the Group's external legal counsel in respect of the allegations in China. We considered the output of this assessment in determining our audit approach. We met with the component audit team in Shanghai, China to understand and evaluate the steps taken by the Group to address the allegations. We met with the Directors, management, in-house legal counsel and the Group's external advisors to assess the risk of occurrence of similar acts outside of China, the status of ongoing investigations and the potential for further fines and penalties. This included understanding and evaluating the Group's internal investigations processes, which consider risks and allegations reported through various channels including whistle-blowing hotlines. We also evaluated the enhancements and changes that have been made to other control processes and business practices since 2013. To supplement these centralised procedures, we selected 15 territories (including certain markets not otherwise included in Group audit scope) where the country-specific risk of corruption and bribery was deemed high. For these territories, we obtained specific reporting from the component audit teams to provide us with evidence that each had appropriately designed and performed audit procedures to address the audit risk that the Group financial statements might be materially misstated due to the potential financial impact of illegal acts. We discussed the status of investigations opened by the DoJ and SFO with the Audit & Risk Committee, the Board of Directors, management and in-house general counsel. In addition, we engaged directly with the Group's external advisors to corroborate our understanding. We were satisfied with the Group's provisioning decisions at 31 December 2014 and with the adequacy of disclosures given the status of these investigations.

Area of focus	How our audit addressed the area of focus
Litigation **Refer to Notes 3 and 45 in the Group financial statements** The pharmaceuticals industry is heavily regulated which increases inherent litigation risk. The Group is engaged in a number of legal actions, including product liability, anti-trust and related private litigation, of which the most significant are disclosed in Note 45. We focused on this area as the eventual outcome of claims is uncertain and the positions taken by the Directors are based on the application of material judgement and estimation. Accordingly, unexpected adverse outcomes could significantly impact the Group's reported profit and balance sheet position. At 31 December 2014, the Group held provisions of £520 million in respect of legal actions.	We discussed the status of significant known actual and potential litigation with in-house legal counsel. We obtained and substantively tested evidence to support the decisions and rationale for provisions held or decisions not to recognise provisions, including correspondence with legal counsel and other counter-parties to litigation. We also monitored and considered external information sources to identify potential legal actions. We developed an independent expectation of the litigation provisions based on product litigation history and other available evidence to challenge the valuation and completeness of the provisions recognised by the Group. We obtained confirmations from external legal counsel to confirm our understanding of settled and outstanding litigation and asserted claims. We evaluated significant adjustments to legal reserves recorded during the year to determine if they were indicative of management bias. As disclosed in Note 45 to the Group financial statements, the eventual outcome of legal proceedings is dependent on the outcome of future events and therefore the position taken by the Group is inherently judgemental. We found that in the context of the Group financial statements taken as a whole the judgements made by management were reasonable and the disclosures made in respect of these provisions and contingent liabilities were appropriate.
Carrying value of goodwill and intangible assets **Refer to Notes 18 and 19 in the Group financial statements** The Group has £7.8 billion of intangible assets, including significant licenses, patents and acquired brands, and £3.6 billion of goodwill at 31 December 2014. The Group recognised impairments of intangible assets totalling £157 million during the year. We have focused on acquired intangible assets, as these are the most significant individually and in aggregate, and a number have indefinite lives. The Group has also recognised goodwill from a number of acquisitions. The carrying values of goodwill and intangible assets are contingent on future cash flows and there is risk that if these cash flows do not meet the Group's expectations that the assets will be impaired. The impairment reviews performed by the Group contain a number of significant judgements and estimates including revenue growth, the success of new product launches, profit margins, cash conversion and discount rate. Changes in these assumptions might lead to a change in the carrying value of intangible assets and goodwill. The risk is greater for the US and Emerging Markets Pharmaceuticals and Vaccines cash generating units ('CGUs') where valuation headroom compared to carrying value is lower than in previous years.	Leveraging our specialist valuations knowledge, we obtained the Group's impairment analyses and tested the reasonableness of key assumptions, including profit and cash flow growth, terminal values, the impact of the expiry of patents, potential product obsolescence and the selection of discount rates. We challenged management to substantiate its assumptions, including comparing relevant assumptions to industry and economic forecasts. We interrogated the integrity of supporting calculations and we corroborated certain information with third party sources, including expectations of performance of certain assets and components of the business. We obtained and evaluated management's sensitivity analyses to ascertain the impact of reasonably possible changes and we performed our own independent sensitivity calculations to quantify the downside changes to management's models required to result in impairment, focusing in particular on Emerging Markets which is more sensitive to change than the other CGUs. As a result of our work, we determined that the quantum of impairment recognised in 2014 was appropriate. For those intangible assets, including goodwill, where management determined that no impairment was required, we found that these judgements were supported by reasonable assumptions that would require significant downside changes before any additional material impairment was necessary.
Uncertain tax positions **Refer to Note 14 in the Group financial statements** The Group operates in a complex multinational tax environment and there are open tax and transfer pricing matters with UK and overseas tax authorities. In addition, from time to time the Group enters into transactions with complicated accounting and tax consequences. Judgement is required in assessing the level of provisions required in respect of uncertain tax positions. At 31 December 2014, the Group has recognised provisions for uncertain tax provisions, offset by current tax assets, included within the current tax payable of £945 million (2013 – £1,452 million).	Using our specialist UK, US, international tax and transfer pricing knowledge, we evaluated and challenged management's judgements in respect of estimates of tax exposures and contingencies in order to assess the adequacy of the Group's tax provisions. This includes obtaining and evaluating certain third party tax opinions that the Group has obtained to assess the appropriateness of any assumptions used, including in respect of steps taken in advance of the proposed three-part transaction with Novartis AG. In understanding and evaluating management's judgements, we considered the status of recent and current tax authority audits and enquiries, the outturn of previous claims, judgemental positions taken in tax returns and current year estimates and developments in the tax environment. From the evidence obtained, we considered the level of provisioning to be acceptable in the context of the Group financial statements taken as a whole. However, we noted that the assumptions and judgements that are required to formulate the provisions mean that the range of possible outturns is broad.

Independent Auditors' report
continued

How we tailored the audit scope

In identifying these areas of focus, we tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the Group financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls and the industry in which the Group operates.

The Group financial statements are a consolidation of over 400 reporting units, each of which is considered to be a component. We identified 24 reporting units that, in our view, required an audit of their complete financial information due to their size or risk characteristics. Specific audit procedures over significant balances and transactions were performed at a further 32 reporting units to give appropriate coverage of all material balances. Where these reporting units are supported by shared financial service centres, these centres were also included in Group audit scope. None of the reporting units not included in our Group audit scope individually contributed more than 2% to consolidated revenue or profit before tax.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units. As a result, eight overseas components were visited by senior members of the Group audit team, including all of the Group's significant components in the US (which are visited at least annually) alongside Belgium, China, France, Germany and Italy. In addition, each of the five shared service centres supporting reporting components in Group audit scope was visited. For those components in Group audit scope where a site visit was not undertaken, our involvement included review of component auditor work papers and attendance at certain component audit clearance meetings.

Further specific audit procedures over central functions, the Group consolidation and areas of significant judgement (including taxation, goodwill, intangible assets, treasury, post-retirement benefits, litigation and the elimination of unrealised intercompany profit in inventory) were directly led by the Group audit team.

Taken together, the territories and functions where we performed our audit work accounted for 68% of consolidated revenue and 74% of consolidated profit before tax. This was before considering the contribution to our audit evidence from performing audit work at the divisional and Group levels, including testing of monitoring controls and disaggregated analytical review procedures, which covers a significant portion of the Group's smaller and lower risk components that were not directly included in our Group audit scope. In addition, we obtained audit evidence over certain out-of-scope components through the procedures we undertook at the Group's shared service centres, encompassing BPOs and BSCs, and over centralised IT infrastructure where these processes are standardised.

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 and to evaluate the effect of misstatements, both individually and on the Group financial statements as a whole.

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

Overall group materiality	£215 million (2013 – £332 million)
How we determined it	4% of profit before tax (£2,968 million) adding back non-recurring items including the remeasurement charge for the Shionogi-ViiV Healthcare contingent consideration (£768 million), major restructuring costs (£755 million), legal costs including the fine paid in China (£548 million), items of income and expense relating to major acquisition and disposal activity (net £8 million), incremental costs of the change in timing of recognition of the US Branded Prescription Drug Fee (£115 million) and impairment of intangible assets (£157 million).
Rationale for benchmark applied	The Group's principal measure of earnings comprises core results, which adds back to statutory results a number of items of income and expenditure including those detailed above. Management uses this measure as it believes that it eliminates the volatility inherent in one-off items. We have taken this measure into account in determining our materiality, except that we have not adjusted profit before tax to add back amortisation of intangible assets and certain other smaller non-core items as in our view these are recurring items which do not introduce volatility to the Group's earnings. Materiality is lower than last year primarily due to the effect of lower profitability in 2014.

We agreed with the Audit & Risk Committee that we would report to it misstatements above £10 million (2013 – £10 million) identified during our audit as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules, we are required to review the Directors' statement, set out on page 130, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Group financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend for it to do so, for at least one year from the date the Group financial statements are signed. As part of our audit, we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee of the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 78 to 95 with respect to internal control and risk management systems and about share capital structures is consistent with the Group financial statements.

ISAs (UK & Ireland) reporting	
▪ information in the Annual Report is: - materially inconsistent with the information in the audited Group finanical statements; or - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or - otherwise misleading	We have no exceptions to report arising from this responsibility.
▪ the statement given by the Directors on page 130 in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code") that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
▪ the section of the Annual Report on page 86, as required by provision C.3.8 of the Code, describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006, we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules, we are required to review the part of the Corporate Governance Statement relating to the parent company's compliance with 10 provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Under the Companies Act 2006, we are required to report to you if, in our opinion, a Corporate Governance Statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' statement of responsibilities set out on page 130, the Directors are responsible for the preparation of the Group 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 Group financial statements in accordance with applicable law and ISAs (UK & 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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the Group financial statements sufficient to give reasonable assurance that the Group 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 Group financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Group financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Group financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Other matters

We have reported separately on the parent company financial statements of GlaxoSmithKline plc for the year ended 31 December 2014 and on the information in the Directors' Remuneration report that is described as having been audited.

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
26 February 2015

Notes:

(a) The maintenance and integrity of the GlaxoSmithKline plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Group financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements

Consolidated income statement
for the year ended 31 December 2014

	Notes	2014 £m	2013 £m	2012 £m
Turnover	6	**23,006**	26,505	26,431
Cost of sales		**(7,323)**	(8,585)	(7,925)
Gross profit		**15,683**	17,920	18,506
Selling, general and administration		**(8,246)**	(8,480)	(8,789)
Research and development		**(3,450)**	(3,923)	(3,979)
Royalty income		**310**	387	306
Other operating income	7	**(700)**	1,124	1,256
Operating profit	8	**3,597**	7,028	7,300
Finance income	11	**68**	61	79
Finance expense	12	**(727)**	(767)	(808)
Profit on disposal of interest in associates		**–**	282	–
Share of after tax profits of associates and joint ventures	13	**30**	43	29
Profit before taxation		**2,968**	6,647	6,600
Taxation	14	**(137)**	(1,019)	(1,922)
Profit after taxation for the year		**2,831**	5,628	4,678
Profit attributable to non-controlling interests		**75**	192	179
Profit attributable to shareholders		**2,756**	5,436	4,499
		2,831	5,628	4,678
Basic earnings per share (pence)	15	**57.3p**	112.5p	91.6p
Diluted earnings per share (pence)	15	**56.7p**	110.5p	90.2p

Consolidated statement of comprehensive income
for the year ended 31 December 2014

		2014 £m	2013 £m	2012 £m
Profit for the year		**2,831**	5,628	4,678
Items that may be subsequently reclassified to income statement:				
Exchange movements on overseas net assets and net investment hedges	34	**(497)**	(255)	(226)
Reclassification of exchange on liquidation or disposal of overseas subsidiaries	34	**(219)**	–	–
Deferred tax on exchange movements		**(2)**	–	–
Fair value movements on available-for-sale investments		**29**	367	77
Deferred tax on fair value movements on available-for-sale investments		**(78)**	(29)	(10)
Reclassification of fair value movements on available-for-sale investments		**(155)**	(38)	(19)
Deferred tax reversed on reclassification of available-for-sale investments		**58**	7	10
Fair value movements on cash flow hedges		**5**	(9)	(6)
Deferred tax on fair value movements on cash flow hedges		**(1)**	1	–
Reclassification of cash flow hedges to income statement		**(5)**	2	2
Share of other comprehensive income of associates and joint ventures		**18**	15	30
		(847)	61	(142)
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests		**16**	(35)	(30)
Remeasurement (losses)/gains on defined benefit plans		**(1,181)**	847	(685)
Deferred tax on actuarial movements in defined benefit plans		**262**	(286)	193
		(903)	526	(522)
Other comprehensive (expense)/income for the year	34	**(1,750)**	587	(664)
Total comprehensive income for the year		**1,081**	6,215	4,014
Total comprehensive income for the year attributable to:				
Shareholders		**990**	6,058	3,865
Non-controlling interests		**91**	157	149
Total comprehensive income for the year		**1,081**	6,215	4,014

Consolidated balance sheet
as at 31 December 2014

	Notes	2014 £m	2013 £m
Non-current assets			
Property, plant and equipment	17	**9,052**	8,872
Goodwill	18	**3,724**	4,205
Other intangible assets	19	**8,320**	9,283
Investments in associates and joint ventures	20	**340**	323
Other investments	21	**1,114**	1,202
Deferred tax assets	14	**2,688**	2,084
Derivative financial instruments	41	**–**	1
Other non-current assets	22	**735**	889
Total non-current assets		**25,973**	26,859
Current assets			
Inventories	23	**4,231**	3,900
Current tax recoverable	14	**138**	129
Trade and other receivables	24	**4,600**	5,442
Derivative financial instruments	41	**146**	155
Liquid investments	32	**69**	66
Cash and cash equivalents	25	**4,338**	5,534
Assets held for sale	26	**1,156**	1
Total current assets		**14,678**	15,227
Total assets		**40,651**	42,086
Current liabilities			
Short-term borrowings	32	**(2,943)**	(2,789)
Trade and other payables	27	**(7,958)**	(8,317)
Derivative financial instruments	41	**(404)**	(127)
Current tax payable	14	**(945)**	(1,452)
Short-term provisions	29	**(1,045)**	(992)
Total current liabilities		**(13,295)**	(13,677)
Non-current liabilities			
Long-term borrowings	32	**(15,841)**	(15,456)
Deferred tax liabilities	14	**(445)**	(693)
Pensions and other post-employment benefits	28	**(3,179)**	(2,189)
Other provisions	29	**(545)**	(552)
Derivative financial instruments	41	**(9)**	(3)
Other non-current liabilities	30	**(2,401)**	(1,704)
Total non-current liabilities		**(22,420)**	(20,597)
Total liabilities		**(35,715)**	(34,274)
Net assets		**4,936**	7,812
Equity			
Share capital	33	**1,339**	1,336
Share premium account	33	**2,759**	2,595
Retained earnings	34	**(2,074)**	913
Other reserves	34	**2,239**	2,153
Shareholders' equity		**4,263**	6,997
Non-controlling interests		**673**	815
Total equity		**4,936**	7,812

The financial statements on pages 136 to 210 were approved by the Board on 26 February 2015 and signed on its behalf by

Sir Christopher Gent
Chairman

Financial statements
continued

Consolidated statement of changes in equity
for the year ended 31 December 2014

	Shareholders' equity						
	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2012	1,387	1,673	3,357	1,602	8,019	795	**8,814**
Profit for the year	–	–	4,499	–	4,499	179	**4,678**
Other comprehensive (expense)/income for the year	–	–	(665)	31	(634)	(30)	**(664)**
Total comprehensive income for the year	–	–	3,834	31	3,865	149	**4,014**
Distributions to non-controlling interests	–	–	–	–	–	(171)	**(171)**
Dividends to shareholders	–	–	(3,814)	–	(3,814)	–	**(3,814)**
Changes in non-controlling interests	–	–	(382)	–	(382)	164	**(218)**
Forward contract relating to non-controlling interest	–	–	–	8	8	–	**8**
Ordinary Shares issued	7	349	–	–	356	–	**356**
Ordinary Shares purchased and cancelled or held as Treasury shares	(45)	–	(2,493)	45	(2,493)	–	**(2,493)**
Ordinary Shares acquired by ESOP Trusts	–	–	–	(37)	(37)	–	**(37)**
Ordinary Shares transferred by ESOP Trusts	–	–	–	58	58	–	**58**
Write-down of shares held by ESOP Trusts	–	–	(80)	80	–	–	**–**
Share-based incentive plans	–	–	211	–	211	–	**211**
Tax on share-based incentive plans	–	–	9	–	9	–	**9**
At 31 December 2012	1,349	2,022	642	1,787	5,800	937	**6,737**
Profit for the year	–	–	5,436	–	5,436	192	**5,628**
Other comprehensive income/(expense) for the year	–	–	316	306	622	(35)	**587**
Total comprehensive income for the year	–	–	5,752	306	6,058	157	**6,215**
Distributions to non-controlling interests	–	–	–	–	–	(238)	**(238)**
Dividends to shareholders	–	–	(3,680)	–	(3,680)	–	**(3,680)**
Changes in non-controlling interests	–	–	(584)	–	(584)	(41)	**(625)**
Ordinary Shares issued	12	573	–	–	585	–	**585**
Ordinary Shares purchased and cancelled or held as Treasury shares	(25)	–	(1,504)	25	(1,504)	–	**(1,504)**
Ordinary Shares acquired by ESOP Trusts	–	–	–	(45)	(45)	–	**(45)**
Write-down of shares held by ESOP Trusts	–	–	(80)	80	–	–	**–**
Share-based incentive plans	–	–	294	–	294	–	**294**
Tax on share-based incentive plans	–	–	73	–	73	–	**73**
At 31 December 2013	1,336	2,595	913	2,153	6,997	815	**7,812**
Profit for the year	–	–	2,756	–	2,756	75	**2,831**
Other comprehensive (expense)/income for the year	–	–	(1,626)	(140)	(1,766)	16	**(1,750)**
Total comprehensive income/(expense) for the year	–	–	1,130	(140)	990	91	**1,081**
Distributions to non-controlling interests	–	–	–	–	–	(205)	**(205)**
Dividends to shareholders	–	–	(3,843)	–	(3,843)	–	**(3,843)**
Changes in non-controlling interests	–	–	(58)	–	(58)	(28)	**(86)**
Forward contract relating to non-controlling interest	–	–	–	21	21	–	**21**
Ordinary Shares issued	3	164	–	–	167	–	**167**
Ordinary Shares purchased and cancelled or held as Treasury shares	–	–	(238)	–	(238)	–	**(238)**
Ordinary Shares acquired by ESOP Trusts	–	–	150	(245)	(95)	–	**(95)**
Write-down of shares held by ESOP Trusts	–	–	(450)	450	–	–	**–**
Share-based incentive plans	–	–	326	–	326	–	**326**
Tax on share-based incentive plans	–	–	(4)	–	(4)	–	**(4)**
At 31 December 2014	1,339	2,759	(2,074)	2,239	4,263	673	**4,936**

Consolidated cash flow statement
for the year ended 31 December 2014

	Notes	2014 £m	2013 £m	2012 £m
Cash flow from operating activities				
Profit after taxation for the year		**2,831**	5,628	4,678
Adjustments reconciling profit after tax to operating cash flows	36	**3,453**	2,871	1,370
Cash generated from operations		**6,284**	8,499	6,048
Taxation paid		**(1,108)**	(1,277)	(1,673)
Net cash inflow from operating activities		**5,176**	7,222	4,375
Cash flow from investing activities				
Purchase of property, plant and equipment		**(1,188)**	(1,188)	(1,051)
Proceeds from sale of property, plant and equipment		**39**	46	68
Purchase of intangible assets		**(563)**	(513)	(469)
Proceeds from sale of intangible assets		**330**	136	1,056
Purchase of equity investments		**(83)**	(133)	(229)
Proceeds from sale of equity investments		**205**	59	28
Purchase of businesses, net of cash acquired	38	**(104)**	(247)	(2,235)
Disposal of businesses	38	**225**	1,851	–
Investments in associates and joint ventures	20	**(9)**	(8)	(99)
Proceeds from disposal of subsidiary and interest in associate		**1**	429	–
Decrease in liquid investments		**1**	15	224
Interest received		**63**	59	30
Dividends from associates and joint ventures		**5**	18	46
Net cash (outflow)/inflow from investing activities		**(1,078)**	524	(2,631)
Cash flow from financing activities				
Proceeds from own shares for employee share options		**–**	–	58
Shares acquired by ESOP Trusts		**(95)**	(45)	(37)
Issue of share capital	33	**167**	585	356
Purchase of own shares for cancellation or to be held as Treasury shares		**(238)**	(1,504)	(2,493)
Purchase of non-controlling interests		**(679)**	(588)	(14)
Increase in long-term loans		**1,960**	1,913	4,430
Increase in short-term loans		**–**	–	1,743
Repayment of short-term loans		**(1,709)**	(1,872)	(2,559)
Net repayment of obligations under finance leases		**(23)**	(31)	(35)
Interest paid		**(707)**	(749)	(779)
Dividends paid to shareholders		**(3,843)**	(3,680)	(3,814)
Distributions to non-controlling interests		**(205)**	(238)	(171)
Other financing cash flows		**(13)**	(64)	(36)
Net cash outflow from financing activities		**(5,385)**	(6,273)	(3,351)
(Decrease)/increase in cash and bank overdrafts	37	**(1,287)**	1,473	(1,607)
Cash and bank overdrafts at beginning of year		**5,231**	3,906	5,605
Exchange adjustments		**84**	(148)	(92)
(Decrease)/increase in cash and bank overdrafts		**(1,287)**	1,473	(1,607)
Cash and bank overdrafts at end of year		**4,028**	5,231	3,906
Cash and bank overdrafts at end of year comprise:				
Cash and cash equivalents		**4,338**	5,534	4,184
Overdrafts		**(310)**	(303)	(278)
		4,028	5,231	3,906

Notes to the financial statements

1 Presentation of the financial statements

Description of business
GlaxoSmithKline is a major global healthcare group which is engaged in the creation and discovery, development, manufacture and marketing of pharmaceutical products including vaccines, over-the-counter (OTC) medicines and health-related consumer products. GSK's principal pharmaceutical products include medicines in the following therapeutic areas: respiratory, anti-virals, central nervous system, cardiovascular and urogenital, metabolic, anti-bacterials, oncology and emesis, dermatology, rare diseases, immuno-inflammation, vaccines and HIV.

Compliance with applicable law and IFRS
The financial statements have been prepared in accordance with the Companies Act 2006, Article 4 of the IAS Regulation and 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 GlaxoSmithKline plc, 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.

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 44, 'Principal Group companies'.

Accounting principles and policies
The financial statements have been prepared using the historical cost convention modified by the revaluation of certain items, as stated in the accounting policies, and on a going concern basis.

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'.

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.

Implementation of new accounting standards
An amendment to IAS 32 'Offsetting financial assets and financial liabilities' was issued in December 2011 and was implemented by GSK from 1 January 2014. The amendment provides additional guidance on when financial assets and financial liabilities may be offset and has no material impact on the current period.

Financial period
These financial statements cover the financial year from 1 January to 31 December 2014, with comparative figures for the financial years from 1 January to 31 December 2013 and, where appropriate, from 1 January to 31 December 2012.

Parent company financial statements
The financial statements of the parent company, GlaxoSmithKline plc, have been prepared in accordance with UK GAAP and with UK accounting presentation. The company balance sheet is presented on page 213 and the accounting policies are given on page 214.

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, including ESOP Trusts
- the Group's share of the results and net assets of associates and joint ventures
- the Group's share of assets, liabilities, revenue and expenses of joint operations.

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

2 Accounting principles and policies continued

Entities over which the Group has the power to direct the relevant activities so as to affect the returns to the Group, generally through control over the financial and operating policies, are accounted for as subsidiaries. Where the Group has the ability to exercise joint control over, and rights to the net assets of, entities, the entities are accounted for as joint ventures. Where the Group has the ability to exercise joint control over an arrangement, but has rights to specified assets and obligations for specified liabilities of the arrangement, the arrangement is accounted for as a joint operation. Where the Group has the ability to exercise significant influence over entities, they are accounted for as associates. The results and assets and liabilities of associates and joint ventures are incorporated into the consolidated financial statements using the equity method of accounting. The Group's rights to assets, liabilities, revenue and expenses of joint operations are included in the consolidated financial statements in accordance with those rights and obligations.

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, joint operations and associates is also deferred until the products are sold to third parties. Transactions with non-controlling interests are recorded directly in equity. Deferred tax relief on unrealised intra-Group profit is accounted for only to the extent that it is considered recoverable.

Goodwill 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 and associates. Goodwill is denominated in the currency of the operation acquired.

Where the cost of acquisition is below the fair value of the net assets acquired, the difference is recognised directly in the income statement.

Business combinations

Business combinations are accounted for using the acquisition accounting method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. Where the consideration transferred, together with the non-controlling interest, exceeds the fair value of the net assets, liabilities and contingent liabilities acquired, the excess is recorded as goodwill. The costs of acquisition are charged to the income statement in the period in which they are incurred.

Where not all of the equity of a subsidiary is acquired the non-controlling interest is recognised either at fair value or at the non-controlling interest's share of the net assets of the subsidiary, on a case-by-case basis. Changes in the Group's 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, associates 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, associates 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, associates and joint ventures are translated into Sterling, less exchange differences arising on related foreign currency borrowings which hedge the Group's net investment in these operations, are taken to a separate component of equity.

When translating into Sterling the assets, liabilities, results and cash flows of overseas subsidiaries, associates and joint ventures which are reported in currencies of hyper-inflationary economies, adjustments are made where material to reflect current price levels. Any loss on net monetary assets is charged to the consolidated income statement.

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 counterparty 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 £22 million (2013 – £37 million; 2012 – £234 million). In addition, initial or event-based milestone income (excluding royalty income) arising on development or marketing collaborations of the Group's compounds or products with other parties is recognised in turnover. Milestone income of £57 million is included in turnover (2013 – £78 million).

Royalty income is recognised on an accruals basis in accordance with the terms of the relevant licensing agreements.

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 inter-company transfers are charged to cost of sales; distribution costs on sales to customers are included in selling, general and administrative expenditure.

Restructuring costs are recognised and provided for, where appropriate, in respect of the direct expenditure of a business reorganisation where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken.

Notes to the financial statements
continued

2 Accounting principles and policies continued

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 capitalised and depreciated in accordance with the Group's policy.

Environmental expenditure
Environmental expenditure related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible is charged to the income statement. The Group recognises its liability on a site-by-site basis when it can be reliably estimated. This liability includes the Group's portion of the total costs and also a portion of other potentially responsible parties' costs when it is probable that they will not be able to satisfy their respective shares of the clean-up obligation. Recoveries of reimbursements are recorded as assets when virtually certain.

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 certain products, there is sufficient history of claims made and settlements to enable management to make a reliable estimate of the provision required to cover unasserted claims. In certain cases, an incurred but not reported (IBNR) actuarial technique is used to determine this estimate.

The Group may become involved in legal proceedings, in respect of which it is not possible to make a reliable estimate of the expected financial effect, if any, that could result from ultimate resolution of the proceedings. In these cases, appropriate disclosure about such cases would be included but no provision would be 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
The costs of providing pensions under defined benefit schemes are 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.

The costs of other post-employment liabilities are calculated in a similar way to defined benefit pension schemes and spread over the period during which benefit is expected to be derived from the employees' services, in accordance with the advice of qualified actuaries.

Actuarial gains and losses and the effect of changes in actuarial assumptions, are recognised in the statement of comprehensive income in the year in which they arise.

The Group's contributions to defined contribution plans are charged to the income statement as incurred.

Employee share plans
Incentives in the form of shares are provided to employees under share option and share award schemes.

The fair values of these options and awards are calculated at their grant dates using a Black-Scholes option pricing model and charged to the income statement over the relevant vesting periods.

The Group provides finance to ESOP Trusts to purchase company shares on the open market to meet the obligation to provide shares when employees exercise their options or awards. Costs of running the ESOP Trusts are charged to the income statement. Shares held by the ESOP Trusts are deducted from other reserves. A transfer is made between other reserves and retained earnings over the vesting periods of the related share options or awards to reflect the ultimate proceeds receivable from employees on exercise.

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, excluding freehold land, 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:

Freehold buildings	20 to 50 years
Leasehold land and buildings	Lease term or 20 to 50 years
Plant and machinery	10 to 20 years
Equipment and vehicles	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 risks of ownership of an asset are treated as finance leases, as if the asset had been purchased outright. The assets are included in PP&E or computer software and the capital elements of the leasing commitments are shown as obligations under finance leases. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the income statement. 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 at least annually.

Where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the consideration paid, this excess is recognised immediately as a gain in the income statement.

2 Accounting principles and policies continued

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

Acquired brands are valued independently as part of the fair value of businesses acquired from third parties where the brand has a value which is substantial and long-term and where the brands either are contractual or legal in nature or can be sold separately from the rest of the businesses acquired. Brands are amortised over their estimated useful lives of up to 20 years, except where it is considered that the useful economic life is indefinite.

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

Impairment of non-current assets

The carrying values of all non-current assets are reviewed for impairment, either on a stand-alone basis or as part of a larger cash generating unit, 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 associates, joint ventures and joint operations

Investments in associates and joint ventures 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. The Group recognises its rights to assets, liabilities, revenue and expenses of joint operations.

Available-for-sale investments

Liquid investments and other investments are classified as available-for-sale investments and are initially recorded at fair value plus transaction costs and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses on available-for-sale investments are recognised directly in other comprehensive income. Impairments arising from the significant or prolonged decline in fair value of an equity investment reduce the carrying amount of the asset directly and are charged to the income statement.

On disposal or impairment of the investments, any gains and losses that have been deferred in other comprehensive income are reclassified to the income statement. Dividends on equity investments are recognised in the income statement when the Group's right to receive payment is established. Equity investments are recorded in non-current assets unless they are expected to be sold within one year.

Purchases and sales of equity investments are accounted for on the trade date and purchases and sales of other available-for-sale investments are accounted for on settlement date.

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 initially recognised at fair value and then held at amortised cost which equates to nominal value. Long-term payables are discounted where the effect is material.

Cash and cash equivalents

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

Borrowings

All borrowings 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.

Notes to the financial statements
continued

2 Accounting principles and policies continued

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, 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 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.

Derivative financial instruments and hedging
Derivative financial instruments are used to manage exposure to market risks. The principal derivative instruments used by GSK are foreign currency swaps, interest rate swaps, foreign exchange forward contracts and options. 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. Derivatives designated as hedging instruments are classified on inception as cash flow hedges, net investment hedges or fair value hedges.

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.

Net investment hedges are accounted for in a similar way to cash flow hedges.

Changes in the fair value of derivatives designated as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability.

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 value 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 expense.

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 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.

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

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

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

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

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. Factors affecting the tax charge in future years are set out in Note 14, 'Taxation'. A 1% change in the Group's effective tax rate in 2014 would have changed the total tax charge for the year by approximately £30 million.

The Group has open tax issues with a number of revenue authorities. Where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability. These estimates take into account the specific circumstances of each dispute and relevant external advice, are inherently judgemental and could change substantially over time as new facts emerge and each dispute progresses. GSK continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments. Where open issues exist 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.

3 Key accounting judgements and estimates
continued

Legal and other disputes
The Group provides for anticipated settlement costs where an outflow of resources is considered probable and a reliable estimate may be made of the likely outcome of the dispute and legal and other expenses arising from claims against the Group. These estimates take into account the specific circumstances of each dispute and relevant external advice, are inherently judgmental and could change substantially over time as new facts emerge and each dispute progresses. Details of the status and various uncertainties involved in the significant unresolved disputes are set out in Note 45, 'Legal proceedings'.

The company's Directors, having taken legal advice, have established provisions after taking into account the relevant facts and circumstances of each matter and in accordance with accounting requirements. In respect of product liability claims related to certain products there is sufficient history of claims made and settlements to enable management to make a reliable estimate of the provision required to cover unasserted claims. The Group may become involved in legal proceedings, in respect of which 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, appropriate disclosure about such cases would be included, but no provision would be made and no contingent liability can be quantified. At 31 December 2014 provisions for legal and other disputes amounted to £0.5 billion (2013 – £0.6 billion).

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.

Goodwill and other intangible asset impairments
Goodwill is deemed to have an indefinite life and so is not amortised. Annual impairment tests of the cash generating units to which goodwill is allocated are performed. Impairment tests are based on established market multiples or risk-adjusted future cash flows discounted using appropriate interest rates. The assumptions used in these impairment tests are set out in Note 18, 'Goodwill'.

In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

Impairment tests on other intangible assets are undertaken if events occur which call into question the carrying values of the assets. Where brands and other intangible assets which are not yet available for use are not amortised, they are subject to annual impairment tests. Valuations for impairment tests are based on established market multiples or risk-adjusted future cash flows over the estimated useful life of the asset, where limited, discounted using appropriate interest rates as set out in Note 19, 'Other intangible assets'.

The assumptions relating to future cash flows, estimated useful lives and discount rates are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment tests to change with a consequent adverse effect on the future results of the Group.

Business combinations
Any contingent consideration included in the consideration payable for a business combination is recorded at fair value at the date of acquisition. These fair values are generally based on risk-adjusted future cash flows discounted using appropriate interest rates. The fair values are reviewed on a regular basis, at least annually, and any changes are reflected in the income statement.

At 31 December 2014, the liability for contingent consideration amounted to £1,724 million (see Note 38, Acquisitions and disposals'). Of this amount, £1,684 million arose on the acquisition of the former Shionogi-ViiV Healthcare joint venture in 2012.

The assumptions relating to future cash flows and discount rates are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these projections to change with a consequent adverse effect on the future results of the Group.

Pensions and other post-employment benefits
The costs of providing pensions and other post-employment benefits are charged to the income statement in accordance with IAS 19 'Employee benefits' over the period during which benefit is derived from the employee's services. The costs are assessed on the basis of assumptions selected by management. These assumptions include future earnings and pension increases, discount rates, expected long-term rates of return on assets and mortality rates, and are disclosed in Note 28, 'Pensions and other post-employment benefits'. Where a surplus on a defined benefit scheme arises, or there is potential for a surplus to arise from committed future contributions, the rights of the Trustees to prevent the Group obtaining a refund of that surplus in the future are considered in determining whether it is necessary to restrict the amount of the surplus that is recognised.

The expected long-term rates of return on bonds are determined based on the portfolio mix of index-linked, government and corporate bonds. An equity risk premium is added to this for equities.

Discount rates are derived from AA rated corporate bond yields except in countries where there is no deep market in corporate bonds where government bond yields are used. Sensitivity analysis is provided in Note 28, 'Pensions and other post-employment benefits', but a 0.25% reduction in the discount rate would lead to an increase in the net pension deficit of approximately £645 million and an increase in the annual pension cost of approximately £32 million. The selection of different assumptions could affect the future results of the Group.

Notes to the financial statements
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4 New accounting requirements

The following new and amended accounting standards have been issued by the IASB and are likely to affect future Annual Reports. With the exception of the amendment to IAS 19, the impact on the results and financial position of the Group is currently being assessed.

An amendment to IAS 19 'Defined benefit plans: Employee contribution' was issued in November 2013 and will be implemented by the Group from 1 January 2015. The amendment provides additional guidance on the treatment of contributions to defined benefit plans from employees and third parties and is not expected to have a material impact on the results or financial position of the Group.

An amendment to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures' was issued in September 2014 and will be implemented by the Group from 1 January 2016. The amendment requires recognition of the full gain or loss arising on the sale or contribution of a business to an associate or joint venture, but only the investor's share of the gain or loss if assets that do not constitute a business are sold or contributed to an associate or joint venture.

An amendment to IFRS 11 'Joint arrangements' was issued in May 2014 and will be implemented by the Group from 1 January 2016. The amendment requires the acquisition of a joint operation that meets the definition of a business to be accounted for in accordance with IFRS 3 'Business combinations'.

IFRS 15 'Revenue from contracts with customers' was issued in May 2014 and will be implemented by the Group from 1 January 2017. The Standard provides a single, principles-based approach to the recognition of revenue from all contracts with customers. It focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations are satisfied.

IFRS 9 'Financial instruments' was issued in its final form in July 2014 and will be implemented by the Group from 1 January 2018. The Standard will replace the majority of IAS 39 and covers the classification, measurement and derecognition of financial assets and financial liabilities, impairment of financial assets and provides a new hedge accounting model.

5 Exchange rates

The Group uses the average of exchange rates prevailing during the period to translate the results and cash flows of overseas subsidiaries, joint ventures and associated undertakings 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:

	2014	2013	2012
Average rates:			
US$/£	**1.65**	1.57	1.59
Euro/£	**1.24**	1.18	1.23
Yen/£	**175**	153	127
Period end rates:			
US$/£	**1.56**	1.66	1.63
Euro/£	**1.29**	1.20	1.23
Yen/£	**187**	174	141

6 Segment information

The Group's operating segments are reported based on the financial information provided to the Chief Executive Officer and the responsibilities of the Corporate Executive Team (CET). Individual members of the CET are responsible for each geographic segment of the Pharmaceuticals and Vaccines business, ViiV Healthcare, Established Products and the Consumer Healthcare business as a whole, respectively. The Established Products segment has been created and certain product reclassifications, principally the OTC dermatology brands acquired with the Stiefel business, have been made between Pharmaceuticals and Vaccines segments and the Consumer Healthcare segment, with effect from 1 January 2014. Comparative information has been restated accordingly. In addition, the 2013 and 2012 segment turnover and profit have been restated to exclude the divestments completed in 2013.

R&D investment is essential for the sustainability of the pharmaceutical businesses. However, for segment reporting, the US, Europe, Emerging Markets, Japan and Established Products Pharmaceuticals and Vaccines segment profits exclude allocations of globally funded R&D as well as central costs, principally corporate functions and unallocated manufacturing costs. ViiV Healthcare and Consumer Healthcare operating profits include R&D costs. The Group's management reporting process allocates intra-Group profit on a product sale to the market in which that sale is recorded, and the profit analyses below have been presented on that basis.

Other trading and unallocated pharmaceuticals and vaccines includes Canada, Puerto Rico, Australasia, central vaccine tender sales and contract manufacturing sales, together with costs such as vaccines R&D, central dermatology costs and central manufacturing costs not attributed to other segments.

Pharmaceuticals R&D is reported as a separate segment. Corporate and other unallocated costs represent the costs of corporate functions.

Working capital in relation to Established Products is managed within the other Pharmaceutical and Vaccines segments.

Turnover by segment	2014 £m	2013 (restated) £m	2012 (restated) £m
Pharmaceuticals and Vaccines			
USA	**4,980**	5,817	5,508
Europe	**4,035**	4,226	3,956
Emerging Markets	**3,203**	3,370	3,309
Japan	**937**	1,058	1,203
ViiV Healthcare	**1,498**	1,386	1,374
Established Products	**3,011**	3,874	4,351
Other trading and unallocated	**1,006**	1,115	1,035
Pharmaceuticals and Vaccines turnover	**18,670**	20,846	20,736
Consumer Healthcare turnover	**4,336**	4,756	4,747
Segment turnover excluding divestments	**23,006**	25,602	25,483
Divestments completed in 2013	**–**	903	948
Turnover including divestments	**23,006**	26,505	26,431

Pharmaceuticals and Vaccines turnover by therapeutic area	2014 £m	2013 (restated) £m	2012 (restated) £m
Respiratory	**6,181**	7,289	7,044
Oncology and emesis	**1,202**	969	798
Cardiovascular, metabolic and urology	**965**	1,073	1,144
Immuno-inflammation	**214**	161	70
Other pharmaceuticals	**2,407**	2,674	2,630
Established Products	**3,011**	3,874	4,351
Vaccines	**3,192**	3,420	3,325
ViiV Healthcare (HIV)	**1,498**	1,386	1,374
	18,670	20,846	20,736

Notes to the financial statements
continued

6 Segment information continued

Consumer Healthcare turnover by category	2014 £m	2013 (restated) £m	2012 (restated) £m
Total wellness	**1,596**	1,865	1,991
Oral care	**1,797**	1,884	1,806
Nutrition	**633**	627	590
Skin health	**310**	380	360
	4,336	4,756	4,747

During 2014, US Pharmaceuticals and Vaccines and the US element of ViiV Healthcare and Established Products made sales to three wholesalers of approximately £1,478 million (2013 – £2,071 million; 2012 – £2,303 million), £2,315 million (2013 – £2,658 million; 2012 – £2,447 million) and £1,627 million (2013 – £1,695 million; 2012 – £1,318 million) respectively, after allocating final-customer discounts to the wholesalers.

Segment profit	2014 £m	2013 (restated) £m	2012 (restated) £m
Pharmaceuticals and Vaccines			
USA	**3,173**	3,955	3,706
Europe	**2,205**	2,277	2,088
Emerging Markets	**993**	986	1,054
Japan	**466**	568	657
ViiV Healthcare	**977**	885	849
Established Products	**1,793**	2,352	2,521
Pharmaceuticals R&D	**(2,708)**	(2,823)	(2,778)
Other trading and unallocated costs	**(402)**	(631)	(488)
Pharmaceuticals and Vaccines segment profit	**6,497**	7,569	7,609
Consumer Healthcare segment profit	**657**	829	856
Segment profit	**7,154**	8,398	8,465
Corporate and other unallocated costs	**(560)**	(627)	(491)
Other reconciling items between segment profit and operating profit	**(2,997)**	(743)	(674)
Operating profit	**3,597**	7,028	7,300
Finance income	**68**	61	79
Finance costs	**(727)**	(767)	(808)
Profit on disposal of interest in associates	**–**	282	–
Share of after tax profits of associates and joint ventures	**30**	43	29
Profit before taxation	**2,968**	6,647	6,600
Taxation	**(137)**	(1,019)	(1,922)
Profit after taxation for the year	**2,831**	5,628	4,678

Other reconciling items between segment profit and operating profit comprise items not specifically allocated to segment profit. These include impairment and amortisation of intangible assets, major restructuring charges, legal charges and expenses on the settlement of litigation and government investigations and certain other items related to major acquisition and disposal activity.

Depreciation and amortisation by segment	2014 £m	2013 (restated) £m	2012 (restated) £m
Pharmaceuticals and Vaccines			
USA	**9**	14	16
Europe	**16**	21	24
Emerging Markets	**27**	30	28
Japan	**5**	6	7
ViiV Healthcare	**4**	2	2
Established Products	**–**	–	–
Pharmaceuticals R&D	**161**	171	178
Other trading and unallocated costs	**465**	436	478
Pharmaceuticals and Vaccines depreciation and amortisation	**687**	680	733
Consumer Healthcare depreciation and amortisation	**105**	74	127
Segment depreciation and amortisation	**792**	754	860
Corporate and other unallocated depreciation and amortisation	**112**	109	108
Other reconciling items between segment depreciation and amortisation and total depreciation and amortisation	**580**	551	477
Total depreciation and amortisation	**1,484**	1,414	1,445

6 Segment information continued

PP&E, intangible asset and goodwill impairment by segment	2014 £m	2013 (restated) £m	2012 (restated) £m
Pharmaceuticals and Vaccines			
USA	**1**	1	1
Europe	**3**	2	1
Emerging Markets	**–**	1	1
Japan	**–**	–	–
ViiV Healthcare	**2**	–	–
Established Products	**–**	–	–
Pharmaceuticals R&D	**24**	22	2
Other trading and unallocated costs	**49**	33	30
Pharmaceuticals and Vaccines impairment	**79**	59	35
Consumer Healthcare impairment	**16**	11	1
Segment impairment	**95**	70	36
Corporate and other unallocated impairment	**3**	–	18
Other reconciling items between segment impairment and total impairment	**153**	799	700
Total impairment	**251**	869	754

PP&E and intangible asset impairment reversals by segment	2014 £m	2013 (restated) £m	2012 (restated) £m
Pharmaceuticals and Vaccines			
USA	**(1)**	–	–
Europe	**(1)**	(2)	–
Emerging Markets	**–**	–	–
Japan	**–**	–	–
ViiV Healthcare	**–**	–	–
Established Products	**–**	–	–
Pharmaceuticals R&D	**(23)**	(2)	(4)
Other trading and unallocated costs	**(37)**	(16)	(60)
Pharmaceuticals and Vaccines impairment reversals	**(62)**	(20)	(64)
Consumer Healthcare impairment reversals	**(14)**	(4)	–
Segment impairment reversals	**(76)**	(24)	(64)
Corporate and other unallocated impairment reversals	**–**	–	(3)
Other reconciling items between segment impairment reversals and total impairment reversals	**–**	–	(59)
Total impairment reversals	**(76)**	(24)	(126)

Notes to the financial statements
continued

6 Segment information continued

Net assets by segment	2014 £m	2013 (restated) £m
Pharmaceuticals and Vaccines		
USA	**(86)**	43
Europe	**532**	779
Emerging Markets	**1,744**	2,097
Japan	**268**	362
ViiV Healthcare	**301**	1,267
Established Products	**43**	114
Pharmaceuticals R&D	**542**	590
Other trading and unallocated assets	**13,396**	14,578
Pharmaceuticals and Vaccines net operating assets	**16,740**	19,830
Consumer Healthcare net operating assets	**3,036**	2,856
Segment net operating assets	**19,776**	22,686
Corporate and other unallocated net operating assets	**(3,128)**	(2,647)
Net operating assets	**16,648**	20,039
Net debt	**(14,377)**	(12,645)
Investments in associates and joint ventures	**340**	323
Derivative financial instruments	**(267)**	26
Current and deferred taxation	**1,436**	68
Assets held for sale	**1,156**	1
Net assets	**4,936**	7,812

The US Pharmaceuticals and Vaccines segment was in a net liability position as at 31 December 2014 principally as a result of an accrual of £115 million for an additional year of the US Branded Prescription Drug fee.

The other trading and unallocated Pharmaceuticals and Consumer Healthcare segments include assets for the centrally managed Pharmaceutical, Vaccine and Consumer Healthcare manufacturing operations, the depreciation on which, totalling £594 million (2013 – £521 million; 2012 – £601 million) is recovered through the standard cost of product charged to businesses.

Geographical information

The UK is regarded as being the Group's country of domicile.

Turnover by location of customer	2014 £m	2013 £m	2012 £m
UK	**1,116**	1,541	1,525
USA	**7,359**	8,730	8,476
Rest of World	**14,531**	16,234	16,430
External turnover	**23,006**	26,505	26,431

Turnover by location of subsidiary	2014 £m	2013 £m	2012 £m
UK	**3,518**	4,174	3,738
USA	**10,768**	11,684	11,250
Rest of World	**17,227**	18,515	19,719
Turnover including inter-segment turnover	**31,513**	34,373	34,707
UK	**1,994**	1,772	1,508
USA	**3,432**	3,026	2,886
Rest of World	**3,081**	3,070	3,882
Inter-segment turnover	**8,507**	7,868	8,276
UK	**1,524**	2,402	2,230
USA	**7,336**	8,658	8,364
Rest of World	**14,146**	15,445	15,837
External turnover	**23,006**	26,505	26,431

6 Segment information continued

Operating profit by location	2014 £m	2013 £m	2012 £m
UK	**414**	568	1,454
USA	**1,375**	3,063	1,391
Rest of World	**1,808**	3,397	4,455
Total operating profit	**3,597**	7,028	7,300

Net operating assets by location	2014 £m	2013 (restated) £m
UK	**4,597**	6,314
USA	**3,654**	3,975
Rest of World	**8,397**	9,750
Net operating assets	**16,648**	20,039

Non-current assets by location	2014 £m	2013 (restated) £m
UK	**6,688**	6,565
USA	**6,512**	6,675
Rest of World	**8,431**	9,607
Non-current assets	**21,631**	22,847

Non-current assets by location excludes amounts relating to other investments, deferred tax assets, derivative financial instruments, pension assets, amounts receivable under insurance contracts and certain other non-current receivables.

7 Other operating income

	2014 £m	2013 £m	2012 £m
Impairment of equity investments	**(25)**	(70)	(26)
Disposal of equity investments	**155**	38	19
Disposal of businesses and assets	**244**	1,413	661
Gain on settlement of pre-existing collaborations on acquisition of HGS	**–**	–	233
Gain on acquisition of the Shionogi-ViiV Healthcare joint venture	**–**	–	349
Fair value remeasurements on contingent consideration recognised in business combinations	**(770)**	(251)	(13)
Fair value adjustments on derivative financial instruments	**(313)**	12	3
Other income/(expense)	**9**	(18)	30
	(700)	1,124	1,256

Disposal of businesses and other assets in 2014 included a gain on disposal of *Treximet* and in 2013 included the gain on disposal of the Lucozade and Ribena business to Suntory of £1,057 million and the gain on the sale of the worldwide intellectual property rights (excluding certain emerging markets) of the anti-coagulant products business to Aspen Group of £274 million. Fair value remeasurements on contingent consideration recognised in business combinations included £768 million related to the contingent consideration payable for the acquisition of the former Shionogi-ViiV Healthcare joint venture.

Fair value adjustments on derivative financial instruments related to foreign exchange forward contracts and options taken out to hedge against foreign currency movements when sales and purchases are denominated in foreign currencies (see Note 41, 'Financial instruments and related disclosures'). In 2014 this included an unrealised loss of £299 million arising from the loss position of a number of forward exchange contracts entered into following announcement of the proposed Novartis transaction to protect the Sterling value of the net US Dollar proceeds due to the Group on completion of the transaction. If these contracts remain in a loss position on maturity, that loss will partly offset the gain in the expected Sterling value of the proceeds that will be received by the Group as a result of favourable exchange movements since the inception of the forward contracts. If, on maturity, the contracts are in a gain position, the gains will partly offset losses in the Sterling value of the proceeds that will be received by the Group as a result of unfavourable exchange movements since the inception of the forward contracts.

Notes to the financial statements
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8 Operating profit

The following items have been included in operating profit:	2014 £m	2013 £m	2012 £m
Employee costs (Note 9)	**7,520**	7,591	6,935
Advertising	**671**	808	839
Distribution costs	**325**	371	386
Depreciation of property, plant and equipment	**780**	732	871
Impairment of property, plant and equipment, net of reversals	**18**	100	(68)
Amortisation of intangible assets	**704**	682	574
Impairment of intangible assets and goodwill, net of reversals	**157**	745	696
Net foreign exchange (gains)/losses	**(18)**	41	61
Inventories:			
Cost of inventories included in cost of sales	**6,334**	7,290	6,851
Write-down of inventories	**389**	338	302
Reversal of prior year write-down of inventories	**(169)**	(43)	(61)
Operating lease rentals:			
Minimum lease payments	**133**	127	156
Contingent rents	**8**	12	14
Sub-lease payments	**5**	2	3
Fees payable to the company's auditor and its associates in relation to the Group (see below)	**33.2**	24.9	23.2

The reversals of prior year write-downs of inventories principally arise from the reassessment of usage or demand expectations prior to inventory expiration.

Included within operating profit are major restructuring charges of £750 million (2013 – £517 million; 2012 – £557 million), see Note 10, 'Major restructuring costs'.

Fees payable to the company's auditor and its associates:	2014 £m	2013 £m	2012 £m
Audit of parent company and consolidated financial statements	**4.9**	5.1	4.0
Audit of the company's subsidiaries	**10.7**	11.0	10.1
Audit-related assurance services, including attestation under s.404 of Sarbanes-Oxley Act 2002	**4.0**	3.9	3.3
Audit and audit-related services	**19.6**	20.0	17.4
Taxation compliance	**0.6**	0.6	0.4
Taxation advice	**4.5**	3.3	3.2
Other assurance services	**8.0**	1.5	1.7
All other services	**0.5**	0.3	0.5
	33.2	25.7	23.2

In addition to the above, fees paid in respect of the GSK pension schemes were:

	2014 £m	2013 £m	2012 £m
Audit	**0.3**	0.4	0.6
Other services	**–**	–	–

9 Employee costs

	2014 £m	2013 £m	2012 £m
Wages and salaries	**5,879**	6,262	5,846
Social security costs	**639**	685	643
Pension and other post-employment costs, including augmentations (Note 28)	**403**	170	95
Cost of share-based incentive plans	**346**	319	220
Severance and other costs from integration and restructuring activities	**253**	155	131
	7,520	7,591	6,935

The Group provides benefits to employees, commensurate with local practice in individual countries, including, in some markets, healthcare insurance, subsidised car schemes and personal life assurance.

The charge for pension and other post-employment costs in 2013 includes a credit of £279 million following a restructuring of US post-retirement medical obligations. The charge in 2012 includes a credit of £395 million following a change in policy relating to discretionary pension increases under certain UK pension schemes and the introduction of a limit on future pensionable pay increases in all UK schemes. These are set out in Note 28, 'Pensions and other post-employment benefits'.

The cost of share-based incentive plans is analysed as follows:

	2014 £m	2013 £m	2012 £m
Share Value Plan	**302**	243	156
Performance Share Plan	**20**	47	45
Share option plans	**3**	4	11
Other plans	**21**	25	8
	346	319	220

The average number of persons employed by the Group (including Directors) during the year was:

	2014 Number	2013 Number	2012 Number
Manufacturing	**31,726**	31,586	31,033
Selling, general and administration	**54,618**	55,660	54,803
Research and development	**12,358**	12,571	12,845
	98,702	99,817	98,681

The average number of Group employees excludes temporary and contract staff. The numbers of Group employees at the end of each financial year are given in the financial record on page 224. The average number of persons employed by GlaxoSmithKline plc in 2014 was nil (2013 – nil).

The compensation of the Directors and Senior Management (members of the CET) in aggregate, was as follows:

	2014 £m	2013 £m	2012 £m
Wages and salaries	**19**	23	20
Social security costs	**3**	3	2
Pension and other post-employment costs	**3**	3	3
Cost of share-based incentive plans	**13**	13	13
	38	42	38

Notes to the financial statements
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10 Major restructuring costs

Major restructuring costs charged in arriving at operating profit include restructuring costs arising under the Operational Excellence programme, initiated in 2007 and expanded in 2009, 2010 and 2011, under the Major Change programme initiated in 2013, under the Pharmaceuticals Restructuring Programme announced in October 2014 and following the proposed Novartis transaction, announced in 2014.

Of the total restructuring costs of £750 million incurred in 2014, £101 million was incurred under the Operational Excellence programme, £334 million under the Major Change programme, £243 million under the Pharmaceuticals Restructuring Programme and £67 million on Pre-Integration Planning on the proposed Novartis transaction in the following areas:

- Restructuring of the Pharmaceuticals business in North America, Emerging Markets and Europe leading to staff reductions in sales force and administration.
- Projects to rationalise Core Business Services and to simplify or eliminate processes leading to staff reduction in support functions.
- Transformation of the Manufacturing and Vaccines businesses to deliver a step change in quality, cost and productivity.
- The rationalisation of the Consumer Healthcare business.

The remaining costs of £5 million were incurred under the restructuring programmes related to the integration of the Stiefel and HGS (Human Genome Sciences Inc.) businesses.

The analysis of the costs charged to operating profit under these programmes is as follows:

	2014 £m	2013 £m	2012 £m
Increase in provision for major restructuring programmes (see Note 29)	**(267)**	(179)	(268)
Amount of provision reversed unused (see Note 29)	**4**	11	12
Impairment losses recognised	**–**	(60)	(7)
Other non-cash charges	**(15)**	(5)	(18)
Other cash costs	**(472)**	(284)	(276)
	(750)	(517)	(557)

Asset impairments of £nil (2013 – £60 million; 2012 – £7 million) and other non-cash charges totalling £15 million (2013 – £5 million; 2012 – £18 million) are non-cash items, principally accelerated depreciation where asset lives have been shortened as a result of the major restructuring programmes. All other charges have been or will be settled in cash and include the termination of leases, site closure costs, consultancy and project management fees.

11 Finance income

	2014 £m	2013 £m	2012 £m
Interest income arising from:			
cash and cash equivalents	**56**	55	59
available-for-sale investments	**1**	2	5
loans and receivables	**9**	2	9
Realised gains on liquid investments	**–**	–	4
Fair value adjustments on derivatives at fair value through profit or loss	**2**	2	2
	68	61	79

All derivatives at fair value through profit or loss other than designated and effective hedging instruments (see Note 41, 'Financial instruments and related disclosures') are classified as held-for-trading financial instruments under IAS 39.

12 Finance expense

	2014 £m	2013 £m	2012 £m
Interest expense arising on:			
financial liabilities at amortised cost	**(665)**	(708)	(731)
derivatives at fair value through profit or loss	**(23)**	(18)	(14)
Fair value hedges:			
fair value movements on derivatives designated as hedging instruments	**10**	(37)	(28)
fair value adjustments on hedged items	**(5)**	36	27
Fair value movements on other derivatives at fair value through profit or loss	**(15)**	(2)	(13)
Unwinding of discounts on provisions	**(15)**	(14)	(15)
Movements on amounts owed to non-controlling interests	**–**	(2)	(10)
Other finance expense	**(14)**	(22)	(24)
	(727)	(767)	(808)

All derivatives at fair value through profit or loss other than designated and effective hedging instruments (see Note 41, 'Financial instruments and related disclosures') are classified as held-for-trading financial instruments under IAS 39. Interest expense arising on derivatives at fair value through profit or loss relates to swap interest expense.

13 Associates and joint ventures

At 31 December 2014, the Group held one significant associate, Aspen Pharmacare Holdings Limited (Aspen). Summarised income statement information in respect of Aspen is set out below:

	2014 £m	2013 £m	2012 £m
Turnover	**1,823**	1,485	1,280
Profit after taxation	**313**	247	313
Comprehensive income	**148**	192	163
Total comprehensive income	**461**	439	476

The results of Aspen included in the summarised income statement information above represent the estimated earnings of the Aspen group in the year, adjusted for transactions between GSK and Aspen.

Amounts relating to joint ventures principally arise from a 50% interest in one joint venture, Japan Vaccine Co., Ltd., with Daiichi Sankyo Co., Ltd. Aggregated financial information in respect of other associated undertakings and joint ventures is set out below:

	2014 £m	2013 £m	2012 £m
Associates:			
Share of turnover	**24**	26	27
Share of after tax (losses)/profits	**(1)**	–	1
Share of other comprehensive income	**–**	–	–
Share of total comprehensive income	**(1)**	–	1
Joint ventures:			
Share of turnover	**163**	199	203
Share of after tax losses	**(8)**	(2)	(30)
Share of other comprehensive income	**–**	–	–
Share of total comprehensive income	**(8)**	(2)	(30)
Sales to joint ventures and associates	**85**	103	124

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14 Taxation

Taxation charge based on profits for the year	2014 £m	2013 £m	2012 £m
UK current taxation	**(251)**	265	170
Overseas current taxation	**993**	1,284	1,510
Total current taxation	**742**	1,549	1,680
Total deferred taxation	**(605)**	(530)	242
	137	1,019	1,922

The recognition of a deferred tax asset on tax losses expected to be used on completion of the Novartis transaction is included in the net deferred tax credit. In 2013 the deferred tax credit arose predominantly as a result of non cash items related to the continuing restructuring of our supply chain and intellectual property ownership.

The following table reconciles the tax charge calculated at the UK statutory rate on the Group profit before tax with the actual tax charge for the year. Information for 2013 and 2012 has been re-analysed and is presented on a comparable basis.

Reconciliation of taxation on Group profits	2014 £m	2014 %	2013 £m	2013 %	2012 £m	2012 %
Profit before tax	**2,968**		6,647		6,600	
UK statutory rate of taxation	**638**	**21.5**	1,545	23.3	1,617	24.5
Differences in overseas taxation rates	**406**	**13.7**	196	2.9	278	4.2
Benefit of intellectual property incentives	**(323)**	**(10.9)**	(189)	(2.8)	(158)	(2.4)
R&D credits	**(72)**	**(2.4)**	(88)	(1.3)	(73)	(1.1)
Inter-company inventory profit	**(27)**	**(0.9)**	(121)	(1.8)	73	1.1
Impact of share-based payments	**31**	**1.1**	(2)	–	–	–
Benefit of previously unrecognised losses	**(205)**	**(6.9)**	(18)	(0.3)	(40)	(0.6)
Permanent differences on disposals and acquisitions	**23**	**0.8**	(227)	(3.4)	(9)	(0.1)
Other permanent differences	**264**	**8.8**	301	4.4	(103)	(1.6)
Re-assessments of prior year estimates	**(617)**	**(20.8)**	(197)	(3.0)	(145)	(2.2)
Disposal of associate	**–**	**–**	(67)	(1.0)	–	–
Tax on unremitted earnings	**19**	**0.6**	20	0.3	26	0.4
Deferred tax and other adjustments on restructuring	**–**	**–**	(134)	(2.0)	456	6.9
Tax charge / tax rate	**137**	**4.6**	1,019	15.3	1,922	29.1

The Group operates in countries where the tax rate differs from the UK tax rate and the taxable profits earned and tax rates in those countries vary from year to year. In 2013, a £234 million deferred tax charge related to the unwinding of deferred profit in inventory arising from reorganisations of intellectual property ownership and supply chain restructuring was presented within differences in overseas tax rates. This impact has now been presented as restructuring for 2013 as this better reflects the nature of this item. The Group qualifies for intellectual property incentives such as patent box regimes in a number of countries. The permanent differences associated with disposals and acquisitions have been presented separately and in 2013 included the benefit of lower tax rates applied to the disposal of the Lucozade and Ribena business. The recognition of the deferred tax asset on tax losses expected to be used on completion of the Novartis transaction is shown in the benefit of previously unrecognised losses. Other permanent differences include non tax deductible legal settlements. Re-assessments of prior year estimates include a benefit of £478 million from the resolution of a number of tax matters in various countries.

Future tax charges may be affected by factors such as acquisitions, disposals, restructurings, the location of research and development activity, tax regime reforms, and agreements with tax authorities.

Tax on items charged to equity and statement of comprehensive income	2014 £m	2013 £m	2012 £m
Current taxation			
Share based payments	**55**	31	34
	55	31	34
Deferred taxation			
Share-based payments	**(59)**	42	(25)
Defined benefit plans	**262**	(286)	193
Exchange movements	**(2)**	–	–
Fair value movements on cash flow hedges	**(1)**	1	–
Fair value movements on available-for-sale investments	**(20)**	(22)	–
	180	(265)	168
Total credit/(charge) to equity and statement of comprehensive income	**235**	(234)	202

All of the above items have been charged to the statement of comprehensive income except for tax on share based payments.

14 Taxation continued

Issues relating to taxation

The integrated nature of the Group's worldwide operations involves significant investment in research and strategic manufacture at a limited number of locations, with consequential cross-border supply routes into numerous end-markets. This gives rise to complexity and delay in negotiations with revenue authorities as to the profits on which individual Group companies are liable to tax. Resolution of such issues is an ongoing requirement for GSK.

The Group continues to believe that it has made adequate provision for the liabilities likely to arise from periods which are open and not yet agreed by tax authorities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of agreements with relevant tax authorities or litigation where appropriate.

The aggregate amount of unremitted profits at the balance sheet date was approximately £20 billion (2013 – £14 billion). UK legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions. Provision for deferred tax liabilities of £147 million (2013 – £129 million) has been made in respect of withholding taxation that would arise on the distribution of profits by certain overseas subsidiaries. The unprovided deferred tax on unremitted earnings at 31 December 2014 is estimated to be £600 million (2013 – £500 million), which relates to taxes payable on repatriation levied by overseas tax jurisdictions. No further provision is made on the grounds that the Group is able to control the timing of the reversal of the remaining temporary differences and it is probable that they will not reverse in the foreseeable future.

Movement in deferred tax assets and liabilities

	Accelerated capital allowances £m	Intangibles £m	Contingent consideration £m	Intra-group profit £m	Pensions & other post employment benefits £m	Tax losses £m	Share option and award schemes £m	Other net temporary differences £m	Total £m
At 1 January 2014	(432)	(1,437)	270	641	778	112	189	1,270	1,391
Exchange adjustments	12	(18)	–	19	21	4	6	23	67
(Charge)/credit to income statement	(26)	399	134	24	8	299	(12)	(221)	605
(Charge)/credit to equity	–	–	–	–	–	–	(59)	–	(59)
Credit/(charge) to statement of comprehensive income	–	–	–	–	262	–	–	(23)	239
At 31 December 2014	(446)	(1,056)	404	684	1,069	415	124	1,049	2,243

Recognised tax losses comprises £205 million (2013 – £nil) capital losses and £210 million (2013 – £112 million) trading losses.

Other net temporary differences include accrued expenses for which a tax deduction is only available on a paid basis.

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

	2014 £m	2013 £m
Deferred tax assets	**2,688**	2,084
Deferred tax liabilities	**(445)**	(693)
	2,243	1,391

Unrecognised tax losses	2014 £m	2013 £m
Trading losses expiring:		
Within 10 years	**186**	131
More than 10 years	**723**	680
Available indefinitely	**–**	3,908
At 31 December	**909**	4,719
Capital losses	**2,210**	3,180
As 31 December	**2,210**	3,180

Deferred tax assets are recognised where it is probable that future taxable profit will be available to utilise losses.

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15 Earnings per share

	2014 pence	2013 pence	2012 pence
Basic earnings per share	**57.3**	112.5	91.6
Diluted earnings per share	**56.7**	110.5	90.2

Basic earnings per share has been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the period after deducting shares held by the ESOP Trusts and Treasury shares. The trustees have waived their rights to dividends on the shares held by the ESOP Trusts.

Diluted earnings per share has been calculated after adjusting the weighted average number of shares used in the basic calculation to assume the conversion of all potentially dilutive shares. A potentially dilutive share forms part of the employee share schemes where its exercise price is below the average market price of GSK shares during the period and any performance conditions attaching to the scheme have been met at the balance sheet date.

The numbers of shares used in calculating basic and diluted earnings per share are reconciled below.

Weighted average number of shares in issue	2014 millions	2013 millions	2012 millions
Basic	**4,808**	4,831	4,912
Dilution for share options and awards	**57**	88	77
Diluted	**4,865**	4,919	4,989

16 Dividends

	2014			2013			2012	
	Paid/payable	Dividend per share (pence)	Total dividend £m	Paid/payable	Dividend per share (pence)	Total dividend £m	Paid/payable	Dividend per share (pence)	Total dividend £m
First interim	10 July 2014	19	**916**	11 July 2013	18	878	5 July 2012	17	846
Second interim	2 October 2014	19	**918**	3 October 2013	18	864	4 October 2012	17	830
Third interim	8 January 2015	19	**924**	9 January 2014	19	910	3 January 2013	18	870
Fourth interim	9 April 2015	23	**1,107**	10 April 2014	23	1,099	11 April 2013	22	1,068
Total		80	**3,865**		78	3,751		74	3,614

Under IFRS interim dividends are only recognised in the financial statements when paid and not when declared. GSK normally pays a dividend two quarters after the quarter to which it relates and one quarter after it is declared. The 2014 financial statements recognise those dividends paid in 2014, namely the third and fourth interim dividends for 2013, and the first and second interim dividends for 2014.

The amounts recognised in each year are as follows:

	2014 £m	2013 £m	2012 £m
Dividends to shareholders	**3,843**	3,680	3,814

17 Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Assets in construction £m	Total £m
Cost at 1 January 2013	6,632	10,169	1,941	**18,742**
Exchange adjustments	(68)	(105)	(29)	**(202)**
Additions	57	230	948	**1,235**
Additions through business combinations	12	11	–	**23**
Capitalised borrowing costs	–	–	16	**16**
Disposals and write-offs	(77)	(516)	(2)	**(595)**
Reclassifications	107	233	(340)	**–**
Transfer to assets held for sale	(53)	(296)	(17)	**(366)**
Cost at 31 December 2013	6,610	9,726	2,517	**18,853**
Exchange adjustments	(104)	(142)	(3)	**(249)**
Additions	38	252	971	**1,261**
Capitalised borrowing costs	–	–	16	**16**
Disposals and write-offs	(62)	(322)	(3)	**(387)**
Reclassifications	73	344	(429)	**(12)**
Transfer to assets held for sale	(91)	(36)	–	**(127)**
Cost at 31 December 2014	6,464	9,822	3,069	**19,355**

Notes to the financial statements
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17 Property, plant and equipment continued

	Land and buildings £m	Plant, equipment and vehicles £m	Assets in construction £m	Total £m
Depreciation at 1 January 2013	(2,437)	(7,049)	–	**(9,486)**
Exchange adjustments	38	80	–	**118**
Charge for the year	(214)	(518)	–	**(732)**
Disposals and write-offs	51	422	–	**473**
Transfer to assets held for sale	20	139	–	**159**
Depreciation at 31 December 2013	(2,542)	(6,926)	–	**(9,468)**
Exchange adjustments	28	70	–	**98**
Charge for the year	(212)	(568)	–	**(780)**
Disposals and write-offs	27	250	–	**277**
Transfer to assets held for sale	18	23	–	**41**
Depreciation at 31 December 2014	(2,681)	(7,151)	–	**(9,832)**
Impairment at 1 January 2013	(152)	(266)	(62)	**(480)**
Exchange adjustments	1	8	–	**9**
Disposals and write-offs	14	44	–	**58**
Impairment losses	(23)	(100)	(1)	**(124)**
Reversal of impairments	2	22	–	**24**
Transfer (from)/to assets held for sale	(1)	1	–	**–**
Impairment at 31 December 2013	(159)	(291)	(63)	**(513)**
Exchange adjustments	–	4	–	**4**
Disposals and write-offs	30	25	1	**56**
Impairment losses	(34)	(45)	(15)	**(94)**
Reversal of impairments	47	28	1	**76**
Transfer (from)/to assets held for sale	–	–	–	**–**
Impairment at 31 December 2014	(116)	(279)	(76)	**(471)**
Total depreciation and impairment at 31 December 2013	(2,701)	(7,217)	(63)	**(9,981)**
Total depreciation and impairment at 31 December 2014	(2,797)	(7,430)	(76)	**(10,303)**
Net book value at 1 January 2013	4,043	2,854	1,879	**8,776**
Net book value at 31 December 2013	3,909	2,509	2,454	**8,872**
Net book value at 31 December 2014	3,667	2,392	2,993	**9,052**

The net book value at 31 December 2014 of the Group's land and buildings comprises freehold properties £3,160 million (2013 – £3,478 million), properties with leases of 50 years or more £336 million (2013 – £366 million) and properties with leases of less than 50 years £162 million (2013 – £65 million).

Included in land and buildings at 31 December 2014 are leased assets with a cost of £733 million (2013 – £784 million), accumulated depreciation of £226 million (2013 – £313 million), impairment of £9 million (2013 – £40 million) and a net book value of £498 million (2013 – £431 million). Included in plant, equipment and vehicles at 31 December 2014 are leased assets with a cost of £68 million (2013 – £99 million), accumulated depreciation of £17 million (2013 – £47 million), impairment of £2 million (2013 – £10 million) and a net book value of £49 million (2013 – £42 million). Some lease agreements include renewal or purchase options or escalation clauses.

The impairment losses principally arise from decisions to rationalise facilities and are calculated based on either fair value less costs of disposal or value in use. The fair value less costs of disposal valuation methodology uses significant inputs which are not based on observable market data, and therefore this valuation technique is classified as level 3 of the fair value hierarchy. These calculations determine the net present value of the projected risk-adjusted, post-tax cash flows of the relevant asset or cash generating unit, applying a discount rate of the Group post-tax weighted average cost of capital (WACC) of 7%, adjusted where appropriate for relevant specific risks. For value in use calculations, where an impairment is indicated and a pre-tax cash flow calculation is expected to give a materially different result, the test would be reperformed using pre-tax cash flows and a pre-tax discount rate. The Group WACC is equivalent to a pre-tax discount rate of approximately 9%. The impairment losses have been charged to cost of sales £36 million (2013 – £32 million), R&D £11 million (2013 – £14 million) and SG&A £47 million (2013 – £78 million), and include £nil (2013 – £62 million) arising from the major restructuring programmes.

Reversals of impairment arise from subsequent reviews of the impaired assets where the conditions which gave rise to the original impairments are deemed no longer to apply. All of the reversals have been credited to cost of sales.

The carrying value at 31 December 2014 of assets for which impairments have been charged or reversed in the year was £225 million (2013 – £6 million).

18 Goodwill

	2014 £m	2013 £m
Cost at 1 January	**4,205**	4,359
Exchange adjustments	**34**	(134)
Additions through business combinations (Note 38)	**–**	53
Transfer to assets held for sale	**(511)**	(55)
Movements in contingent consideration balances	**(4)**	(18)
Cost at 31 December	**3,724**	4,205
Net book value at 1 January	**4,205**	4,359
Net book value at 31 December	**3,724**	4,205

During 2013, GSK completed the acquisition of three business, resulting in the recognition of £53 million of goodwill. The majority of this goodwill related to the acquisition of Okairos AG. This goodwill was allocated to the US, Europe, Emerging Markets and Japan Pharmaceuticals and Vaccines cash generating units for impairment testing purposes as the benefits of the acquired business are split between these cash generating units.

The transfer to assets held for sale in 2014 arose on the anticipated sale of GSK's Oncology business as part of the proposed three-part transaction with Novartis.

The carrying value of goodwill, translated at year-end exchange rates, is allocated to the following cash generated units:

Cash generating unit	2014 £m	2013 £m
US Pharmaceuticals and Vaccines	**1,734**	2,013
Europe Pharmaceuticals and Vaccines	**458**	628
Emerging Markets Pharmaceuticals and Vaccines	**501**	786
Established Products	**338**	–
Other	**354**	446
Pharmaceuticals and Vaccines	**3,385**	3,873
Consumer Healthcare	**339**	332
	3,724	4,205

The amounts allocated to Japan Pharmaceuticals and Vaccines, Other Pharmaceuticals and Vaccines and ViiV Healthcare are not significant relative to the total balance.

18 Goodwill continued

The recoverable amounts of the cash generating units are assessed using either a fair value less costs of disposal model or a value in use model. Value in use is calculated as the net present value of the projected risk-adjusted post-tax cash flows plus a terminal value of the cash generating unit to which the goodwill is allocated. Initially a post-tax discount rate is applied to calculate the net present value of the post-tax cash flows. The discount rate used is based on the Group WACC of 7%, as most cash generating units have integrated operations across large parts of the Group. The discount rate is adjusted where appropriate for specific country or currency risks.

Fair value less costs of disposal is calculated using a similar discounted cash flow approach. A post-tax discount rate is applied to the projected risk-adjusted post-tax cash flows and terminal value. The valuation methodology uses significant inputs which are not based on observable market data, therefore, this valuation technique is classified as level 3 in the fair value hierarchy.

Details relating to the discounted cash flow models used in the impairment tests of the Pharmaceuticals and Vaccines and Consumer Healthcare cash generating units are as follows:

Valuation basis	Higher of fair value less costs of disposal and value in use		
Key assumptions	Sales growth rates Profit margins Terminal growth rate Discount rate Taxation rate		
Determination of assumptions	Growth rates are internal forecasts based on both internal and external market information. Margins reflect past experience, adjusted for expected changes. Terminal growth rates based on management's estimate of future long-term average growth rates. Discount rates based on Group WACC, adjusted where appropriate. Taxation rates based on appropriate rates for each region.		
Period of specific projected cash flows	5 years		
Terminal growth rate and discount rate		Terminal growth rate	Discount rate
	US Pharmaceuticals and Vaccines	1% p.a.	7%
	Europe Pharmaceuticals and Vaccines	1% p.a.	7%
	Emerging Markets Pharmaceuticals and Vaccines	3.0% p.a.	10%
	Japan Pharmaceuticals and Vaccines	0.5% p.a.	6%
	ViiV Healthcare	2.5% p.a.	10%
	Established Products	0% p.a.	7%
	Other Pharmaceuticals and Vaccines	1% p.a.	7%
	Consumer Healthcare	3% p.a.	7%

The terminal growth rates do not exceed the long-term projected growth rates for the relevant markets. The terminal growth rates used in the fair value less costs of disposal calculations for the cash generating units reflect the impact of future generic competition and take account of new product launches.

In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

The Pharmaceutical and Vaccines cash generating units comprise a collection of smaller cash generating units including assets with indefinite lives with a carrying value of £595 million (2013 – £599 million). The Consumer Healthcare cash generating unit also comprises a collection of smaller cash generating units including brands with indefinite lives with a carrying value of £1.48 billion (2013 – £1.52 billion).

Details of indefinite life brands are given in Note 19 'Other intangible assets'.

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19 Other intangible assets

	Computer software £m	Licences, patents, etc. £m	Amortised brands £m	Indefinite life brands £m	Total £m
Cost at 1 January 2013	1,501	10,604	412	2,184	**14,701**
Exchange adjustments	(27)	(143)	–	(37)	**(207)**
Capitalised development costs	79	246	–	–	**325**
Additions through business combinations	–	191	7	–	**198**
Capitalised borrowing costs	5	1	–	–	**6**
Other additions	99	141	–	–	**240**
Disposals and asset write-offs	(26)	(346)	–	–	**(372)**
Transfer (to)/from assets held for sale	–	(222)	–	44	**(178)**
Cost at 31 December 2013	1,631	10,472	419	2,191	**14,713**
Exchange adjustments	11	52	3	(6)	**60**
Capitalised development costs	–	242	–	–	**242**
Capitalised borrowing costs	6	3	–	–	**9**
Other additions	179	108	–	–	**287**
Reclassifications	12	–	–	–	**12**
Disposals and asset write-offs	(21)	(9)	–	–	**(30)**
Transfer to assets held for sale	–	(587)	–	(30)	**(617)**
Cost at 31 December 2014	1,818	10,281	422	2,155	**14,676**
Amortisation at 1 January 2013	(1,012)	(2,473)	(106)	–	**(3,591)**
Exchange adjustments	17	65	1	–	**83**
Charge for the year	(128)	(536)	(18)	–	**(682)**
Disposals and asset write-offs	21	2	–	–	**23**
Transfer to assets held for sale	–	85	–	–	**85**
Amortisation at 31 December 2013	(1,102)	(2,857)	(123)	–	**(4,082)**
Exchange adjustments	(13)	(63)	–	–	**(76)**
Charge for the year	(115)	(578)	(11)	–	**(704)**
Disposals and asset write-offs	17	6	–	–	**23**
Amortisation at 31 December 2014	(1,213)	(3,492)	(134)	–	**(4,839)**
Impairment at 1 January 2013	(39)	(729)	(129)	(52)	**(949)**
Exchange adjustments	–	9	–	1	**10**
Impairment losses	(6)	(702)	(11)	(26)	**(745)**
Disposals and asset write-offs	4	332	–	–	**336**
Impairment at 31 December 2013	(41)	(1,090)	(140)	(77)	**(1,348)**
Exchange adjustments	2	(18)	–	–	**(16)**
Impairment losses	(7)	(131)	(14)	(5)	**(157)**
Disposals and asset write-offs	4	–	–	–	**4**
Impairment at 31 December 2014	(42)	(1,239)	(154)	(82)	**(1,517)**
Total amortisation and impairment at 31 December 2013	(1,143)	(3,947)	(263)	(77)	**(5,430)**
Total amortisation and impairment at 31 December 2014	(1,255)	(4,731)	(288)	(82)	**(6,356)**
Net book value at 1 January 2013	450	7,402	177	2,132	**10,161**
Net book value at 31 December 2013	488	6,525	156	2,114	**9,283**
Net book value at 31 December 2014	563	5,550	134	2,073	**8,320**

The net book value of computer software includes £82 million (2013 – £247 million) of internally generated costs.

The charge for impairments in the year includes the impairments of *Lovaza*, reflecting a reassessment of the Group's expectations on the likelihood of potential generic competition; Galapagos, Nanjing Meirui, Retigabine and BMS Middle East. The carrying value at 31 December 2014 of intangible assets, for which impairments have been charged or reversed in the year, following those impairments or reversals, was £121 million (2013 – £290 million).

19 Other intangible assets continued

Amortisation and impairment losses, net of reversals, have been charged in the income statement as follows:

	Amortisation		Net impairment losses	
	2014 £m	2013 (restated) £m	2014 £m	2013 (restated) £m
Cost of sales	**503**	451	**78**	408
Selling, general and administration	**86**	128	**7**	6
Research and development	**115**	103	**72**	331
	704	682	**157**	745

Licences, patents, etc. includes a large number of acquired licences, patents, know-how agreements and marketing rights, which are either marketed or in use, or still in development. Note 38, 'Acquisitions and disposals' gives details of additions through business combinations in the year. The book values of the largest individual items are as follows:

	2014 £m	2013 £m
dolutegravir	**1,680**	1,769
Benlysta	**1,104**	1,142
FluLaval/Fluviral	**415**	466
Selzentry	**217**	235
Arzerra	**–**	271
Okairos technology platform	**177**	190
Lovaza	**41**	123
Duac	**112**	120
Toctino	**91**	110
Others	**1,713**	2,099
	5,550	6,525

Indefinite life brands comprise a portfolio of Consumer Healthcare products primarily acquired with the acquisitions of Sterling Winthrop, Inc. in 1994, Block Drug Company, Inc. in 2001 and CNS, Inc. in 2006, together with a number of pharmaceutical brands from the acquisition of Stiefel Laboratories, Inc. in 2009. The book values of the major brands are as follows:

	2014 £m	2013 £m
Panadol	**393**	393
Sensodyne	**260**	257
Stiefel trade name	**200**	199
Breathe Right	**204**	192
Physiogel	**155**	166
Polident	**110**	109
Biotene	**67**	106
Corega	**98**	97
Poligrip	**68**	67
Others	**518**	528
	2,073	2,114

Each of these brands is considered to have an indefinite life, given the strength and durability of the brand and the level of marketing support. The brands are in relatively similar stable and profitable market sectors, with similar risk profiles, and their size, diversification and market shares mean that the risk of market-related factors causing a reduction in the lives of the brands is considered to be relatively low. The Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factor which could limit their useful lives. Accordingly, they are not amortised.

Each brand is tested annually for impairment and other amortised intangible assets are tested when indicators of impairment arise. This testing applies a fair value less costs of disposal methodology, generally using post-tax cash flow forecasts with a terminal value calculation and a discount rate equal to the Group post-tax WACC of 7%, adjusted where appropriate for country and currency specific risks. This valuation methodology uses significant inputs which are not based on observable market data, and therefore this valuation technique is classified as level 3 of the fair value hierarchy. The main assumptions include future sales price and volume growth, product contribution and the future expenditure required to maintain the product's marketability and registration in the relevant jurisdictions. These assumptions are based on past experience and are reviewed as part of management's budgeting and strategic planning cycle for changes in market conditions and sales erosion through competition. The terminal growth rates applied of between nil and 3% are management's estimates of future long-term average growth rates of the relevant markets. In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of these intangible assets.

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20 Investments in associates and joint ventures

	Joint ventures £m	Associates £m	2014 Total £m	Joint ventures £m	Associates £m	2013 Total £m
At 1 January	15	308	**323**	22	557	579
Exchange adjustments	(1)	(18)	**(19)**	(3)	(109)	(112)
Additions	2	7	**9**	1	7	8
Disposals	–	(1)	**(1)**	(1)	(139)	(140)
Transfer to other investments	–	(13)	**(13)**	–	(37)	(37)
Distributions received	–	(5)	**(5)**	(2)	(16)	(18)
Other movements	–	16	**16**	–	–	–
(Loss)/profit after tax recognised in the consolidated income statement	(8)	38	**30**	(2)	45	43
At 31 December	8	332	**340**	15	308	323

Investments in joint ventures principally arise from a 50% interest in one joint venture, Japan Vaccine Co., Ltd., with Daiichi Sankyo Co., Ltd. The joint venture holds the development and commercial rights for existing preventative vaccines from both parent companies. It will supply vaccines including Human Papillomavirus (HPV) vaccine, Rotavirus vaccine, Seasonal flu vaccine, Mumps vaccine, Diphtheria Pertussis (DTP) vaccine and Measles Rubella vaccine (MRV) in Japan.

The Group held one significant associate at 31 December 2014, Aspen Pharmacare Holdings Limited. At 31 December 2014, the Group owned 56.5 million shares or 12.4% of Aspen. Aspen, listed on the Johannesburg Stock Exchange, is Africa's largest pharmaceutical manufacturer and a major supplier of branded and generic pharmaceutical, healthcare and nutritional products to the southern African and selected international markets. The investment had a market value of £1,274 million (2013 – £872 million). Although the Group holds less than 20% of the ownership interest and voting control of Aspen, the Group has the ability to exercise significant influence through both its shareholding and its nominated director's active participation on the Aspen Board of Directors.

Summarised balance sheet information in respect of Aspen is set out below:

	2014 £m	2013 £m
Non-current assets	**2,336**	1,442
Current assets	**1,791**	968
Current liabilities	**(909)**	(869)
Non-current liabilities	**(1,955)**	(672)
Net assets	**1,263**	869

The summarised balance sheet information in respect of Aspen is based on preliminary results information and analyst forecasts available at 31 December 2014 with adjustments for transactions between GSK and Aspen.

A reconciliation of the summarised financial information to the carrying amount of the Aspen investment is set out below:

	2014 £m	2013 £m
At 1 January	**869**	973
Profit for the year	**313**	247
Other comprehensive income	**148**	192
Exchange adjustments	**(75)**	(289)
Dividends paid	**(44)**	(45)
Other movements	**52**	(209)
At 31 December	**1,263**	869
Interest in associated undertaking at 12.4% (2013 – 12.4%)	**157**	108
Goodwill	**117**	121
Carrying value at 31 December	**274**	229

21 Other investments

	2014 £m	2013 £m
At 1 January	**1,202**	787
Exchange adjustments	**63**	(25)
Additions	**95**	132
Net fair value movements	**(16)**	379
Impairment losses	**(25)**	(71)
Transfer from investments in associates and joint ventures	**–**	58
Disposals	**(205)**	(58)
At 31 December	**1,114**	1,202

Other investments comprise non-current equity investments which are available-for-sale investments recorded at fair value at each balance sheet date. For investments traded in an active market, the fair value is determined by reference to the relevant stock exchange quoted bid price. For other investments, the fair value is estimated by management with reference to relevant available information, including the current market value of similar instruments and discounted cash flows of the underlying net assets. The Group holds a number of equity investments in entities where the Group has entered into research collaborations. Other investments include listed investments of £892 million (2013 – £1,000 million), the decrease arising from both disposals and fair value adjustments.

During 2014, one of the companies in which the Group holds an equity investment, Theravance, Inc. (Theravance), separated certain of its activities into a new biopharmaceutical company, Theravance Biopharma, Inc. (Theravance Biopharma). Theravance's ongoing activities are focused on maximising the potential value of the respiratory assets partnered with the Group, including *Relvar/Breo Ellipta* and *Anoro Ellipta*. Theravance is eligible to receive royalty revenues from *Relvar/Breo Ellipta* and *Anoro Ellipta* and, if approved and commercialised, vilanterol monotherapy. Theravance Biopharma will carry on all of the other pre-separation activities of Theravance, including development of its pipeline (other than development assets partnered with GSK) and marketing of its one approved medicine.

At 31 December 2014, the Group held 27% of the common stock of Theravance and 26% of the common stock of Theravance Biopharma. Both are accounted for as equity investments as the Group does not have the power to exert significant influence over the activities of either company.

In 2004, the Group and Theravance entered into a governance agreement related to the Group's investment in the company. Under the terms of this governance agreement, the Group does not have the right to appoint a director to the Theravance board, unless the Group's holding in Theravance exceeds 50%, and must (with certain limited exceptions) vote its shares either in support of the recommendation of the independent directors of the board or in proportion to other shareholders' votes cast. The governance agreement with Theravance expires in September 2015.

On the creation of Theravance Biopharma in 2014, the Group and Theravance Biopharma entered into a governance agreement similar in its terms to the agreement already in place with Theravance, but which expires in 2017. Under this agreement, the Group does not have the right to appoint a director to the Theravance Biopharma board and must (with certain limited exceptions) vote its shares either in support of the recommendation of the independent directors of the board or in proportion to other shareholders' votes cast.

Net fair value movements include decreases in the value of the investments in Theravance of £280 million and Theravance Biopharma of £62 million.

On disposal of investments, fair value movements are reclassified from equity to the income statement based on average cost for shares acquired at different times.

The impairment losses recorded above have been recognised in the income statement for the year within Other operating income, together with amounts reclassified from the fair value reserve on recognition of the impairments. These impairments initially result from prolonged or significant declines in the fair value of the equity investments below acquisition cost, subsequent to which any further declines in fair value are immediately taken to the income statement.

The carrying value at 31 December of Other investments which have been impaired is as follows:

	2014 £m	2013 £m
Original cost	**558**	555
Cumulative impairments recognised in the income statement	**(420)**	(410)
Subsequent fair value increases	**268**	147
Carrying value at 31 December	**406**	292

22 Other non-current assets

	2014 £m	2013 £m
Amounts receivable under insurance contracts	**447**	396
Pension schemes in surplus	**93**	330
Other receivables	**195**	163
	735	889

Notes to the financial statements
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23 Inventories

	2014 £m	2013 £m
Raw materials and consumables	**1,156**	937
Work in progress	**1,604**	1,450
Finished goods	**1,471**	1,513
	4,231	3,900

24 Trade and other receivables

	2014 £m	2013 £m
Trade receivables, net of provision for bad and doubtful debts	**3,556**	3,966
Other prepayments and accrued income	**289**	290
Interest receivable	**9**	9
Employee loans and advances	**28**	37
Other receivables	**718**	1,140
	4,600	5,442

Trade receivables include £134 million (2013 – £262 million) after provision for bad and doubtful debts (£162 million before provision, 2013 – £294 million) due from state hospital authorities in Greece, Ireland, Italy, Portugal and Spain. Trade receivables also include £28 million (2013 – £19 million) due from associates and joint ventures. Other receivables includes £8 million (2013– £233 million) due from associates and joint ventures.

Bad and doubtful debt provision	2014 £m	2013 £m
At 1 January	**137**	165
Exchange adjustments	**(3)**	(2)
Charge for the year	**22**	29
Subsequent recoveries of amounts provided for	**(13)**	(48)
Utilised	**(1)**	(7)
At 31 December	**142**	137

25 Cash and cash equivalents

	2014 £m	2013 £m
Cash at bank and in hand	**1,313**	2,549
Short-term deposits	**3,025**	2,985
	4,338	5,534

26 Assets held for sale

	2014 £m	2013 £m
Plant, equipment and vehicles	**60**	–
Goodwill	**511**	–
Other intangibles	**543**	1
Inventory	**42**	–
	1,156	1

Non-current assets are transferred to assets held for sale when it is expected that their carrying amounts will be recovered principally through disposal and a sale is considered highly probable. They are held at the lower of carrying amount and fair value less costs to sell.

As discussed in Note 43 Proposed Novartis transaction, GSK has announced that it will divest its marketed Oncology portfolio, related R&D activities and rights to its AKT inhibitors to Novartis AG, subject to approvals, as part of a three-part interconditional transaction. Assets associated with the Oncology business divestment have been classified as held for sale.

Included within Assets held for sale are assets which were written down to fair value less costs to sell of £26 million (2013 – £nil). The valuation methodology uses significant inputs which are not based on observable market data, therefore, this valuation is classified as level 3 in the fair value hierarchy.

27 Trade and other payables

	2014 £m	2013 £m
Trade payables	**2,790**	2,739
Wages and salaries	**957**	1,049
Social security	**91**	109
Other payables	**301**	906
Deferred income	**62**	167
Customer return and rebate accruals	**1,774**	1,599
Contingent consideration	**105**	3
Other accruals	**1,878**	1,745
	7,958	8,317

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, including £1,308 million (2013 – £1,188 million) in respect of US Pharmaceuticals and Vaccines. Accruals 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 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 quarterly in the light of historical 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 accruals are based to change, which could affect the future results of the Group.

At 31 December 2013, Other payables include £620 million in respect of the maximum potential amount payable to non-controlling shareholders in GlaxoSmithKline Pharmaceuticals Ltd, the Group's pharmaceuticals subsidiary in India. This amount was an estimate in the prior year and was settled in March 2014 for £625 million (see Note 39).

Trade and other payables include £9 million (2013 – £9 million) due to associates and joint ventures.

28 Pensions and other post-employment benefits

Pension and other post-employment costs	2014 £m	2013 £m	2012 £m
UK pension schemes	**125**	139	(230)
US pension schemes	**85**	95	92
Other overseas pensions schemes	**123**	111	129
Unfunded post-retirement healthcare schemes	**70**	(175)	104
	403	170	95
Analysed as:			
Funded defined benefit/hybrid pension schemes	**267**	283	(67)
Unfunded defined benefit pension schemes	**34**	30	14
Unfunded post-retirement healthcare schemes	**70**	(175)	104
Defined benefit schemes	**371**	138	51
Defined contribution pension schemes	**32**	32	44
	403	170	95

The net reduction in the post-retirement healthcare schemes cost in 2013 arises from the restructuring of US post-retirement medical obligations. The reduction in the UK pension scheme cost in 2012 relates to the one-off adjustments arising from the capping of future pensionable salary increases and a change in the basis of future discretionary pension increased from RPI to CPI in certain legacy plans. For further details see page 168.

The costs of the defined benefit pension and post-retirement healthcare schemes are charged in the income statement as follows:

	2014 £m	2013 £m	2012 £m
Cost of sales	**117**	104	(2)
Selling, general and administration	**194**	27	114
Research and development	**60**	7	(61)
	371	138	51

GSK entities operate pension arrangements which cover the Group's material 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. Some 'hybrid' defined benefit schemes also include defined contribution sections.

Notes to the financial statements
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28 Pensions and other post-employment benefits continued

Pension costs of defined benefit schemes for accounting purposes have been calculated using the projected unit method. In certain countries pension benefits are provided on an unfunded basis, some administered by trustee companies. Formal, independent, actuarial valuations of the Group's main plans are undertaken regularly, normally at least every three years.

Actuarial movements in the year are recognised through the statement of comprehensive income. Discount rates are derived from AA rated corporate bond yields except in countries where there is no deep market in corporate bonds where government bond yields are used. Discount rates are selected to reflect the term of the expected benefit payments. Projected inflation rate and pension increases are long-term predictions based on the yield gap between long-term index-linked and fixed interest Gilts. In the UK, mortality rates are determined by adjusting the SAPS standard mortality tables to reflect recent scheme experience. These rates are then projected to reflect improvements in life expectancy in line with the CMI projections with a long-term rate of improvement of 1.25% per year for both males and females. In the USA, mortality rates are calculated using the RP2014 white collar table adjusted to reflect recent experience. These rates are projected using scale BB-2D to allow for future improvements in life expectancy.

The average life expectancy assumed now for an individual at the age of 60 and projected to apply in 2034 for an individual then at the age of 60 is as follows:

	UK		USA	
	Male Years	Female Years	Male Years	Female Years
Current	28.0	30.2	27.0	28.7
Projected for 2034	30.1	32.2	28.7	30.4

The assets of funded schemes are generally held in separately administered trusts, either as specific assets or as a proportion of a general fund, or are insurance contracts. Assets are invested in different classes in order to maintain a balance between risk and return. Investments are diversified to limit the financial effect of the failure of any individual investment. The Group reviewed the investment strategy of the UK plans in 2011 and the asset allocation for the UK plans has been adjusted to approximately 55% return seeking assets and 45% liability matching assets. In 2013, the target asset allocation of the US plans was also updated to 55% return seeking assets and 45% liability matching assets.

The Pension Plans are exposed to risk that arises because the estimated market value of the Plans' assets might decline, the investment returns might reduce, or the estimated value of the Plans' liabilities might increase.

In line with the agreed mix of return seeking assets to generate future returns and liability matching assets to better match future pension obligations, the Group has defined an overall long-term investment strategy for the Plans, with investments across a broad range of assets. The main market risks within the asset and hedging portfolio are against credit risk, interest rates, long-term inflation, equities, property, and bank counterparty risk.

The Plan liabilities are a series of future cash flows with relatively long duration. On an IAS 19R basis, these cash flows are sensitive to changes in the expected long-term inflation rate and the discount rate (AA corporate bond yield curve) where an increase in long-term inflation corresponds with an increase in the liabilities, and an increase in the discount rate corresponds with a decrease in the liabilities.

In the UK the defined benefit pension schemes operated for the benefit of former Glaxo Wellcome employees and former SmithKline Beecham employees remain separate. These schemes were closed to new entrants in 2001 and subsequent UK employees are entitled to join a defined contribution scheme. In the USA the former Glaxo Wellcome and SmithKline Beecham defined benefit schemes were merged during 2001. In addition, the Group operates a number of post-retirement healthcare schemes, the principal one of which is in the USA.

During 2013, the Group restructured US post-retirement medical obligations for both active and retired members under the age of 65. The prior plan for participants over 65, paid for medical expenses in excess of those covered by Medicare Part A and Part B as well as for prescription drugs. Under the new arrangement these participants will instead be eligible to receive an amount, from age 65, from a health reimbursement account, based on years of service, subject to an inflation linked maximum of $1,500 per year. Those already retired and over the age of 65 have also been given the option to switch to this new arrangement. The impact of this change in 2013 is a credit to the income statement of £279 million and a similar reduction in the post-retirement obligation.

During 2012, the Group changed its policy towards granting discretionary pension increases in the SmithKline Beecham defined benefit schemes. In the year, the Group also introduced a limit for all UK defined benefit schemes of 2% per year on the rate at which pensionable pay may increase.

The Group has applied the following financial assumptions in assessing the defined benefit liabilities:

	UK			USA			Rest of World		
	2014 % pa	2013 % pa	2012 % pa	**2014** % pa	2013 % pa	2012 % pa	**2014** % pa	2013 % pa	2012 % pa
Rate of increase of future earnings	**2.00**	2.00	2.00	**4.00**	4.00	4.00	**2.60**	2.80	3.00
Discount rate	**3.60**	4.50	4.40	**3.80**	4.60	3.80	**2.00**	3.40	3.30
Expected pension increases	**3.00**	3.40	3.00	**n/a**	n/a	n/a	**2.00**	2.10	1.90
Cash balance credit/conversion rate	**n/a**	n/a	n/a	**3.00**	4.20	3.35	**0.50**	0.90	1.30
Inflation rate	**3.00**	3.40	3.00	**2.25**	2.25	2.25	**1.40**	1.80	1.70

28 Pensions and other post-employment benefits continued

The amounts recorded in the income statement and statement of comprehensive income for the three years ended 31 December 2014 in relation to the defined benefit pension and post-retirement healthcare schemes were as follows:

2014	UK £m	USA £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Amounts charged to operating profit					
Current service cost	119	66	90	**275**	**24**
Past service cost/(credit)	7	1	(11)	**(3)**	**(8)**
Net interest (credit)/cost	(7)	14	14	**21**	**54**
Gains from settlements	–	–	(4)	**(4)**	**–**
Expenses	6	4	2	**12**	**–**
	125	85	91	**301**	**70**
Remeasurements recorded in the statement of comprehensive income	(629)	(223)	(244)	**(1,096)**	**(85)**

2013	UK £m	USA £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Amounts charged to operating profit					
Current service cost	117	74	89	280	37
Past service cost/(credit)	4	–	(31)	(27)	(273)
Net interest cost	12	17	17	46	61
Expenses	6	4	4	14	–
	139	95	79	313	(175)
Remeasurements recorded in the statement of comprehensive income	349	257	74	680	167

2012	UK £m	USA £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Amounts charged to operating profit					
Current service cost	130	66	75	271	36
Past service (credit)/cost	(391)	–	–	(391)	2
Net interest cost	31	26	10	67	66
	(230)	92	85	(53)	104
Remeasurements recorded in the statement of comprehensive income	(384)	48	(230)	(566)	(119)

The past service credit of £273 million in 2013 includes an amount of £279 million in relation to the restructuring of the US post-retirement medical obligations. The past service credit of £391 million in 2012 reflects the adjustments of £395 million related to the capping of future pensionable salary increases and a change in the basis of future discretionary pension increases from RPI to CPI in certain legacy plans. For further details see page 168.

The amounts included within past service costs include £7 million (2013 – £nil; 2012 – £4 million) of augmentation costs arising from major restructuring programmes (see Note 29, 'Other provisions').

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28 Pensions and other post-employment benefits continued

A summarised balance sheet presentation of the Group defined benefit pension schemes and other post-retirement benefits is set out in the table below:

	2014 £m	2013 £m	2012 £m
Recognised in Other non-current assets:			
Pension schemes in surplus	**93**	330	124
Recognised in Pensions and other post-employment benefits:			
Pension schemes in deficit	**(1,782)**	(943)	(1,436)
Post-retirement benefits	**(1,397)**	(1,246)	(1,685)
	(3,179)	(2,189)	(3,121)

The fair values of the assets and liabilities of the UK and US defined benefit pension schemes, together with aggregated data for other defined benefit pension schemes in the Group are as follows:

At 31 December 2014		UK £m	USA £m	Rest of World £m	Group £m
Equities:	– listed	6,734	1,203	325	**8,262**
	– unlisted	247	–	9	**256**
Property:	– unlisted	256	146	4	**406**
Corporate bonds:	– listed	1,403	921	97	**2,421**
	– unlisted	247	–	25	**272**
Government bonds:	– listed	2,489	152	603	**3,244**
Insurance contracts		803	–	378	**1,181**
Other assets		(127)	109	88	**70**
Fair value of assets		12,052	2,531	1,529	**16,112**
Present value of scheme obligations		(12,492)	(3,133)	(2,176)	**(17,801)**
Recognised on the balance sheet		(440)	(602)	(647)	**(1,689)**
Included in other non-current assets		72	–	21	**93**
Included in pensions and other post-employment benefits		(512)	(602)	(668)	**(1,782)**
		(440)	(602)	(647)	**(1,689)**
Actual return on plan assets		977	99	181	**1,257**

In October 2013, the UK schemes entered into repurchase agreements to gain exposure to index-linked gilts. The related loan is also included within 'Other assets' at a value of £(537) million (2013 – £(407) million; 2012 – £nil).

At 31 December 2013		UK £m	USA £m	Rest of World £m	Group £m
Equities:	– listed	6,474	1,202	422	8,098
	– unlisted	–	–	9	9
Property:	– unlisted	254	131	5	390
Corporate bonds:	– listed	1,484	531	57	2,072
	– unlisted	–	–	20	20
Government bonds:	– listed	2,376	320	517	3,213
Insurance contracts		775	–	366	1,141
Other assets		(119)	330	71	282
Fair value of assets		11,244	2,514	1,467	15,225
Present value of scheme obligations		(11,132)	(2,793)	(1,913)	(15,838)
Recognised on the balance sheet		112	(279)	(446)	(613)
Included in other non-current assets		292	–	38	330
Included in pensions and other post-employment benefits		(180)	(279)	(484)	(943)
		112	(279)	(446)	(613)
Actual return on plan assets		1,383	218	98	1,699

28 Pensions and other post-employment benefits continued

At 31 December 2012		UK £m	USA £m	Rest of World £m	Group £m
Equities:	– listed	5,270	1,018	276	6,564
Property:	– unlisted	265	116	5	386
Corporate bonds:	– listed	1,439	586	19	2,044
Government bonds:	– listed	2,054	427	657	3,138
Insurance contracts		751	–	327	1,078
Other assets		202	374	93	669
Fair value of assets		9,981	2,521	1,377	13,879
Present value of scheme obligations		(10,298)	(2,979)	(1,914)	(15,191)
Recognised on the balance sheet		(317)	(458)	(537)	(1,312)
Included in other non-current assets		103	–	21	124
Included in pensions and other post-employment benefits		(420)	(458)	(558)	(1,436)
		(317)	(458)	(537)	(1,312)
Actual return on plan assets		665	308	118	1,091

					Pensions	Post-retirement benefits
Movements in fair values of assets	UK £m	USA £m	Rest of World £m	Group £m	Group £m
Assets at 1 January 2012	9,119	2,455	1,284	**12,858**	**–**
Exchange adjustments	–	(125)	(56)	**(181)**	**–**
Interest income	381	97	55	**533**	**–**
Remeasurement	284	211	63	**558**	**–**
Employer contributions	497	52	86	**635**	**76**
Scheme participants' contributions	33	–	9	**42**	**15**
Benefits paid	(333)	(169)	(58)	**(560)**	**(91)**
Settlements and curtailments	–	–	(6)	**(6)**	**–**
Assets at 31 December 2012	9,981	2,521	1,377	**13,879**	**–**
Exchange adjustments	–	(49)	(45)	**(94)**	**–**
Interest income	385	96	45	**526**	**–**
Expenses	(6)	(4)	(4)	**(14)**	**–**
Remeasurement	998	122	53	**1,173**	**–**
Employer contributions	219	20	104	**343**	**76**
Scheme participants' contributions	26	–	10	**36**	**15**
Benefits paid	(359)	(192)	(73)	**(624)**	**(91)**
Assets at 31 December 2013	11,244	2,514	1,467	**15,225**	**–**
Exchange adjustments	–	154	(101)	**53**	**–**
Interest income	437	112	47	**596**	**–**
Expenses	(6)	(4)	(2)	**(12)**	**–**
Settlements and curtailments	–	–	(65)	**(65)**	**–**
Remeasurement	540	(13)	134	**661**	**–**
Employer contributions	202	19	102	**323**	**70**
Scheme participants' contributions	34	–	10	**44**	**10**
Benefits paid	(399)	(251)	(63)	**(713)**	**(80)**
Assets at 31 December 2014	12,052	2,531	1,529	**16,112**	**–**

The UK defined benefit schemes include defined contribution sections with account balances totalling £1,501 million at 31 December 2014 (2013 – £1,366 million; 2012 – £1,112 million).

During 2014, the Group made special funding contributions to the UK pension schemes totalling £85 million (2013 – £93 million; 2012 – £366 million) and £nil (2013 – £nil; 2012 – £32 million) to the US scheme. In 2013, GSK reached an agreement with the trustees of the UK pension schemes to make additional contributions to eliminate the pension deficit identified at the 31 December 2011 actuarial funding valuation. Based on the funding agreements following the 2011 valuation, the additional contributions are expected to be £85 million in 2015. The contributions were based on a government bond yield curve approach to selecting the discount rate; the rate chosen included an allowance for expected investment returns which reflected the asset mix of the schemes.

Employer contributions for 2015, including special funding contributions, are estimated to be approximately £320 million in respect of defined benefit pension schemes and £70 million in respect of post-retirement benefits.

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28 Pensions and other post-employment benefits continued

Movements in defined benefit obligations	UK £m	USA £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Obligations at 1 January 2012	(9,779)	(2,945)	(1,610)	**(14,334)**	**(1,616)**
Exchange adjustments	–	149	74	**223**	**78**
Service cost	(130)	(66)	(75)	**(271)**	**(36)**
Past service cost	391	–	–	**391**	**(2)**
Interest cost	(412)	(123)	(65)	**(600)**	**(66)**
Settlements and curtailments	–	–	6	**6**	**–**
Remeasurement	(668)	(163)	(293)	**(1,124)**	**(119)**
Scheme participants' contributions	(33)	–	(9)	**(42)**	**(15)**
Benefits paid	333	169	58	**560**	**91**
Obligations at 31 December 2012	(10,298)	(2,979)	(1,914)	**(15,191)**	**(1,685)**
Exchange adjustments	–	46	37	**83**	**9**
Service cost	(117)	(74)	(89)	**(280)**	**(37)**
Past service cost	(4)	–	31	**27**	**273**
Interest cost	(397)	(113)	(62)	**(572)**	**(61)**
Other movements	–	–	–	**–**	**12**
Remeasurement	(649)	135	21	**(493)**	**167**
Scheme participants' contributions	(26)	–	(10)	**(36)**	**(15)**
Benefits paid	359	192	73	**624**	**91**
Obligations at 31 December 2013	(11,132)	(2,793)	(1,913)	**(15,838)**	**(1,246)**
Exchange adjustments	–	(188)	139	**(49)**	**(68)**
Service cost	(119)	(66)	(90)	**(275)**	**(24)**
Past service cost	(7)	(1)	11	**3**	**8**
Interest cost	(430)	(126)	(61)	**(617)**	**(54)**
Settlements and curtailments	–	–	69	**69**	**–**
Other movements	–	–	(6)	**(6)**	**2**
Remeasurement	(1,169)	(210)	(378)	**(1,757)**	**(85)**
Scheme participants' contributions	(34)	–	(10)	**(44)**	**(10)**
Benefits paid	399	251	63	**713**	**80**
Obligations at 31 December 2014	(12,492)	(3,133)	(2,176)	**(17,801)**	**(1,397)**

The UK defined benefit schemes include defined contribution sections with obligations totalling £1,501 million at 31 December 2014 (2013 – £1,366 million; 2012 – £1,112 million).

The defined benefit pension obligation is analysed as follows:

	2014 £m	2013 £m	2012 £m
Funded	**(17,350)**	(15,432)	(14,789)
Unfunded	**(451)**	(406)	(402)
	(17,801)	(15,838)	(15,191)

The liability for the US post-retirement healthcare scheme has been assessed using the same assumptions as for the US pension scheme, together with the assumption for future medical inflation of 6.75% (2013 – 6.5%), grading down to 5.0% in 2022 and thereafter. During 2013, the US post-retirement healthcare scheme was amended (see page 168 for further details). The impact of this change is a one-off reduction in the post-retirement obligation of £279 million. At 31 December 2014, the US post-retirement healthcare scheme obligation was £1,191 million (2013 – £1,066 million; 2012 – £1,504 million).

Post-retirement benefits are unfunded.

28 Pensions and other post-employment benefits continued

The movement in the net defined benefit liability is as follows:

	Fair value of assets £m	Present value of obligation £m	Net total £m
At 1 January 2012	12,858	(14,334)	**(1,476)**
Exchange adjustments	(181)	223	**42**
Service cost	–	(271)	**(271)**
Past service cost	–	391	**391**
Interest income/(cost)	533	(600)	**(67)**
Settlements and curtailments	(6)	6	**–**
Remeasurements:			
Return on plan assets, excluding amounts included in interest	558	–	**558**
Gain from change in demographic assumptions	–	55	**55**
Loss from change in financial assumptions	–	(1,071)	**(1,071)**
Experience losses	–	(108)	**(108)**
Employers contributions	635	–	**635**
Scheme participants' contributions	42	(42)	**–**
Benefits paid	(560)	560	**–**
At 31 December 2012	13,879	(15,191)	**(1,312)**
Exchange adjustments	(94)	83	**(11)**
Service cost	–	(280)	**(280)**
Past service cost	–	27	**27**
Interest income/(cost)	526	(572)	**(46)**
Remeasurements:			
Return on plan assets, excluding amounts included in interest	1,173	–	**1,173**
Loss from change in demographic assumptions	–	(89)	**(89)**
Loss from change in financial assumptions	–	(118)	**(118)**
Experience losses	–	(286)	**(286)**
Employers contributions	343	–	**343**
Scheme participants' contributions	36	(36)	**–**
Benefits paid	(624)	624	**–**
Expenses/other movements	(14)	–	**(14)**
At 31 December 2013	15,225	(15,838)	**(613)**
Exchange adjustments	53	(49)	**4**
Service cost	–	(275)	**(275)**
Past service cost	–	3	**3**
Interest income/(cost)	596	(617)	**(21)**
Settlements and curtailments	(65)	69	**4**
Remeasurements:			
Return on plan assets, excluding amounts included in interest	661	–	**661**
Loss from change in demographic assumptions	–	(64)	**(64)**
Loss from change in financial assumptions	–	(1,578)	**(1,578)**
Experience losses	–	(115)	**(115)**
Employers contributions	323	–	**323**
Scheme participants' contributions	44	(44)	**–**
Benefits paid	(713)	713	**–**
Expenses/other movements	(12)	(6)	**(18)**
At 31 December 2014	16,112	(17,801)	**(1,689)**

The remeasurements included within post-retirement benefits are detailed below:

	2014 £m	2013 £m	2012 £m
Gain/(loss) from change in demographic assumptions	**10**	(1)	1
(Loss)/gain from change in financial assumptions	**(120)**	143	(132)
Experience gains	**25**	25	12
	(85)	167	(119)

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28 Pensions and other post-employment benefits continued

The defined benefit pension obligation analysed by membership category is as follows:

	2014 £m	2013 £m	2012 £m
Active	**5,422**	5,053	4,695
Retired	**7,967**	7,137	6,930
Deferred	**4,412**	3,648	3,566
	17,801	15,838	15,191

The post-retirement benefit obligation analysed by membership category is as follows:

	2014 £m	2013 £m	2012 £m
Active	**590**	545	708
Retired	**805**	699	975
Deferred	**2**	2	2
	1,397	1,246	1,685

The weighted average duration of the defined benefit obligation is as follows:

	2014 years	2013 years	2012 years
Pension benefits	**16**	16	16
Post-retirement benefits	**12**	12	11

Sensitivity analysis

Effect of changes in assumptions used on the benefit obligations and on the 2015 annual defined benefit pension and post retirement costs after the revisions to IAS 19.

	£m
A 0.25% decrease in discount rate would have the following approximate effect:	
Increase in annual pension cost	32
Decrease in annual post-retirement benefits cost	(1)
Increase in pension obligation	645
Increase in post-retirement benefits obligation	43
A one year increase in life expectancy would have the following approximate effect:	
Increase in annual pension cost	20
Increase in annual post-retirement benefits cost	2
Increase in pension obligation	454
Increase in post-retirement benefits obligation	37
A 1% increase in the rate of future healthcare inflation would have the following approximate effect:	
Increase in annual post-retirement benefits cost	4
Increase in post-retirement benefits obligation	63
A 0.25% increase in inflation would have the following approximate effect:	
Increase in annual pension cost	21
Increase in pension obligation	431

29 Other provisions

	Legal and other disputes £m	Major restructuring programmes £m	Employee related provisions £m	Integration and manufacturing re-organisation £m	Other provisions £m	Total £m
At 1 January 2014	646	349	260	8	281	**1,544**
Exchange adjustments	37	10	2	1	1	**51**
Charge for the year	549	267	20	–	61	**897**
Reversed unused	(2)	(4)	–	(5)	(9)	**(20)**
Unwinding of discount	(1)	5	–	–	11	**15**
Utilised	(709)	(110)	(31)	(4)	(35)	**(889)**
Reclassifications and other movements	–	3	1	–	(19)	**(15)**
Transfer to Pension obligations	–	7	–	–	–	**7**
At 31 December 2014	520	527	252	–	291	**1,590**
To be settled within one year	496	298	76	–	175	**1,045**
To be settled after one year	24	229	176	–	116	**545**
At 31 December 2014	520	527	252	–	291	**1,590**

Legal and other disputes

The Group is involved in a substantial number of legal and other disputes, including notification of possible claims, as set out in Note 45 'Legal proceedings'. Provisions for legal and other disputes include amounts relating to product liability (principally relating to *Avandia*, and *Paxil*), anti-trust (principally relating to *Wellbutrin XL* and *Lamictal*), government investigations (principally relating to the China settlement and SEC/DOJ and SFO related investigations), contract terminations, self insurance, environmental clean-up and property rental.

The charge for the year of £549 million (£547 million net of reversals and estimated insurance recoveries) included a £301 million fine paid to the Chinese government and provisions for product liability cases regarding *Paxil* and other products, commercial disputes and various other government investigations.

The discount on the provisions decreased by £nil in 2014 (2013 – £nil) and was calculated using risk-adjusted projected cash flows and risk-free rates of return. The movement in 2014 includes an increase of £1 million (2013 – £nil) arising from a change in the discount rate in the year.

In respect of product liability claims related to certain products, there is sufficient history of claims made and settlements to enable management to make a reliable estimate of the provision required to cover unasserted claims. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

It is in the nature of the Group's business that a number of these matters may be the subject of negotiation and litigation over many years. Litigation proceedings, including the various appeal procedures, often take many years to reach resolution, and out-of-court settlement discussions can also often be protracted.

The Group is in potential settlement discussions in a number of the disputes for which amounts have been provided and, based on its current assessment of the progress of these disputes, estimates that £0.5 billion of the amount provided at 31 December 2014 will be settled within one year. At 31 December 2014, it was expected that £nil (2013 – £1 million) of the provision made for legal and other disputes will be reimbursed by third party insurers. This amount is included within the Other receivables balances in Note 22 'Other non-current assets' and Note 24, 'Trade and other receivables'. For a discussion of legal issues, see Note 45, 'Legal proceedings'.

Major restructuring programmes

In October 2007 the Group announced the Operational Excellence programme to improve the effectiveness and productivity of its operations (see Note 10, 'Major restructuring costs'). This was substantially complete at the end of 2014. In addition, in 2013, the Group initiated the Major Change restructuring programme focused on opportunities to simplify supply chain processes, build the Group's capabilities in manufacturing and R&D and restructure the European Pharmaceuticals business.

The new Pharmaceuticals restructuring programme, announced in October 2014, will rescale commercial operations, global support functions and the relevant R&D/manufacturing operations across Pharmaceuticals.

Provisions for staff severance payments are made when management has made a formal decision to eliminate certain positions and this has been communicated to the groups of employees affected and appropriate consultation procedures completed, where appropriate.

No provision is made for staff severance payments that are made immediately.

Pension augmentations arising from staff redundancies of £7 million (2013 – £nil) have been charged during the year and then transferred to the pension obligations provision as shown in Note 28, 'Pensions and other post-employment benefits'. Asset write-downs have been recognised as impairments of property, plant and equipment in Note 17, 'Property, plant and equipment'. The majority of the amounts provided are expected to be utilised in the next two years.

Employee related provisions

Employee related provisions include obligations for certain medical benefits to disabled employees and their spouses in the USA. At 31 December 2014, the provision for these benefits amounted to £114 million (2013 – £111 million). Other employee benefits reflect a variety of provisions for severance costs, jubilee awards and other long-service benefits.

Other provisions

Included in other provisions are insurance provisions of £83 million (2013 – £31 million), onerous property lease provisions of £33 million (2013 – £33 million) and a number of other provisions including vehicle insurance and regulatory matters.

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30 Other non-current liabilities

	2014 £m	2013 £m
Accruals and deferred income	**92**	101
Contingent consideration	**1,619**	958
Other payables	**690**	645
	2,401	1,704

The contingent consideration primarily relates to the acquisition of the 50% share of the Shionogi-ViiV Healthcare joint venture previously held by Shionogi & Co Ltd in 2012.

31 Contingent liabilities

At 31 December 2014, contingent liabilities, comprising guarantees, discounted bills and other items arising in the normal course of business, amounted to £185 million (2013 – £198 million). At 31 December 2014, £nil (2013 – £nil) of financial assets were pledged as collateral for contingent liabilities. Provision is made for the outcome of tax, legal and other disputes where it is both probable that the Group will suffer an outflow of funds and it is possible to make a reliable estimate of that outflow. At 31 December 2014, other than for those disputes where provision has been made, it was not possible to make a reliable estimate of the potential outflow of funds that might be required to settle disputes where the possibility of there being an outflow was more than remote. Descriptions of the significant tax, legal and other disputes to which the Group is a party are set out in Note 14, 'Taxation' and Note 45, 'Legal proceedings'.

32 Net debt

	Listing exchange	2014 £m	2013 £m
Current assets:			
Liquid investments		**69**	66
Cash and cash equivalents		**4,338**	5,534
		4,407	5,600
Short-term borrowings:			
Commercial paper		**(656)**	(1,491)
Bank loans and overdrafts		**(379)**	(352)
Obligations under finance leases		**(28)**	(27)
4.375% US$ US Medium Term Note 2014	London Stock Exchange	**–**	(919)
0.75% US$ US Medium Term Note 2015	New York Stock Exchange	**(641)**	–
3.875% € European Medium Term Note 2015	London Stock Exchange	**(1,239)**	–
		(2,943)	(2,789)
Long-term borrowings:			
0.75% US$ US Medium Term Note 2015	New York Stock Exchange	**–**	(601)
3.875% € European Medium Term Note 2015	London Stock Exchange	**–**	(1,330)
0.7% US$ US Medium Term Note 2016	New York Stock Exchange	**(800)**	(751)
1.50% US$ US Medium Term Note 2017	New York Stock Exchange	**(1,278)**	(1,199)
5.625% € European Medium Term Note 2017	London Stock Exchange	**(967)**	(1,038)
5.65% US$ US Medium Term Note 2018	New York Stock Exchange	**(1,760)**	(1,653)
0.625% € European Medium Term Note 2019	London Stock Exchange	**(1,154)**	–
2.85% US$ US Medium Term Note 2022	New York Stock Exchange	**(1,271)**	(1,193)
2.8% US$ US Medium Term Note 2023	New York Stock Exchange	**(792)**	(743)
1.375% € European Medium Term Note 2024	London Stock Exchange	**(764)**	–
4.00% € European Medium Term Note 2025	London Stock Exchange	**(575)**	(618)
3.375% £ European Medium Term Note 2027	London Stock Exchange	**(591)**	(591)
5.25% £ European Medium Term Note 2033	London Stock Exchange	**(984)**	(983)
5.375% US$ US Medium Term Note 2034	London Stock Exchange	**(318)**	(299)
6.375% US$ US Medium Term Note 2038	New York Stock Exchange	**(1,747)**	(1,641)
6.375% £ European Medium Term Note 2039	London Stock Exchange	**(695)**	(694)
5.25% £ European Medium Term Note 2042	London Stock Exchange	**(987)**	(987)
4.2% US$ US Medium Term Note 2043	New York Stock Exchange	**(313)**	(294)
4.25% £ European Medium Term Note 2045	London Stock Exchange	**(788)**	(788)
Obligations under finance leases		**(57)**	(53)
		(15,841)	(15,456)
Net debt		**(14,377)**	(12,645)

32 Net debt continued

Current assets

Liquid investments are classified as available-for-sale investments. At 31 December 2014, they included US Treasury Notes and other government bonds. The effective interest rate on liquid investments at 31 December 2014 was approximately 0.3% (2013 – approximately 0.5%). Liquid investment balances at 31 December 2014 earning interest at floating rates amount to £69 million (2013 – £65 million). Liquid investment balances at 31 December 2014 earning interest at fixed rates are immaterial (2013 – £1 million).

The effective interest rate on cash and cash equivalents at 31 December 2014 was approximately 1.6% (2013 – approximately 1.3%). Cash and cash equivalents at 31 December 2014 earning interest at floating and fixed rates amount to £4,243 million and £1 million respectively (2013 – £5,298 million and £1 million).

GSK's policy regarding the credit quality of cash and cash equivalents is referred to in Note 41, 'Financial instruments and related disclosures'.

Short-term borrowings

GSK has a $10 billion (£6.4 billion) US commercial paper programme, of which $1.0 billion (£0.7 billion) was in issue at 31 December 2014 (2013 – $2.5 billion (£1.5 billion)). GSK also has £1.9 billion of five year committed medium-term facilities and $2.5 billion (£1.6 billion) of 364 day committed facilities. These facilities were put in place in September 2012 and September 2014 respectively and were undrawn at 31 December 2014. Liquid investments, cash and cash equivalents were as shown in the table on page 176.

The weighted average interest rate on current bank loans and overdrafts at 31 December 2014 was 4.28% (2013 – 3.7%). The weighted average interest rate on commercial paper borrowings at 31 December 2014 was 0.22% (2013 – 0.18%).

Long-term borrowings

At the year-end, GSK had long-term borrowings of £15.8 billion (2013 – £15.5 billion) of which £9.8 billion (2013 – £8.8 billion) falls due in more than five years. The average effective pre-swap interest rate of all notes in issue at 31 December 2014 was approximately 3.8% (2013 – approximately 4.5%).

Long-term borrowings repayable after five years carry interest at effective rates between 1.55% and 6.41%. The repayment dates range from 2022 to 2045.

Pledged assets

The Group has pledged investments in US Treasury Notes with a par value of $105 million (£67 million), (2013 – $105 million (£63 million)) as security against irrevocable letters of credit issued on the Group's behalf in respect of the Group's self-insurance activity. Provisions in respect of self-insurance are included within the provisions for legal and other disputes discussed in Note 29, 'Other provisions'. In addition, £32 million (2013 – £48 million) of assets included in Note 22, 'Other non-current assets', which do not form part of Net debt, were pledged as collateral against future rental payments under operating lease arrangements entered into by Human Genome Sciences, Inc. prior to its acquisition by the Group.

Finance lease obligations	2014 £m	2013 £m
Rental payments due within one year	**31**	29
Rental payments due between one and two years	**23**	24
Rental payments due between two and three years	**19**	16
Rental payments due between three and four years	**13**	9
Rental payments due between four and five years	**3**	4
Rental payments due after five years	**2**	5
Total future rental payments	**91**	87
Future finance charges	**(6)**	(7)
Total finance lease obligations	**85**	80

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33 Share capital and share premium account

	Ordinary Shares of 25p each		Share premium
	Number	£m	£m
Share capital authorised			
At 31 December 2012	10,000,000,000	2,500	
At 31 December 2013	10,000,000,000	2,500	
At 31 December 2014	10,000,000,000	2,500	
Share capital issued and fully paid			
At 1 January 2012	5,550,203,098	1,387	1,673
Issued under employee share schemes	28,045,821	7	349
Share capital cancelled	(180,652,950)	(45)	–
At 31 December 2012	5,397,595,969	1,349	2,022
Issued under employee share schemes	44,610,727	12	573
Share capital cancelled	(100,000,000)	(25)	–
At 31 December 2013	5,342,206,696	1,336	2,595
Issued under employee share schemes	13,090,536	3	164
At 31 December 2014	5,355,297,232	1,339	2,759

	31 December 2014 000	31 December 2013 000
Number of shares issuable under employee share schemes (Note 42)	**88,801**	91,303
Number of unissued shares not under option	**4,555,902**	4,566,351

At 31 December 2014, of the issued share capital, 52,734,605 shares were held in the ESOP Trusts, 491,515,950 shares were held as Treasury shares and 4,811,046,677 shares were in free issue. All issued shares are fully paid. The nominal, carrying and market values of the shares held in the ESOP Trusts are disclosed in Note 42, 'Employee share schemes'.

A total of 15 million shares were purchased by the company during 2014 at a cost of £238 million.

Monthly purchases of shares during 2014 were as follows:

	Number of shares 000	Average share price excluding commission and stamp duty £
February	1,741,006	16.27
May	6,718,745	16.21
June	6,245,765	15.90
Total	14,705,516	16.09

For details of substantial shareholdings refer to page 242

34 Movements in equity

Retained earnings and other reserves amounted to £165 million at 31 December 2014 (2013 – £3,066 million; 2012 – £2,429 million) of which £337 million (2013 – £307 million; 2012 – £372 million) relates to joint ventures and associated undertakings. The cumulative translation exchange in equity is as follows:

	Net translation exchange included in:			
	Retained earnings £m	Fair value reserve £m	Non-controlling interests £m	Total translation exchange £m
At 1 January 2012	1,049	15	(68)	996
Exchange movements on overseas net assets	(203)	(23)	(30)	(256)
At 31 December 2012	846	(8)	(98)	740
Exchange movements on overseas net assets	(260)	5	(35)	(290)
At 31 December 2013	586	(3)	(133)	450
Exchange movements on overseas net assets	(504)	7	16	(481)
Reclassification of exchange on liquidation or disposal of overseas subsidiaries	(219)	–	–	(219)
At 31 December 2014	(137)	4	(117)	(250)

The analysis of other comprehensive income by equity category is as follows:

2014	Retained earnings £m	Other reserves £m	Non-controlling interests £m	Total £m
Items that may be subsequently reclassified to income statement:				
Exchange movements on overseas net assets and net investment hedges	(504)	7	–	**(497)**
Reclassification of exchange on liquidation or disposal of overseas subsidiaries	(219)	–	–	**(219)**
Deferred tax on exchange movements	(2)	–	–	**(2)**
Fair value movements on available-for-sale investments	–	29	–	**29**
Deferred tax on fair value movements on available-for-sale investments	–	(78)	–	**(78)**
Reclassification of fair value movements on available-for-sale investments	–	(155)	–	**(155)**
Deferred tax on reclassification of fair value movements on available-for-sale investments	–	58	–	**58**
Reclassification of cash flow hedges to income statement	–	(5)	–	**(5)**
Fair value movements on cash flow hedges	–	5	–	**5**
Deferred tax on fair value movements on cash flow hedges	–	(1)	–	**(1)**
Share of other comprehensive income of associates and joint ventures	18	–	–	**18**
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests	–	–	16	**16**
Actuarial losses on defined benefit plans	(1,181)	–	–	**(1,181)**
Deferred tax on actuarial movements in defined benefit plans	262	–	–	**262**
Other comprehensive (expense)/income for the year	(1,626)	(140)	16	**(1,750)**

2013	Retained earnings £m	Other reserves £m	Non-controlling interests £m	Total £m
Items that may be subsequently reclassified to income statement:				
Exchange movements on overseas net assets and net investment hedges	(260)	5	–	(255)
Fair value movements on available-for-sale investments	–	367	–	367
Deferred tax on fair value movements on available-for-sale investments	–	(29)	–	(29)
Reclassification of fair value movements on available-for-sale investments	–	(38)	–	(38)
Deferred tax on reclassification of fair value movements on available-for-sale investments	–	7	–	7
Reclassification of cash flow hedges to income statement	–	2	–	2
Fair value movements on cash flow hedges	–	(9)	–	(9)
Deferred tax on fair value movements on cash flow hedges	–	1	–	1
Share of other comprehensive income of associates and joint ventures	15	–	–	15
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests	–	–	(35)	(35)
Actuarial gains on defined benefit plans	847	–	–	847
Deferred tax on actuarial movements in defined benefit plans	(286)	–	–	(286)
Other comprehensive income/(expense) for the year	316	306	(35)	587

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34 Movements in equity continued

2012	Retained earnings £m	Other reserves £m	Non-controlling interests £m	Total £m
Items that may be subsequently reclassified to income statement:				
Exchange movements on overseas net assets and net investment hedges	(203)	(23)	–	(226)
Fair value movements on available-for-sale investments	–	77	–	77
Deferred tax on fair value movements on available-for-sale investments	–	(10)	–	(10)
Reclassification of fair value movements on available-for-sale investments	–	(19)	–	(19)
Deferred tax on reclassification of fair value movements on available-for-sale investments	–	10	–	10
Reclassification of cash flow hedges to income statement	–	2	–	2
Fair value movements on cash flow hedges	–	(6)	–	(6)
Share of other comprehensive income of associates and joint ventures	30	–	–	30
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests	–	–	(30)	(30)
Actuarial losses on defined benefit plans	(685)	–	–	(685)
Deferred tax on actuarial movements in defined benefit plans	193	–	–	193
Other comprehensive (expense)/income for the year	(665)	31	(30)	(664)

The analysis of other reserves is as follows:

	ESOP Trust shares £m	Fair value reserve £m	Cash flow hedge reserve £m	Other reserves £m	Total £m
At 1 January 2012	(492)	70	(6)	2,030	**1,602**
Transferred to income and expense in the year on disposals	–	(18)	2	–	**(16)**
Transferred to income and expense in the year on impairment	–	(1)	–	–	**(1)**
Net fair value movement in the year	–	54	(6)	–	**48**
Ordinary Shares purchased and cancelled	–	–	–	45	**45**
Ordinary Shares acquired by ESOP Trusts	(37)	–	–	–	**(37)**
Ordinary Shares transferred by ESOP Trusts	58	–	–	–	**58**
Write-down of shares held by ESOP Trusts	80	–	–	–	**80**
Forward contract on non-controlling interest	–	–	–	8	**8**
At 31 December 2012	(391)	105	(10)	2,083	**1,787**
Transferred to income and expense in the year on disposals	–	(38)	2	–	**(36)**
Transferred to income and expense in the year on impairment	–	(1)	–	–	**(1)**
Net fair value movement in the year	–	347	(4)	–	**343**
Ordinary Shares purchased and cancelled	–	–	–	25	**25**
Ordinary Shares acquired by ESOP Trusts	(45)	–	–	–	**(45)**
Write-down of shares held by ESOP Trusts	80	–	–	–	**80**
At 31 December 2013	(356)	413	(12)	2,108	**2,153**
Transferred to income and expense in the year on disposals	–	(155)	(5)	–	**(160)**
Net fair value movement in the year	–	16	4	–	**20**
Ordinary Shares acquired by ESOP Trusts	(245)	–	–	–	**(245)**
Write-down of shares held by ESOP Trusts	450	–	–	–	**450**
Forward contract on non-controlling interest	–	–	–	21	**21**
At 31 December 2014	(151)	274	(13)	2,129	**2,239**

Other reserves include various non-distributable merger and pre-merger reserves amounting to £1,849 million at 31 December 2014 (2013 – £1,849 million; 2012 – £1,849 million). Other reserves also include the capital redemption reserve created as a result of the share buy-back programme amounting to £280 million at 31 December 2014 (2013 – £280 million; 2012 – £256 million).

35 Related party transactions

GSK held a 12.4% interest in Aspen Pharmacare Holdings Limited at 31 December 2014 (2013 – 12.4%).

During 2014, GSK distributed £52 million (2013 – £64 million) of its products through Aspen's extensive distribution network. At 31 December 2014, the balance due to GSK from Aspen was £22 million (2013 – £11 million) and the balance payable by GSK to Aspen was £9 million (2013 – £9 million). In addition, a further £8 million was due to GSK relating to the consideration of the sale of worldwide intellectual property rights of the anti-coagulant products business to the Aspen Group in 2013 (2013 – £233 million).

At 31 December 2014, GSK held a 50% interest in Japan Vaccine Co. Ltd (JVC) through its subsidiary GlaxoSmithKline K.K. This joint venture with Daiichi Sankyo Co., Ltd is primarily responsible for the development and marketing of certain prophylactic vaccines in Japan. During 2014, GSK sold £27 million (2013 – £36 million) of its vaccine products into the joint venture. At 31 December 2014, the balance due to GSK from JVC was £6 million and the balance payable by GSK to JVC was £nil.

The aggregate compensation of the Directors and CET is given in Note 9, 'Employee Costs'.

36 Adjustments reconciling profit after tax to operating cash flows

	2014 £m	2013 £m	2012 £m
Profit after tax	**2,831**	5,628	4,678
Tax on profits	**137**	1,019	1,922
Share of after tax profits of associates and joint ventures	**(30)**	(43)	(29)
Finance income net of finance expense	**659**	706	729
Depreciation	**780**	732	871
Amortisation of intangible assets	**704**	682	574
Impairment and assets written off	**205**	928	654
Profit on sale of businesses	**–**	(1,331)	–
Profit on sale of intangible assets	**(255)**	(78)	(652)
Profit on sale of investments in associates	**–**	(282)	–
Profit on sale of equity investments	**(149)**	(36)	(16)
Changes in working capital:			
(Increase)/decrease in inventories	**(529)**	(95)	37
Decrease in trade receivables	**347**	16	183
Decrease/(increase) in other receivables	**95**	(218)	(27)
Increase in trade payables	**91**	125	177
Increase in other payables	**698**	393	132
Decrease in pension and other provisions	**(41)**	(165)	(2,839)
Share-based incentive plans	**332**	319	220
Fair value adjustments	**313**	(12)	(575)
Other	**96**	211	9
	3,453	2,871	1,370
Cash generated from operations	**6,284**	8,499	6,048

Notes to the financial statements
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37 Reconciliation of net cash flow to movement in net debt

	2014 £m	2013 £m	2012 £m
Net debt at beginning of year	**(12,645)**	(14,037)	(9,003)
(Decrease)/increase in cash and bank overdrafts	**(1,287)**	1,473	(1,607)
Decrease in liquid investments	**(1)**	(15)	(224)
Net increase in long-term loans	**(1,960)**	(1,913)	(4,430)
Net repayment of short-term loans	**1,709**	1,872	816
Net repayment of obligations under finance leases	**23**	31	35
Net non-cash funds of subsidiary undertakings acquired	**–**	(6)	(3)
Exchange adjustments	**(193)**	(34)	385
Other non-cash movements	**(23)**	(16)	(6)
Movement in net debt	**(1,732)**	1,392	(5,034)
Net debt at end of year	**(14,377)**	(12,645)	(14,037)

Analysis of changes in net debt	At 1 January 2014 £m	Exchange £m	Other £m	Reclass-ifications £m	Cash flow £m	At 31December 2014 £m
Liquid investments	66	4	–	–	(1)	**69**
Cash and cash equivalents	5,534	78	–	–	(1,274)	**4,338**
Overdrafts	(303)	6	–	–	(13)	**(310)**
	5,231	84	–	–	(1,287)	**4,028**
Debt due within one year:						
Commercial paper	(1,491)	–	–	–	835	**(656)**
European and US Medium Term Notes	(919)	55	16	(1,931)	899	**(1,880)**
Other	(76)	–	(1)	(18)	(2)	**(97)**
	(2,486)	55	15	(1,949)	1,732	**(2,633)**
Debt due after one year:						
European and US Medium Term Notes	(15,403)	(334)	(18)	1,931	(1,960)	**(15,784)**
Other	(53)	(2)	(20)	18	–	**(57)**
	(15,456)	(336)	(38)	1,949	(1,960)	**(15,841)**
Net debt	(12,645)	(193)	(23)	–	(1,516)	**(14,377)**

For further information on significant changes in net debt see Note 32, ‘Net debt’.

38 Acquisitions and disposals

Details of the acquisition and disposal of significant subsidiaries and associates, joint ventures and other businesses are given below:

2014

Acquisitions

There were no acquisitions in 2014.

Acquisition and integration costs of £141 million arising on the proposed three-part inter-conditional transaction with Novartis AG discussed in Note 43 'Proposed Novartis transaction' were expensed in 2014, of which £104 million has been paid in cash.

A number of acquisitions made in previous years include contingent consideration payable in the future, as follows:

Contingent consideration payable	2014 £m	2013 £m
At 1 January	**924**	697
Additions	**–**	1
Remeasurement through goodwill	**(4)**	(18)
Remeasurement through income statement	**770**	251
Settlement	**34**	(7)
At 31 December	**1,724**	924

Contingent consideration is included within Trade and other payables and Other non-current liabilities. It includes contingent consideration of £1,684 million (2013 – £923 million) payable for the acquisition in 2012 of the former Shionogi-ViiV Healthcare joint venture. Remeasurements through the income statement include £768 million (2013 – £253 million) in respect of an increase in this liability. The consideration is expected to be paid over a number of years and will vary in line with sales of dolutegravir.

Disposals

During the year, £225 million was received as deferred consideration from the sale of the anti-coagulent business completed in 2013 and £1 million from the disposal of an associate.

GSK also made cash investments of £9 million into associates.

Cash flows	Business acquisitions and disposals £m	Associates and joint ventures £m	Total £m
Cash consideration paid	–	9	9
Transaction costs paid	104	–	104
Purchases of businesses and associates	104	9	113
Net cash proceeds from disposals	225	1	226

2013

Acquisitions

During 2013, GSK completed the acquisition of three businesses for cash, including Okairos AG, a European based biopharmaceutical company focused on the development of a specific vaccine technology in the prophylactic and therapeutic fields, which was acquired in May. The total purchase price for these businesses of £255 million included £7 million of cash acquired and £1 million of contingent consideration.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Intangibles	–	198	198
Property, plant and equipment	20	3	23
Inventory	6	–	6
Trade and other receivables	16	–	16
Other assets including cash and cash equivalents	8	–	8
Deferred tax provision	–	(23)	(23)
Trade and other payables	(26)	–	(26)
	24	178	202
Goodwill	–	53	53
	24	231	255
Cash consideration paid			254
Contingent consideration			1
Total consideration			255

Notes to the financial statements
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38 Acquisitions and disposals continued

If the acquisitions had been made at the beginning of the year, it is estimated that Group turnover would have increased by approximately £50 million for the year. Okairos has been fully integrated into the GSK business and it is not practicable to separately identify the impact on the Group profit for the year. The other acquisitions occurred shortly before the end of the year and had no material impact on the Group profit for the year.

The goodwill arising on the acquisitions reflects potential for business synergies and the value of workforce acquired. The majority of this goodwill is not expected to be deductible for income tax purposes.

The results of the acquisitions are reported within the US, Europe, Emerging Markets, Japan, Other trading and unallocated Pharmaceuticals and Vaccines and Consumer Healthcare operating segments. The transactions were accounted for using the acquisition accounting method.

Acquisition costs expensed in 2013 totalled £2 million.

Disposals

Lucozade and Ribena

On 31 December 2013, GSK completed the sale of the Lucozade and Ribena business including a manufacturing site and related inventory to Suntory Beverage and Food Ltd for £1,352 million in cash and recognised a profit on disposal in Other operating income of £1,057 million. Lucozade and Ribena sales, excluding retained markets, totalled £527 million for the year ending 31 December 2013.

	£m
Cash consideration	1,352
Net assets sold	
Inventory	(45)
Property, plant and equipment	(149)
Goodwill	(24)
	(218)
Disposal costs	(77)
Profit on disposal	1,057

Anti-coagulant business

On 31 December 2013, GSK completed the sale of the anti-coagulant business comprising of worldwide intellectual property rights (excluding China, India and Pakistan) of Fraxiparine and Arixtra together with related inventory and a manufacturing site to the Aspen Group for consideration of £732 million, of which £499 million was received in cash and £233 million was deferred.

Profit on disposal of £274 million was recognised in Other operating income. Worldwide sales of Fraxiparine and Arixtra, excluding retained markets, were £345 million for the year ending 31 December 2013.

	£m
Cash consideration	499
Cash consideration receivable	233
	732
Net assets sold	
Inventory	(138)
Property, plant and equipment	(91)
Intangible assets	(80)
Goodwill	(31)
	(340)
Disposal costs	(79)
Total profit on disposal	313
Deferral of profit	(39)
Profit recognised in year	274

38 Acquisitions and disposals continued

Investments in associates and joint ventures

In November 2013, GSK sold one third of its shareholding in Aspen, representing 6.2% of the issued share capital of the company, for £429 million in cash. At 31 December 2013, GSK held 12.4% of Aspen and continued to recognise its investment in Aspen as an associate.

	£m
Cash consideration	429
Net book value of shares	(132)
Reclassification of exchange from other comprehensive income	(42)
Reclassification of fair value movements from other comprehensive income	19
Profit on disposal	274

Cash flows	Business acquisitions and disposals £m	Associates and joint ventures £m	Total £m
Cash consideration paid	254	8	262
Cash and cash equivalents acquired	(7)	–	(7)
Cash consideration paid, net of cash acquired	247	8	255
Total cash consideration payable, net of cash acquired	248	8	256
Contingent consideration	(1)	–	(1)
Cash consideration paid, net of cash acquired	247	8	255
Total cash proceeds receivable	2,084	429	2,513
Cash proceeds deferred	(233)	–	(233)
Net cash proceeds from disposals	1,851	429	2,280

2012

Acquisitions

Human Genome Sciences, Inc.

On 3 August 2012, GSK completed the acquisition of 100% of the issued share capital of Human Genome Sciences, Inc. (HGS), a US based biopharmaceutical company focused on the development of protein and anti-body drugs for the treatment of immuno-inflammation diseases, for cash. The goodwill arising on the acquisition of this business reflected the potential business synergies and realisation of the full value of *Benlysta*, albiglutide, darapladib and other assets by simplifying and optimising R&D, commercial and manufacturing operations through complete ownership of the assets. The goodwill recognised is not expected to be deductible for income tax purposes.

The results of the acquired business are reported as part of the US, Europe, Emerging Markets, Japan and Other trading and unallocated costs operating segments. The transaction was accounted for using the acquisition accounting method.

The pro-forma turnover for the HGS business for the full year 2012 was £154 million. During 2012, GSK recorded turnover of £69 million from HGS products. As the HGS products had been fully integrated into the GSK business, it was not practicable to separately identify the impact of the acquisition on the Group profit for the year.

38 Acquisitions and disposals continued

Acquisition costs expensed in 2012 arising on this acquisition amounted to £28 million.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Intangible assets	–	1,249	1,249
Property, plant and equipment	21	10	31
Trade and other receivables	33	–	33
Other assets including cash and cash equivalents	431	83	514
Deferred tax asset	–	156	156
Trade and other liabilities	(86)	(173)	(259)
	399	1,325	1,724
Goodwill	–	791	791
	399	2,116	2,515
Cash consideration paid			2,282
Gain on settlement of pre-existing collaborations			233
Total consideration			2,515

Shionogi-ViiV Healthcare joint venture

On 29 October 2012, GSK acquired the 50% share of the Shionogi-ViiV Healthcare joint venture previously held by Shionogi & Co, Ltd. The assets acquired included the investigational medicine dolutegravir and early stage integrase inhibitor compounds in development.

Total consideration comprised a 10% equity stake in ViiV Healthcare, GSK's existing 50% investment in the joint venture and contingent consideration payable in cash in the future, together with a deferred tax asset and a loss on settlement of pre-existing relationships. The contingent consideration is payable based on a percentage of the future sales performance of compounds developed by the joint venture, if they become marketed products, and so the total amount payable is unlimited.

The results of the acquired business are reported as part of ViiV Healthcare. The transaction was accounted for using the acquisition accounting method.

Acquisition costs expensed in 2012 arising on this acquisition amounted to £2 million.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Intangible assets	–	1,777	1,777
Deferred tax provision	–	(628)	(628)
	–	1,149	1,149
Negative goodwill	–	(124)	(124)
	–	1,025	1,025
Consideration settled by shares in ViiV Healthcare			377
Contingent consideration			659
Deferred tax on contingent consideration			(236)
Fair value of investment in joint venture converted into subsidiary			256
Loss on settlement of pre-existing relationships			(31)
Total consideration			1,025

38 Acquisitions and disposals continued

Other acquisitions

During 2012, GSK completed two smaller acquisitions for cash. The total cash consideration paid of £206 million included £2 million of cash acquired.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Intangible assets	–	232	232
Property, plant and equipment	2	–	2
Trade and other receivables	2	–	2
Other assets including cash and cash equivalents	2	–	2
Deferred tax provision	–	(14)	(14)
Trade and other liabilities	(8)	4	(4)
	(2)	222	220
Goodwill	–	82	82
	(2)	304	302
Cash consideration paid			206
Contingent consideration			37
Fair value of equity investment converted into subsidiary			23
Gain on settlement of pre-existing relationships			36
Total consideration			302

If the other acquisitions had been made at the beginning of the year, it is estimated that Group turnover would have increased by £27 million for the year. As some of the acquisitions had been fully integrated into the GSK business it was not practicable to separately identify the impact of the acquisitions on the Group profit for the year.

The goodwill arising on the acquisitions reflects the potential for business synergies and further sales growth through the increase in GSK's market presence following the acquisitions of these market participants. None of the goodwill recognised is expected to be deductible for income tax purposes.

The results of the acquisitions are reported as part of the Europe Pharma and Research & Development reportable operating segments.

The Group recognised a settlement gain of £36 million as a result of measuring at fair value relationships that had existed prior to the acquisition date. The gain was recognised in Other operating income on the income statement.

Acquisition costs expensed in 2012 arising on other acquisitions totalled £9 million.

Investments in associates and joint ventures

GSK made cash contributions of £39 million into the Shionogi-ViiV Healthcare joint venture prior to its acquisition as a subsidiary and made cash investments of £19 million into a new joint venture in which the Group held a share of 50%. GSK also made cash investments of £41 million into associates.

Cash flows	Human Genome Sciences £m	Shionogi-ViiV joint venture £m	Other acquisitions £m	Total business acquisitions £m	Associates and joint ventures £m	Total £m
Cash consideration paid	2,282	–	206	2,488	99	2,587
Cash and cash equivalents acquired	(251)	–	(2)	(253)	–	(253)
Cash consideration paid, net of cash acquired	2,031	–	204	2,235	99	2,334
Total cash consideration payable, net of cash acquired	2,031	659	241	2,931	99	3,030
Contingent consideration	–	(659)	(37)	(696)	–	(696)
Cash consideration paid, net of cash acquired	2,031	–	204	2,235	99	2,334

Notes to the financial statements
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39 Non-controlling interests

The Group has one subgroup that has material non-controlling interests, ViiV Healthcare Limited and its subsidiaries. The ViiV Healthcare group is focused on the research, development and worldwide commercialisation of HIV medicines. Summarised financial information in respect of the ViiV Healthcare group is set out below:

	2014 £m	2013 £m	2012 £m
Turnover	**1,466**	1,371	1,337
(Loss)/profit after taxation	**(606)**	190	492
Other comprehensive income/(expense)	**8**	(9)	(12)
Total comprehensive (expense)/income	**(598)**	181	480
Total comprehensive (expense)/income for the year attributable to non-controlling interests	**(16)**	76	(4)
Dividends paid to non-controlling interests	**120**	106	51

	2014 £m	2013 £m
Non-current assets	**2,245**	2,273
Current assets	**1,308**	997
Total assets	**3,553**	3,270
Current liabilities	**(815)**	(463)
Non-current liabilities	**(3,253)**	(2,253)
Total liabilities	**(4,068)**	(2,716)
Net assets	**(515)**	554
Non-controlling interests attributable to the subgroup	**374**	530

	2014 £m	2013 £m	2012 £m
Net cash inflow from operating activities	**765**	637	620
Net cash outflow from investing activities	**(25)**	(27)	(31)
Net cash outflow from financing activities	**(540)**	(662)	(350)
Increase/(decrease) in cash and bank overdrafts in the year	**200**	(52)	239

The above financial information relates to the ViiV Healthcare group on a stand-alone basis, before the impact of Group-related adjustments. The loss after taxation of £606 million (2013 – profit after taxation of £190 million) is stated after a charge of £768 million (2013 – £253 million) for remeasurement of the contingent consideration payable for the acquisition of the former Shionogi-ViiV Healthcare joint venture. This consideration is expected to be paid over a number of years and will vary in line with sales of products that contain dolutegravir.

Acquisitions of non-controlling interests

On 20 March 2014, GSK increased its shareholding in GlaxoSmithKline Pharmaceuticals Limited, its pharmaceuticals subsidiary in India, from 50.7% to 75% (representing an increase in shares held of 20,609,774 at a price of INR 3,100 per share) for £625 million. The carrying amount of non-controlling interests acquired was £61 million. On 5 February 2013, GSK increased its shareholding in GlaxoSmithKline Consumer Healthcare Ltd (India) from 43.2% to 72.5% for £588 million.

40 Commitments

Contractual obligations and commitments	2014 £m	2013 £m
Contracted for but not provided in the financial statements:		
Intangible assets	**7,079**	7,056
Property, plant and equipment	**359**	443
Investments	**100**	111
Purchase commitments	**428**	614
Pensions	**425**	510
Other commitments	**186**	233
Interest on loans	**9,744**	10,063
Finance lease charges	**6**	7
	18,327	19,037

The commitments related to intangible assets include milestone payments, which are dependent on successful clinical development or on meeting specified sales targets, and which represent the maximum that would be paid if all milestones, however unlikely, are achieved. The amounts are not risk-adjusted or discounted. A number of commitments were made in 2014 under licensing and other agreements, including an arrangement with Adaptimmune Ltd. These new arrangements were offset by reduced commitments due on prior year transactions including amendments to the agreement with Prosensa N.V.

In 2013, GSK reached an agreement with the trustees of the UK pension schemes to make additional contributions to eliminate the pension deficit identified at the 31 December 2011 actuarial funding valuation. A payment of £85 million is due in 2015. Future payments will be based on the deficit position of the scheme, up to a maximum of £340 million. The table above includes this commitment, but excludes the normal ongoing annual funding requirement in the UK of approximately £100 million.

The Group also has other commitments which principally relate to revenue payments to be made under licences and other alliances.

Commitments in respect of future interest payable on loans are disclosed before taking into account the effect of interest rate swaps.

Commitments under non-cancellable operating leases are disclosed below. £310 million (2013 – £322 million) is provided against these commitments on the Group's balance sheet.

Commitments under non-cancellable operating leases	2014 £m	2013 £m
Rental payments due within one year	**138**	134
Rental payments due between one and two years	**91**	97
Rental payments due between two and three years	**73**	73
Rental payments due between three and four years	**54**	58
Rental payments due between four and five years	**48**	52
Rental payments due after five years	**297**	363
Total commitments under non-cancellable operating leases	**701**	777

Notes to the financial statements
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41 Financial instruments and related disclosures

GSK reports in Sterling and pays dividends out of Sterling profits. The role of Corporate Treasury is to monitor and manage the external and internal funding requirements and financial risks in support of the strategic objectives. GSK operates on a global basis, primarily through subsidiary companies and manages its capital to ensure that subsidiaries are able to operate as going concerns and to optimise returns to shareholders through an appropriate balance of debt and equity. Treasury activities are governed by policies approved by the Board of Directors, most recently on 9 July 2014.

A Treasury Management Group (TMG) meeting, chaired by the Chief Financial Officer, takes place on a monthly basis to review treasury activities. Its members receive management information relating to these activities. Internal audit reviews the Treasury internal control environment regularly.

GSK uses a variety of financial instruments to finance its operations and derivative financial instruments to manage market risks from these operations. These derivatives, principally comprising forward foreign currency contracts, foreign exchange options and interest rate swaps, are used to swap borrowings and liquid assets into currencies required for Group purposes and to manage exposure to financial risks from changes in foreign exchange rates and interest rates.

GSK does not hold or issue derivatives for speculative purposes and the 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

GSK's financial strategy supports the Group's strategic priorities and is regularly reviewed by the Board. GSK manages the capital structure of the Group through an appropriate mix of debt and equity. GSK's financial architecture is designed to ensure we are maximising the returns from our sales. There are four key priorities: sustainable sales growth, operating leverage, financial efficiency and converting more of our earnings into cash. The free cash flow generated can then be returned to shareholders or reinvested in the business, wherever the returns look most attractive.

GSK's capital allocation decisions are rigorously benchmarked using a Cash Flow Return on Investment framework.

Free cash flow conversion improved to 101% of earnings excluding after-tax legal charges and legal settlements in 2014 from 84% in 2013. However free cash flow was lower in 2014 at £2.6 billion compared to £4.7 billion in 2013. This reflected the impact of the strength of Sterling and lower profits, including the impact of divestments. As a consequence of this, as well as £0.7 billion paid to increase the shareholding in the Group's Indian pharmaceutical subsidiary from 50.7% to 75% and for the acquisition of the remaining 30% of GSK's Indonesian Consumer Healthcare business held by a third party, GSK's net debt increased from £12.6 billion at 31 December 2013 to £14.4 billion at 31 December 2014.

The capital structure of the Group consists of net debt of £14.4 billion (see Note 32, 'Net debt') and shareholders' equity of £4.3 billion (see 'Consolidated statement of changes in equity' on page 138). Total capital, including that provided by non-controlling interests, is £19.3 billion.

GSK's long-term credit rating with Moody's Investors Service ('Moody's') is A2 (stable outlook). Standard and Poor's rate GSK as A+ (stable outlook). The Group's short-term credit ratings are A-1 and P-1 with Standard and Poor's and Moody's respectively.

Liquidity risk

GSK's policy is to borrow centrally in order to meet anticipated funding requirements. The cash flow forecast and funding requirements are monitored by the TMG on a monthly basis. The strategy is to diversify liquidity sources using a range of facilities and to maintain broad access to funding markets.

At 31 December 2014, GSK had £2.9 billion of borrowings repayable within one year and held £4.4 billion of cash and cash equivalents and liquid investments of which £2.0 billion was held centrally. GSK also has access to short-term finance under a $10 billion (£6.4 billion) US commercial paper programme and $1.0 billion (£0.7 billion) was in issue under this programme at 31 December 2014. GSK has £1.9 billion five year committed medium-term facilities and $2.5 billion (£1.6 billion) of 364 day committed facilities. These facilities were put in place in September 2012 and September 2014 respectively and were undrawn at 31 December 2014. GSK considers this level of committed facilities to be adequate given current liquidity requirements.

GSK has a £15 billion European Medium Term Note programme and at 31 December 2014, £8.9 billion of notes were in issue under this programme. The Group also has a US shelf registration statement and at 31 December 2014, had $14.0 billion (£9.0 billion) of notes in issue under this programme. GSK's long-term borrowings mature at dates between 2016 and 2045.

Each day, GSK sweeps cash from a number of global subsidiaries to central Treasury accounts for liquidity management purposes.

Market risk

Interest rate risk management

GSK'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.

GSK used interest rate swaps to redenominate one of its fixed rate bonds that matured in 2014 into floating interest rates. The duration of these swaps matched the duration of the principal instrument. These interest rate derivative instruments were accounted for as fair value hedges of the relevant liability.

Foreign exchange risk management

Foreign currency transaction exposures arising on internal and external trade flows are not generally hedged. The Group's objective is to minimise the exposure of overseas operating subsidiaries to transaction risk by matching local currency income with local currency costs where possible. GSK's internal trading transactions are matched centrally and inter-company payment terms are managed to reduce foreign currency risk. Foreign currency cash flows can be hedged selectively under the management of Treasury and the TMG. These include hedges of the foreign exchange risk arising from acquisitions and disposals of assets.

41 Financial instruments and related disclosures continued

Where possible, GSK manages the cash surpluses or borrowing requirements of subsidiary companies centrally using forward contracts to hedge future repayments back into the originating currency. In order to reduce foreign currency translation exposure, the Group seeks to denominate borrowings in the currencies of the principal assets and cash flows. These are primarily denominated in US dollars, Euros and Sterling. Certain borrowings can be swapped into other currencies as required. Borrowings denominated in, or swapped into, foreign currencies that match investments in Group overseas assets may be treated as a hedge against the relevant assets. Forward contracts in major currencies are also used to reduce exposure to the Group's investment in overseas assets (see 'Net investment hedges' section of this note for further details). The TMG reviews the ratio of borrowings to assets for major currencies monthly.

Credit risk

The Group considers its maximum credit risk at 31 December 2014 to be £9,054 million (31 December 2013 – £10,922 million) which is the total of the Group's financial assets with the exception of 'Other investments' (comprising equity investments) which bear equity risk rather than credit risk. See page 193 for details on the Group's total financial assets. At 31 December 2014, GSK's greatest concentration of credit risk was £0.9 billion (2013 – £2.6 billion) with HSBC (Aa3/AA-).

Treasury-related credit risk

GSK sets global counterparty limits for each of GSK's banking and investment counterparties based on long-term credit ratings from Moody's and Standard and Poor's. Corporate Treasury's usage of these limits is monitored daily by a Corporate Compliance Officer (CCO) who operates independently of 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 Corporate Treasury so that changes can be made to investment levels or to authority limits as appropriate. In addition, relationship banks and their credit ratings are reviewed regularly and a report is presented annually to the TMG for approval.

GSK actively manages its exposure to credit risk, reducing surplus cash balances wherever possible. This is part of the Treasury strategy to regionalise cash management and to concentrate cash centrally as much as possible. GSK has continued to maintain its conservative approach to counterparty risk throughout the period. The table below sets out the credit exposure to counterparties by rating for liquid investments, cash and cash equivalents and derivatives. The gross asset position on each derivative contract is considered for the purpose of this table, although, under ISDA agreements, the amount at risk is the net position with each counterparty. Table (e) on page 197 sets out the Group's financial assets and liabilities on an offset basis.

The £1.5 billion of bank balances and deposits invested in Aa3/AA- rated counterparties at 31 December 2014 is significantly lower than the equivalent at 31 December 2013 as a result of the disposal proceeds received at the end of December 2013. Compared to last year, there is a significantly higher amount of bank balances and deposits held with A3/A- rated counterparties as a result of GSK's increased bank balances and deposits held with Deutsche Bank (as a result of introducing more countries into the European cash pool), which was downgraded to A3/A- during 2014.

The £116 million of cash held with Baa3/BBB- rated counterparties includes bank balances or deposits with HDFC Bank, State Bank of India, Halk Bank and Emirates Bank. These counterparties are used either for local cash management purposes or for local investment purposes where GSK is not the sole shareholder.

The £1 million held with a Ba1/BB+ rated counterparty relates to Islandsbanki, which is used for cash management purposes in Iceland, and the £3 million of cash held with a Ba2/BB rated counterparty relates to GSK's bank balances and deposits held with Banque Marocaine du Commerce Extérieur.

2014	Aa1/AA+ £m	Aa3/AA- £m	A1/A+ £m	A2/A £m	A3/A- £m	Baa1/BBB+ £m	Baa3/BBB- £m	Ba1/BB+ £m	Ba2/BB £m	Unrated	Total £m
Bank balances and deposits	–	1,514	606	848	438	1	116	1	3	–	**3,527**
US Treasury and Treasury repo only money market funds	811	–	–	–	–	–	–	–	–	–	**811**
Government securities	69	–	–	–	–	–	–	–	–	–	**69**
3rd party financial derivatives	–	45	44	19	26	4	–	–	–	–	**138**
Total	880	1,559	650	867	464	5	116	1	3	–	**4,545**

2013	Aa1/AA+ £m	Aa3/AA- £m	A1/A+ £m	A2/A £m	A3/A- £m	Baa1/BBB+ £m	Baa3/BBB- £m	Ba1/BB+ £m	Ba2/BB £m	Unrated	Total £m
Bank balances and deposits	–	2,823	637	967	48	8	157	–	–	1	4,641
US Treasury and Treasury repo only money market funds	893	–	–	–	–	–	–	–	–	–	893
Corporate debt instruments	–	1	–	–	–	–	–	–	–	–	1
Government securities	64	–	–	–	–	–	–	–	1	–	65
3rd party financial derivatives	–	66	11	54	17	–	–	–	–	–	148
Total	957	2,890	648	1,021	65	8	157	–	1	1	5,748

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 differ, GSK assigns the lower rating of the two to the counterparty. Where local rating agency data is the only source available, the ratings are converted to global ratings equivalent to those of Moody's or Standard and Poor's using published conversion tables.

Notes to the financial statements
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41 Financial instruments and related disclosures continued

GSK's centrally managed cash reserves amounted to £2.0 billion at 31 December 2014, all available within 3 months. This excludes £0.8 billion centrally managed cash held by ViiV Healthcare, a 78.3% owned subsidiary. The Group has invested centrally managed liquid assets in bank deposits and Aaa/AAA rated US Treasury and Treasury repo only money market funds (which bear credit exposure to the US Government (Aaa/AA+ rated)).

Wholesale and retail credit risk
Outside the USA, no customer accounts for more than 5% of the Group's trade receivables balance.

In the USA, in line with other pharmaceutical companies, the Group sells its products through a small number of wholesalers in addition to hospitals, pharmacies, physicians and other groups. Sales to the three largest wholesalers amount to approximately 83% of the turnover of the US Pharmaceuticals and Vaccines segment and the US elements of the ViiV Healthcare and Established Products segments. At 31 December 2014, the Group had trade receivables due from these three wholesalers totalling £908 million (2013 – £835 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.

The Group's credit risk monitoring activities relating to these wholesalers include a review of their quarterly financial information and Standard & Poor's credit ratings, development of GSK internal risk ratings, and establishment and periodic review of credit limits. 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 24, 'Trade and other receivables').

Fair value of financial assets and liabilities
The table on page 193 presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 31 December 2014 and 31 December 2013.

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
- Liquid investments – based on quoted market prices or calculated based on observable inputs in the case of marketable securities; based on principal amounts in the case of non-marketable securities because of their short repricing periods
- Other investments – equity investments traded in an active market determined by reference to the relevant stock exchange quoted bid price; other equity investments determined by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets
- Short-term loans, overdrafts and commercial paper – approximates to the carrying amount because of the short maturity of these instruments
- Long-term loans – based on quoted market prices in the case of European and US Medium term notes and other fixed rate borrowings (a level 1 fair value measurement); approximates to the carrying amount in the case of floating rate bank loans and other loans
- Contingent consideration for business acquisitions after 1 January 2010 – based on present values of expected future cash flows
- Interest rate swaps, foreign exchange forward contracts and options – based on the present value of contractual cash flows or option valuation models using market sourced data (exchange rates or interest rates) at the balance sheet date
- Receivables and payables – approximates to the carrying amount
- Company-owned life insurance policies – based on cash surrender value
- Lease obligations – approximates to the carrying amount.

Fair value of investments in GSK shares
At 31 December 2014, the Employee Share Ownership Plan (ESOP) Trusts held GSK shares with a carrying value of £151 million (2013 – £355 million) and a fair value of £726 million (2013 – £1,025 million) based on quoted market price. The shares represent purchases by the ESOP Trusts to satisfy future exercises of options and awards under employee incentive schemes. In 2014, Treasury shares with a fair value of £150 million were transferred into the UK ESOP Trust to satisfy future awards under the shareholder approved Performance Share Plan (see Note 42, 'Employee share schemes'). The carrying value, which is the lower of cost or expected proceeds, of these shares has been recognised as a deduction from other reserves. At 31 December 2014, GSK held Treasury shares at a cost of £6,917 million (2013 – £6,829 million) which has been deducted from retained earnings.

41 Financial instruments and related disclosures continued

	Notes	2014 Carrying value £m	2014 Fair value £m	2013 Carrying value £m	2013 Fair value £m
Cash and cash equivalents	e	**4,338**	**4,338**	5,534	5,534
Available-for-sale investments:					
Liquid investments:					
– Government bonds		**69**	**69**	65	65
– other		**–**	**–**	1	1
Total liquid investments	a	**69**	**69**	66	66
Other investments	a	**1,114**	**1,114**	1,202	1,202
Loans and receivables:					
Trade and other receivables and certain Other non-current assets in scope of IAS 39	b	**4,232**	**4,232**	4,932	4,932
Financial assets at fair value through profit or loss:					
Other non-current assets in scope of IAS 39	a,b	**269**	**269**	234	234
Derivatives designated as at fair value through profit or loss	a,d,e	**76**	**76**	76	76
Derivatives classified as held for trading under IAS 39	a,d,e	**70**	**70**	80	80
Total financial assets		**10,168**	**10,168**	12,124	12,124
Financial liabilities measured at amortised cost:					
Borrowings excluding obligations under finance leases:					
– bonds in a designated hedging relationship	d	**(4,124)**	**(4,349)**	(3,288)	(3,531)
– other bonds		**(13,540)**	**(15,706)**	(13,034)	(14,163)
– bank loans and overdrafts	e	**(379)**	**(379)**	(352)	(352)
– commercial paper		**(656)**	**(656)**	(1,491)	(1,491)
Total borrowings excluding obligations under finance leases	f	**(18,699)**	**(21,090)**	(18,165)	(19,537)
Obligations under finance leases		**(85)**	**(85)**	(80)	(80)
Total borrowings		**(18,784)**	**(21,175)**	(18,245)	(19,617)
Trade and other payables, Other provisions and certain Other non-current liabilities in scope of IAS 39	c	**(7,566)**	**(7,566)**	(7,989)	(7,989)
Financial liabilities at fair value through profit or loss:					
Trade and other payables, Other provisions and certain Other non-current liabilities in scope of IAS 39	a,c	**(1,724)**	**(1,724)**	(961)	(961)
Derivatives designated as at fair value through profit or loss	a,d,e	**(3)**	**(3)**	(5)	(5)
Derivatives classified as held for trading under IAS 39	a,d,e	**(410)**	**(410)**	(125)	(125)
Total financial liabilities		**(28,487)**	**(30,878)**	(27,325)	(28,697)
Net financial assets and financial liabilities		**(18,319)**	**(20,710)**	(15,201)	(16,573)

The valuation methodology used to measure fair value in the above table is described and categorised on page 192. Trade and other receivables, Other non-current assets, Trade and other payables, Other provisions and Other non-current liabilities are reconciled to the relevant Notes on page 195.

Notes to the financial statements
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41 Financial instruments and related disclosures continued

(a) Financial instruments held at fair value

The following tables categorise the Group's financial assets and liabilities held at fair value 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. Other investments classified as Level 3 in the tables below comprise equity investments in unlisted entities with which the Group has entered into research collaborations and also investments in emerging life science companies. Trade and other payables and Other non-current liabilities classified as level 3 comprise contingent consideration for business acquisitions.

At 31 December 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value				
Available–for–sale financial assets:				
Liquid investments	67	2	–	**69**
Other investments	892	–	222	**1,114**
Financial assets at fair value through profit or loss:				
Other non-current assets	–	264	5	**269**
Derivatives designated as at fair value through profit or loss	–	76	–	**76**
Derivatives classified as held for trading under IAS 39	–	69	1	**70**
	959	411	228	**1,598**
Financial liabilities at fair value				
Financial liabilities at fair value through profit or loss:				
Trade and other payables	–	–	(105)	**(105)**
Other non-current liabilities	–	–	(1,619)	**(1,619)**
Derivatives designated as at fair value through profit or loss	–	(3)	–	**(3)**
Derivatives classified as held for trading under IAS 39	–	(402)	(8)	**(410)**
	–	(405)	(1,732)	**(2,137)**

At 31 December 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value				
Available–for–sale financial assets:				
Liquid investments	65	1	–	**66**
Other investments	1,000	–	202	**1,202**
Financial assets at fair value through profit or loss:				
Other non-current assets	–	232	2	**234**
Derivatives designated as at fair value through profit or loss	–	76	–	**76**
Derivatives classified as held for trading under IAS 39	–	79	1	**80**
	1,065	388	205	**1,658**
Financial liabilities at fair value				
Financial liabilities at fair value through profit or loss:				
Trade and other payables	–	–	(3)	**(3)**
Other non-current liabilities	–	–	(958)	**(958)**
Derivatives designated as at fair value through profit or loss	–	(5)	–	**(5)**
Derivatives classified as held for trading under IAS 39	–	(124)	(1)	**(125)**
	–	(129)	(962)	**(1,091)**

Movements in the year for financial instruments measured using Level 3 valuation methods are presented below:

	2014 £m	2013 £m
At 1 January	**(757)**	(512)
Net losses recognised in the income statement	**(775)**	(262)
Net gains recognised in other comprehensive income	**155**	2
Contingent consideration liabilities for businesses acquired during the year	**–**	(1)
Payment of contingent consideration liabilities	**7**	–
Additions	**55**	45
Disposals	**(153)**	(10)
Transfers from Level 3	**(47)**	(17)
Exchange	**11**	(2)
At 31 December	**(1,504)**	(757)

Net losses of £775 million (2013 – £251 million) attributable to Level 3 financial instruments held at the end of the year were reported in Other operating income, of which £768 million (2013 – £253 million) arose from remeasurement of the contingent consideration payable for the acquisition of the former Shionogi-ViiV Healthcare joint venture. Net gains of £nil (2013 – £1 million) were reported in Selling, general and administration. Net gains attributable to Level 3 equity investments reported in Other comprehensive income as Fair value movements on available-for-sale investments included £32 million (2013 – £nil) in respect of equity investments held at the end of the year.

41 Financial instruments and related disclosures continued

The net liability position of £1,504 million (2013 – £757 million) in respect of financial instruments measured using Level 3 valuation methods at 31 December includes £1,684 million (2013 – £923 million) in respect of contingent consideration payable for the acquisition in 2012 of the former Shionogi-ViiV Healthcare joint venture. This consideration is expected to be paid over a number of years and will vary in line with sales of products that contain dolutegravir. Regulatory approval for this product was obtained in the USA and Canada during 2013 and in the European Union in 2014. The table below shows on an indicative basis the income statement and balance sheet sensitivity to reasonably possible changes in key inputs to the valuation of this liability.

Increase/(decrease) in financial liability and loss/(gain) in Income statement from change in key inputs	2014 £m
10% increase in sales forecasts	**186**
10% decrease in sales forecasts	**(187)**
1% increase in market interest rates	**(82)**
1% decrease in market interest rates	**88**

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

The following table reconciles financial instruments 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. Financial instruments within the Other non-current assets balance include company-owned life insurance policies. Non-financial instruments includes tax receivables, pension surplus balances and prepayments, which are outside the scope of IAS 39.

	2014					2013				
	At fair value through profit or loss £m	Loans and receivables £m	Financial instruments £m	Non-financial instruments £m	Total £m	At fair value through profit or loss £m	Loans and receivables £m	Financial instruments £m	Non-financial instruments £m	Total £m
Trade and other receivables (Note 24)	–	3,921	**3,921**	**679**	**4,600**	–	4,664	4,664	778	5,442
Other non-current assets (Note 22)	269	311	**580**	**155**	**735**	234	268	502	387	889
	269	4,232	**4,501**	**834**	**5,335**	234	4,932	5,166	1,165	6,331

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:

	2014 £m	2013 £m
Past due by 1–30 days	**116**	142
Past due by 31–90 days	**130**	152
Past due by 91–180 days	**110**	89
Past due by 181–365 days	**67**	64
Past due by more than 365 days	**41**	79
	464	526

Amounts past due by greater than 90 days and for which no provision for bad or doubtful debts has been made total £218 million (2013 – £232 million). Of this balance, £45 million (2013 – £133 million) relates to receivables due from state hospital authorities in Greece, Ireland, Italy, Portugal and Spain. The total receivables due from state hospital authorities in these countries (current and past due, net of provisions) is £134 million (2013 – £262 million).

(c) Trade and other payables, Other provisions and Other non-current liabilities in scope of IAS 39

The following table reconciles financial instruments within Trade and other payables, Other provisions and Other non-current liabilities which fall within the scope of IAS 39 to the relevant balance sheet amounts. The financial liabilities are predominantly non-interest bearing. Accrued wages and salaries are included within financial liabilities. Non-financial instruments includes payments on account, tax and social security payables and provisions which do not arise from contractual obligations to deliver cash or another financial asset, which are outside the scope of IAS 39.

	2014					2013				
	At fair value through profit or loss £m	Other liabilities £m	Financial instruments £m	Non-financial instruments £m	Total £m	At fair value through profit or loss £m	Other liabilities £m	Financial instruments £m	Non-financial instruments £m	Total £m
Trade and other payables (Note 27)	(105)	(7,345)	**(7,450)**	**(508)**	**(7,958)**	(3)	(7,798)	(7,801)	(516)	(8,317)
Other provisions (Note 29)	–	(158)	**(158)**	**(1,432)**	**(1,590)**	–	(148)	(148)	(1,396)	(1,544)
Other non-current liabilities (Note 30)	(1,619)	(63)	**(1,682)**	**(719)**	**(2,401)**	(958)	(43)	(1,001)	(703)	(1,704)
	(1,724)	(7,566)	**(9,290)**	**(2,659)**	**(11,949)**	(961)	(7,989)	(8,950)	(2,615)	(11,565)

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41 Financial instruments and related disclosures continued

(d) Derivative financial instruments and hedging programmes

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

	2014 Fair value		2013 Fair value	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value hedges – Interest rate swaps (principal amount – £nil (2013 – £904 million))	–	–	18	–
Net investment hedges – Foreign exchange contracts (principal amount – £5,365 million (2013 – £7,221 million))	74	(1)	58	(1)
Cash flow hedges – Foreign exchange contracts (principal amount – £133 million (2013 – £92 million))	2	(2)	–	(4)
Derivatives designated as at fair value through profit or loss	76	(3)	76	(5)
Foreign exchange contracts (principal amount – £15,851 million (2013 – £11,651 million))	68	(399)	74	(120)
Embedded and other derivatives	2	(11)	6	(5)
Derivatives classified as held for trading under IAS 39	70	(410)	80	(125)
Total derivative instruments	146	(413)	156	(130)
Analysed as:				
Current	146	(404)	155	(127)
Non-current	–	(9)	1	(3)
Total	146	(413)	156	(130)

Foreign exchange contracts classified as held for trading under IAS 39

The principal amount on foreign exchange contracts is the absolute total of outstanding positions at the balance sheet date. The Group's foreign exchange contracts are for periods of 12 months or less. At 31 December 2014, the Group held outstanding foreign exchange contracts with a net liability fair value of £331 million (£68 million asset less £399 million liability). At December 2013, the fair value was £46 million net liability (£74 million asset less £120 million liability).

Following announcement of the proposed Novartis transaction, GSK entered into a number of forward exchange contracts to protect the Sterling value of the net US Dollar proceeds due to the Group on completion of the transaction. At 31 December 2014 these contracts were in a loss position and resulted in a liability of £264 million and the recognition of an unrealised loss in the year of £299 million. If these contracts remain in a loss position on maturity, that loss will partly offset the gain in the expected Sterling value of the proceeds that will be received by the Group as a result of favourable exchange movements since the inception of the forward contracts. If, on maturity, the contracts are in a gain position, the gains will partly offset losses in the Sterling value of the proceeds that will be received by the Group as a result of unfavourable exchange movements since the inception of the forward contracts.

The rest of the increase in the liability has been due to additional hedging of inter-company loans and deposits, external debt and legal provisions that are not designated as accounting hedges. Fair value movements are taken to the income statement in the period to offset the exchange gains and losses on the related inter-company lending and borrowing, external debt and legal provisions.

Fair value hedges

The Group had designated a series of interest rate swaps as a fair value hedge. The risk being hedged was the variability of the fair value of the bond arising from interest rate fluctuations. Gains and losses on fair value hedges are disclosed in Note 12, 'Finance expense'.

Both the bond and the swaps matured in April 2014. In 2013, the carrying value of bonds in that designated fair value hedging relationship was £919 million.

Net investment hedges

During the year, certain foreign exchange contracts were designated as net investment hedges in respect of the foreign currency translation risk arising on consolidation of the Group's net investment in its European (Euro) and Japanese (Yen) foreign operations as shown in the table above.

The carrying value of bonds in a designated hedging relationship on page 193 includes £4,124 million (2013 – £2,369 million) that is designated a hedging instrument in a net investment hedge relationship.

Cash flow hedges

During 2014, the Group continued entering into forward foreign exchange contracts which it designated as cash flow hedges of its foreign exchange exposure arising on Euro and US dollar denominated coupon payments relating to the Group's European and US medium term notes. This is a continuation of the initial hedging put in place in 2013.

In addition, the Group carries a balance in reserves that arose from pre-hedging fluctuations in long-term interest rates when pricing bonds issued during the year as disclosed in Note 32. Hedging transactions of this nature have been carried out during 2014 and 2013. The balance is reclassified to finance costs over the life of these bonds.

41 Financial instruments and related disclosures continued

(e) Offsetting of financial assets and liabilities

The following tables set out the financial assets and financial liabilities which are subject to offsetting, enforceable master netting arrangements and similar agreements. Amounts which are set off against financial assets and liabilities in the Group's balance sheet are set out below. For Trade and other receivables, Trade and other payables, Derivative financial assets and Derivative financial liabilities, amounts not offset in the balance sheet but which could be offset under certain circumstances are also set out.

At 31 December 2014	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per balance sheet £m	Related amounts not set off in the balance sheet £m	Net £m
Trade and other receivables	3,926	(5)	**3,921**	(22)	3,899
Derivative financial assets	146	–	**146**	(134)	12
Cash and cash equivalents	4,570	(232)	**4,338**		
	8,642	(237)	**8,405**		
Trade and other payables	(7,455)	5	**(7,450)**	22	(7,428)
Derivative financial liabilities	(413)	–	**(413)**	134	(279)
Bank loans and overdrafts	(611)	232	**(379)**		
	(8,479)	237	**(8,242)**		

At 31 December 2013	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per balance sheet £m	Related amounts not set off in the balance sheet £m	Net £m
Trade and other receivables	4,698	(34)	4,664	(25)	4,639
Derivative financial assets	156	–	156	(96)	60
Cash and cash equivalents	6,039	(505)	5,534		
	10,893	(539)	10,354		
Trade and other payables	(7,835)	34	(7,801)	25	(7,776)
Derivative financial liabilities	(130)	–	(130)	96	(34)
Bank loans and overdrafts	(857)	505	(352)		
	(8,822)	539	(8,283)		

The gross financial assets and liabilities set off in the balance sheet primarily relate to cash pooling arrangements with banks. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

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41 Financial instruments and related disclosures continued

(f) Debt interest rate repricing table

The following table sets out the exposure of the Group to interest rates on debt, including commercial paper, before and after the effect of interest rate swaps. The maturity analysis of fixed rate debt is stated by contractual maturity and of floating rate debt by interest rate repricing dates. For the purpose of this table, debt is defined as all classes of borrowings other than obligations under finance leases.

	2014			2013		
	Debt £m	Effect of interest rate swaps £m	Total £m	Debt £m	Effect of interest rate swaps £m	Total £m
Floating and fixed rate debt less than one year	(2,915)	–	**(2,915)**	(2,762)	–	(2,762)
Between one and two years	(800)	–	**(800)**	(1,932)	–	(1,932)
Between two and three years	(2,244)	–	**(2,244)**	(751)	–	(751)
Between three and four years	(1,760)	–	**(1,760)**	(2,237)	–	(2,237)
Between four and five years	(1,154)	–	**(1,154)**	(1,653)	–	(1,653)
Between five and ten years	(2,827)	–	**(2,827)**	(1,936)	–	(1,936)
Greater than ten years	(6,999)	–	**(6,999)**	(6,894)	–	(6,894)
Total	(18,699)	–	**(18,699)**	(18,165)	–	(18,165)
Original issuance profile:						
Fixed rate interest	(17,665)	–	**(17,665)**	(16,432)	919	(15,513)
Floating rate interest	(1,033)	–	**(1,033)**	(1,732)	(919)	(2,651)
Total interest bearing	(18,698)	–	**(18,698)**	(18,164)	–	(18,164)
Non-interest bearing	(1)	–	**(1)**	(1)	–	(1)
	(18,699)	–	**(18,699)**	(18,165)	–	(18,165)

The Group no longer holds interest rate swaps, designated as fair value hedges, to convert fixed rate debt into floating. In 2013, £919 million of fixed rate debt with a maturity of less than one year were hedged in this manner.

(g) Sensitivity analysis

Foreign exchange and interest rate sensitivity analysis has been prepared on the assumption that the amount of net debt, 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 the hedge designations as at 31 December. Financial instruments affected by market risk include cash and cash equivalents, borrowings, trade receivables and payables and derivative financial instruments.

The following analyses are intended to illustrate the sensitivity of such financial instruments to changes in foreign exchange and interest rates.

Foreign exchange sensitivity

The table below shows on an indicative basis only the Group's sensitivity to foreign exchange rates on its US dollar, Euro and Yen financial instruments.

These three currencies are the major foreign currencies in which GSK's financial instruments are denominated. GSK has considered movements in these currencies and has concluded that a 10 cent or 10 yen movement in rates against Sterling is reasonable.

In this analysis, financial instruments are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them. Obligations under finance leases, inter-company loans that are fully hedged to maturity and certain non-derivative financial instruments not in net debt are excluded as they do not present a material exposure. Foreign exchange sensitivity on Group assets and liabilities other than financial instruments is not included in the calculation.

For US dollar denominated financial instruments, the movement in the income statement in the table below relates primarily to hedges of foreign exchange risk on acquisitions and disposals. Cash and cash equivalents, inter-company loans and deposits, inter-company trading balances, hedging instruments for legal provisions and trade receivables and payables which are not denominated in the functional currency of the entity that holds them are impacted when the spot rate changes. Whilst the hedging instruments provide economic hedges, the related remeasurement of legal provisions is not included in the calculation.

	2014	2013
Income statement impact of non-functional currency foreign exchange exposures	Increase/(decrease) in income £m	Increase in income £m
10 cent appreciation of the US dollar (2013: 10 cent)	**(263)**	40
10 cent appreciation of the Euro (2013: 10 cent)	**11**	8
10 yen appreciation of the Yen (2013: 10 yen)	**–**	1

An equivalent depreciation in the above currencies would cause the following increase/(decrease) in income £169 million, £(10) million and £nil million for US dollar, Euro and Yen exchange rates respectively. (For 2013 it was a decrease in income of £35 million, £6 million and £1 million).

41 Financial instruments and related disclosures continued

The movements in equity in the table below relate to hedging instruments (foreign exchange derivatives and external debt) designated as a net investment hedge to hedge the Group assets denominated in Euro and Yen and cash flow hedges.

Equity impact of non-functional currency foreign exchange exposures	2014 Increase/(decrease) in equity £m	2013 (Decrease) in equity £m
10 cent appreciation of the US dollar (2013: 10 cent)	**2**	–
10 cent appreciation of the Euro (2013: 10 cent)	**(762)**	(840)
10 yen appreciation of the Yen (2013: 10 yen)	**(18)**	(21)

An equivalent depreciation in the above currencies would cause the following increase/(decrease) in equity: £(2) million, £652 million and £16 million for US dollar, Euro and Yen exchange rates respectively (2013 – £nil, £711 million and £19 million).

The table below presents the Group's sensitivity to foreign exchange rates based on the composition of net debt as shown in Note 32 adjusting for the effects of foreign exchange derivatives that are not part of net debt but affect future foreign currency cash flows.

Impact of foreign exchange movements on net debt	2014 (Increase)/decrease in net debt £m	2013 (Increase)/decrease in net debt £m
10 cent appreciation of the US dollar (2013: 10 cent)	**(446)**	(447)
10 cent appreciation of the Euro (2013: 10 cent)	**227**	289
10 yen appreciation of the Yen (2013: 10 yen)	**11**	10

An equivalent depreciation in the above currencies would have the following impact on net debt: £392 million, £(195) million and £(9) million for US dollar, Euro and Yen exchange rates respectively (2013 – £396 million, £(244) million and £(9) million).

Interest rate sensitivity

The table below shows on an indicative basis only the Group's sensitivity to interest rates on its floating rate Sterling, US dollar and Euro financial instruments, being issued debt, bank borrowings, cash and cash equivalents and liquid investments. GSK has considered movements in these interest rates over the last three years and has concluded that a 1% (100 basis points) increase is a reasonable benchmark. Debt and bank borrowings with a maturity of less than one year is floating rate for this calculation. In 2013, interest rate movements on derivative financial instruments designated as fair value hedges were deemed to have an immaterial effect on the Group Income Statement due to compensating amounts in the carrying value of debt. These hedges and the hedged bond matured in 2014. A 1% (100 basis points) movement in interest rates is not deemed to have a material effect on equity.

Income statement impact of interest rate movements	2014 Increase/(decrease) in income £m	2013 Increase/(decrease) in income £m
1% (100 basis points) increase in Sterling interest rates (2013: 1%)	**(19)**	13
1% (100 basis points) increase in US dollar interest rates (2013: 1%)	**19**	16
1% (100 basis points) increase in Euro interest rates (2013: 1%)	**5**	(8)

These interest rates could not be decreased by 1% as they are currently less than 1.0%. The maximum increase/(decrease) in income would therefore be limited to £9 million, £1 million and £1 million for Sterling, US Dollar and Euro interest rates respectively (2013 –(£5) million, £nil and £2 million). The decrease in interest income is due to lower levels of cash at the balance sheet date and less Euro net investment hedging activity with foreign exchange forward contracts.

(h) Contractual cash flows for non-derivative financial liabilities and derivative instruments

The following tables provides an analysis of the anticipated contractual cash flows including interest payable for the Group's non-derivative financial liabilities on an undiscounted basis. The impact of interest rate swaps has been excluded. For the purpose of this table, debt is defined as all classes of borrowings except for obligations under finance leases. Interest is calculated based on debt held at 31 December without taking account of future issuance. Floating rate interest is estimated using the prevailing interest rate at the balance sheet date. Cash flows in foreign currencies are translated using spot rates at 31 December. Contractual cash flows in respect of operating lease vacant space provisions are excluded from the table below as they are included in the Commitments under non-cancellable operating leases table in Note 40, 'Commitments'.

At 31 December 2014	Debt £m	Interest on debt £m	Obligations under finance leases £m	Finance charge on obligations under finance leases £m	Trade payables and other liabilities not in net debt £m	Total £m
Due in less than one year	(2,917)	(678)	(29)	(2)	(7,489)	**(11,115)**
Between one and two years	(801)	(623)	(21)	(2)	(251)	**(1,698)**
Between two and three years	(2,251)	(611)	(18)	(1)	(219)	**(3,100)**
Between three and four years	(1,763)	(497)	(12)	(1)	(273)	**(2,546)**
Between four and five years	(1,163)	(447)	(3)	–	(324)	**(1,937)**
Between five and ten years	(2,859)	(2,074)	(2)	–	(1,969)	**(6,904)**
Greater than ten years	(7,085)	(4,814)	–	–	(1,734)	**(13,633)**
Gross contractual cash flows	(18,839)	(9,744)	(85)	(6)	(12,259)	**(40,933)**

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continued

41 Financial instruments and related disclosures continued

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

At 31 December 2013	Debt £m	Interest on debt £m	Obligations under finance leases £m	Finance charge on obligations under finance leases £m	Trade payables and other liabilities not in net debt £m	Total £m
Due in less than one year	(2,747)	(674)	(27)	(2)	(7,797)	(11,247)
Between one and two years	(1,936)	(650)	(22)	(2)	(108)	(2,718)
Between two and three years	(753)	(594)	(14)	(2)	(85)	(1,448)
Between three and four years	(2,246)	(582)	(8)	(1)	(116)	(2,953)
Between four and five years	(1,657)	(467)	(4)	–	(149)	(2,277)
Between five and ten years	(1,958)	(2,032)	(5)	–	(1,282)	(5,277)
Greater than ten years	(6,984)	(5,064)	–	–	(1,440)	(13,488)
Gross contractual cash flows	(18,281)	(10,063)	(80)	(7)	(10,977)	(39,408)

The increase in contractual cash flows for non-derivative financial liabilities of £1.5 billion over the year results principally from an increase of £1.7 billion in forecast future cash flows in respect of contingent consideration payable for the acquisition of the former Shionogi-ViiV Healthcare joint venture in 2012.

The table below provides an analysis of the anticipated contractual cash flows for the Group's derivative instruments, excluding embedded derivatives and equity options which are not material, using undiscounted cash flows. Cash flows in foreign currencies are translated using spot rates at 31 December. The gross cash flows of foreign exchange contracts are presented for the purposes of this table, though, in practice, the Group uses standard settlement arrangements to reduce its liquidity requirements on these instruments.

The amounts receivable and payable in less than one year have increased compared to 31 December 2013 due to higher levels of hedging of inter-company loans, hedging of acquisitions and disposals denominated in foreign currency and external debt. This is reflected in the increased principal amounts shown in the table below. All contractual cash flows for derivative instruments are due in less than one year.

	2014		2013	
	Receivables £m	Payables £m	Receivables £m	Payables £m
Gross contractual cash flows due in less than one year	**21,586**	**(21,841)**	18,890	(18,871)

42 Employee share schemes

The Group operates share option schemes, whereby options are granted to employees to acquire shares or ADS in GlaxoSmithKline plc at the grant price, savings-related share option schemes and share award schemes. In addition, GSK operates the Performance Share Plan, whereby awards are granted to employees to acquire shares or ADS in GlaxoSmithKline plc at no cost, subject to the achievement by the Group of specified performance targets and the Share Value Plan, whereby awards are granted to employees to acquire shares or ADS 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 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. Grants under savings-related share option schemes are normally exercisable after three years' saving. Grants under share option schemes and awards under the Performance Share Plan are normally granted to employees to acquire shares or ADS in GlaxoSmithKline plc but in some circumstances will be settled in cash. Options under the share option schemes were granted at the market price ruling at the date of grant. In accordance with UK practice, the majority of options under the savings-related share option schemes are granted at a price 20% below the market price ruling at the date of grant.

Option pricing

For the purposes of valuing options to arrive at the share based payment charge, the Black-Scholes option pricing model has been used. The assumptions used in the model for 2012, 2013 and 2014 are as follows:

	2014	2013	2012
Risk-free interest rate	**0.7%**	0.7%	0.1% – 0.5%
Dividend yield*	**5.8%**	5.3%	5.2%
Volatility	**19%**	20%	18% – 23%
Expected lives of savings-related share options and share award schemes	**3-4 years**	3-4 years	3-4 years
Weighted average share price for grants in the year:			
Shares	**£14.14**	£15.59	£14.49

* 0% for those plans where dividends are reinvested.

42 Employee share schemes continued

Volatility is determined based on the three and five year share price history where appropriate. 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.

Options outstanding	Share option schemes – shares			Share option schemes – ADS			Savings-related share option schemes		
	Number 000	Weighted exercise price	Weighted fair value	Number 000	Weighted exercise price	Weighted fair value	Number 000	Weighted exercise price	Weighted fair value
At 1 January 2012	60,370	£12.62		44,890	$43.50		1,570	£9.68	
Options granted	–	–	–	–	–	–	4,210	£11.59	£1.76
Options exercised	(12,473)	£11.97		(9,698)	$39.33		(1,230)	£9.67	
Options lapsed	(5,168)	£13.28		(4,593)	$45.99		(89)	£9.82	
At 31 December 2012	42,729	£12.72		30,599	$44.36		4,461	£11.48	
Options granted	–	–	–	–	–	–	1,092	£12.47	£2.33
Options exercised	(20,355)	£12.78		(12,099)	$41.62		(241)	£9.79	
Options lapsed	(2,112)	£12.63		(1,192)	$42.94		(210)	£11.34	
At 31 December 2013	20,262	£12.68		17,308	$46.37		5,102	£11.78	
Options granted	–	–	–	–	–	–	1,181	£11.31	£1.92
Options exercised	(3,907)	£12.14		(4,548)	$43.11		(126)	£11.65	
Options lapsed	(591)	£12.33		(520)	$48.13		(547)	£11.97	
At 31 December 2014	15,764	£12.82		12,240	$47.50		5,610	£11.66	
Range of exercise prices on options outstanding at year end	£11.47 – £14.93			$33.42 – $58.00			£11.31 – £12.47		
Weighted average market price on exercise		£15.44			$51.61			£15.67	
Weighted average remaining contractual life		3.2 years			2.7 years			2.0 years	

Options outstanding at 31 December 2014	Share option schemes – shares			Share option schemes – ADS			Savings-related share option schemes		
Year of grant	Number 000	Weighted exercise price	Latest exercise date	Number 000	Weighted exercise price	Latest exercise date	Number 000	Weighted exercise price	Latest exercise date
2005	50	£13.05	01.11.15	134	$47.40	01.11.15	–	–	–
2006	2,453	£14.69	28.07.16	2,575	$51.40	28.07.16	–	–	–
2007	2,937	£14.80	26.07.17	3,814	$57.59	26.07.17	–	–	–
2008	2,444	£11.49	23.07.18	1,961	$45.05	23.07.18	–	–	–
2009	3,286	£11.76	22.07.19	1,479	$33.72	22.07.19	–	–	–
2010	4,594	£12.03	22.07.20	2,277	$37.28	22.07.20	–	–	–
2011	–	–	–	–	–	–	–	–	–
2012	–	–	–	–	–	–	3,586	£11.59	01.06.16
2013	–	–	–	–	–	–	845	£12.47	01.06.17
2014	–	–	–	–	–	–	1,179	£11.31	01.06.18
Total	15,764	£12.82		12,240	$47.50		5,610	£11.66	

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.

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

Options exercisable	Share option schemes – shares		Share option schemes – ADS		Savings-related share option schemes	
	Number 000	Weighted exercise price	Number 000	Weighted exercise price	Number 000	Weighted exercise price
At 31 December 2012	33,930	£12.90	24,706	$46.10	261	£9.72
At 31 December 2013	20,262	£12.68	17,308	$46.37	–	–
At 31 December 2014	15,764	£12.82	12,240	$47.50	–	–

Notes to the financial statements
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42 Employee share schemes continued

GlaxoSmithKline share award schemes

Performance Share Plan

The Group operates a Performance Share Plan whereby awards are granted to Directors and senior executives at no cost. The percentage of each award that vests is based upon the performance of the Group over a defined measurement period with dividends reinvested during the same period. For awards granted in 2012 and 2013 to Directors and members of the CET, the performance conditions are based on four equally weighted measures over a three year performance period. The first measure is based on the achievement of adjusted free cash flow targets. The second measure is based on relative TSR performance against a comparator group. The remaining two measures are based on business-specific performance measures on business diversification and R&D new product performance. For details on the calculation of these measures, see the Remuneration report on pages 96 to 128.

For awards granted in 2014 onwards, the performance conditions are based on three equally weighted measures over a three year performance period. These are adjusted free cashflow, TSR and R&D new product performance.

For those awards made to all other eligible employees the performance conditions are based on GSK's EPS growth to the increase in the UK Retail Prices Index over the three year measurement period and adjusted free cashflow. In addition, some businesses have an element of their award based on a strategic or operational business measure, over a three year measurement period, specific to the employee's business area.

The fair value of the awards is determined based on the closing share price on the day of grant. For TSR performance elements, this is adjusted by the likelihood of that condition being met, as assessed at the time of grant.

Number of shares and ADS issuable	Shares Number (000)	Weighted fair value	ADS Number (000)	Weighted fair value
At 1 January 2012	10,541		3,926	
Awards granted	4,268	£11.43	1,420	$37.63
Dividends reinvested	529		225	
Awards exercised	(1,388)		(485)	
Awards cancelled	(1,794)		(710)	
At 31 December 2012	12,156		4,376	
Awards granted	4,483	£13.36	1,352	$42.41
Dividends reinvested	722		251	
Awards exercised	(1,022)		(453)	
Awards cancelled	(2,977)		(1,041)	
At 31 December 2013	13,362		4,485	
Awards granted	4,147	£15.48	1,251	$52.40
Dividends reinvested	673		211	
Awards exercised	(2,654)		(1,059)	
Awards cancelled	(2,734)		(929)	
At 31 December 2014	12,794		3,959	

Share Value Plan

The Group operates a Share Value Plan whereby awards are granted, in the form of shares, to certain employees at no cost. The awards vest after two and a half to three years and there are no performance criteria attached. The fair value of these awards is determined based on the closing share price on the day of grant, after deducting the expected future dividend yield over the duration of the award.

Number of shares and ADS issuable	Shares Number (000)	Weighted fair value	ADS Number (000)	Weighted fair value
At 1 January 2012	19,458		14,081	
Awards granted	11,411	£11.96	7,595	$38.51
Awards exercised	(4,650)		(3,410)	
Awards cancelled	(901)		(478)	
At 31 December 2012	25,318		17,788	
Awards granted	12,011	£14.76	7,681	$46.04
Awards exercised	(5,324)		(4,009)	
Awards cancelled	(938)		(622)	
At 31 December 2013	31,067		20,838	
Awards granted	12,410	£12.65	7,842	$41.56
Awards exercised	(9,642)		(6,787)	
Awards cancelled	(923)		(666)	
At 31 December 2014	32,912		21,227	

42 Employee share schemes continued

Employee Share Ownership Plan Trusts

The Group sponsors Employee Share Ownership Plan (ESOP) Trusts to acquire and hold shares in GlaxoSmithKline plc to satisfy awards made under employee incentive plans and options granted under employee share option schemes. The trustees of the ESOP Trusts purchase shares with finance provided by the Group by way of loans or contributions. In 2014, Treasury shares with a fair value of £150 million were transferred into the UK ESOP Trust to satisfy future awards under the shareholder approved Performance Share Plan. Costs of running the ESOP Trusts are charged to the income statement. Shares held by the ESOP Trusts are deducted from other reserves and held at the value of proceeds receivable from employees on exercise. If there is deemed to be a permanent diminution in value this is reflected by a transfer to retained earnings. The Trusts also acquire and hold shares to meet notional dividends re-invested on deferred awards under the SmithKline Beecham Mid-Term Incentive Plan. The trustees have waived their rights to dividends on the shares held by the ESOP Trusts.

Shares held for share award schemes	2014	2013
Number of shares (000)	**52,595**	63,613

	£m	£m
Nominal value	**13**	16
Carrying value	**150**	354
Market value	**724**	1,024

Shares held for share option schemes	2014	2013
Number of shares (000)	**139**	139

	£m	£m
Nominal value	**–**	–
Carrying value	**1**	1
Market value	**2**	1

43 Proposed Novartis transaction

On 22 April 2014, GSK announced a three-part inter-conditional transaction with Novartis AG involving its Consumer Healthcare, Vaccines and Oncology businesses.

As part of this proposed transaction, GSK and Novartis will create a new Consumer Healthcare business over which GSK will have majority control, with an equity interest of 63.5%. In addition, GSK will acquire Novartis' global Vaccines business (excluding influenza vaccines) for an initial cash consideration of $5.25 billion with subsequent potential milestone payments of up to $1.8 billion and ongoing royalties.

GSK will also divest its marketed Oncology portfolio, related R&D activities and rights to its AKT inhibitors and also grant commercialisation partner rights for future oncology products to Novartis for an aggregate cash consideration of $16 billion. Under the terms of the transaction, up to $1.5 billion of the purchase price may have to be returned to Novartis if certain conditions relating to the COMBI-d trial are not met. Following the positive outcome from this study announced on 6 February 2015, GSK believes these conditions will be satisfied.

The transaction is expected to be completed in the week commencing 2 March 2015.

Notes to the financial statements
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44 Principal Group companies

The following represent the principal subsidiaries and associates of the GlaxoSmithKline Group at 31 December 2014. 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 entities 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.

Europe	Location	Subsidiary	Sector	Activity	%
England	Brentford	GlaxoSmithKline Holdings Limited *	Ph,CH	h	
	Brentford	GlaxoSmithKline Services Unlimited *	Ph,CH	s	
	Brentford	GlaxoSmithKline Mercury Limited *	Ph	h	
	Brentford	GlaxoSmithKline Finance plc	Ph,CH	f	
	Brentford	GlaxoSmithKline Capital plc	Ph,CH	f	
	Brentford	SmithKline Beecham Limited	Ph,CH	d e h m p r	
	Brentford	Wellcome Limited	Ph,CH	h	
	Brentford	Glaxo Group Limited	Ph	h	
	Brentford	Glaxo Operations UK Limited	Ph	p	
	Brentford	GlaxoSmithKline Export Limited	Ph	e	
	Brentford	GlaxoSmithKline Research & Development Limited	Ph	d r	
	Brentford	GlaxoSmithKline UK Limited	Ph	m p	
	Brentford	Setfirst Limited	Ph,CH	h	
	Brentford	GlaxoSmithKline Trading Services Limited (i) (iv)	Ph	e	
	Brentford	ViiV Healthcare Limited	Ph	h	78
	Brentford	ViiV Healthcare UK Limited	Ph	m s	78
Austria	Vienna	GlaxoSmithKline Pharma GmbH	Ph	m	
Belgium	Wavre	GlaxoSmithKline Pharmaceuticals S.A.	Ph	d m	
	Rixensart	GlaxoSmithKline Biologicals S.A.	Ph	d e m p r	
Czech Republic	Prague	GlaxoSmithKline s.r.o.	Ph,CH	m	
Finland	Espoo	GlaxoSmithKline Oy	Ph	m	
France	Marly le Roi	Groupe GlaxoSmithKline S.A.S.	Ph	h	
	Marly le Roi	Laboratoire GlaxoSmithKline S.A.S.	Ph	m r d	
	Marly le Roi	GlaxoSmithKline Sante Grand Public S.A.S.	CH	e m	
	Marly le Roi	ViiV Healthcare S.A.S.	Ph	m	78
	St. Amand Les Eaux	GlaxoSmithKline Biologicals S.A.S.	Ph	p	
Germany	Buehl	GlaxoSmithKline Consumer Healthcare GmbH & Co. KG	CH	m s	
	Munich	GlaxoSmithKline GmbH & Co. KG	Ph	d h m s	
Greece	Athens	GlaxoSmithKline A.E.B.E	Ph,CH	m	
Italy	Verona	GlaxoSmithKline S.p.A.	Ph	d m	
	Milan	GlaxoSmithKline Consumer Healthcare S.p.A.	CH	m	
Netherlands	Zeist	GlaxoSmithKline B.V.	Ph	m	
	Zeist	GlaxoSmithKline Far East B.V.	Ph,CH	h	
Poland	Poznan	GSK Services Sp.z o.o.	Ph	m s	
Republic of Ireland	Carrigaline	SmithKline Beecham (Cork) Limited (i)	Ph	d p r	
	Dublin	GlaxoSmithKline Consumer Healthcare (Ireland) Limited (i)	CH	m	
	Dublin	GlaxoSmithKline (Ireland) Limited (i)	Ph	m	
	Dungarvan	Stafford Miller (Ireland) Limited (i)	CH	p	
	Dungarvan	GlaxoSmithKline Dungarvan Limited (i)	CH	p	
	Sligo	Stiefel Laboratories (Ireland) Limited (i)	Ph	p	
Romania	Brasov	Europharm Holding S.A.	Ph,CH	m s	
Russian Federation	Moscow	GlaxoSmithKline Trading ZAO	Ph	m	
Spain	Madrid	GlaxoSmithKline S.A.	Ph	m	
Switzerland	Muenchenbuchsee	GlaxoSmithKline AG	Ph	m	
USA					
USA	Research Triangle Park	Stiefel Laboratories, Inc.	Ph	h m p	
	Marietta	Corixa Corporation	Ph	p	
	Philadelphia	GlaxoSmithKline LLC	Ph,CH	d e h m p r s	
	Pittsburgh	GlaxoSmithKline Consumer Healthcare, L.P.	CH	m	88
	Pittsburgh	Block Drug Company, Inc.	CH	h m	
	Wilmington	GlaxoSmithKline Holdings (Americas) Inc.	Ph,CH	h	
	Wilmington	GlaxoSmithKline Capital Inc.	Ph,CH	f	
	Research Triangle Park	ViiV Healthcare Company	Ph	m	78
	Rockville	Human Genome Sciences, Inc.	Ph	p	

44 Principal Group companies continued

Americas	Location	Subsidiary	Sector	Activity	%
Canada	Mississauga	GlaxoSmithKline Inc.	Ph	m p	
	Mississauga	GlaxoSmithKline Consumer Healthcare Inc.	CH	m	
	Laval	ID Biomedical Corporation of Quebec	Ph	d e p r	
Mexico	Mexico City	GlaxoSmithKline Mexico S.A. de C.V.	Ph,CH	e m p	
Asia Pacific					
Australia	Boronia	GlaxoSmithKline Australia Pty Ltd	Ph,CH	d e m p r	
China	Beijing	GlaxoSmithKline (China) Investment Co. Ltd	Ph,CH	d h m r s	
	Hong Kong	GlaxoSmithKline Limited	Ph,CH	m	
	Tianjin	Sino-American Tianjin Smith Kline & French Laboratories Ltd	CH	e m p	55
India	Mumbai	GlaxoSmithKline Pharmaceuticals Limited	Ph	d m p	75
	Gurgaon	GlaxoSmithKline Consumer Healthcare Limited	CH	d e m p r s	72
Malaysia	Selangor	GlaxoSmithKline Consumer Healthcare Sdn Bhd	CH	m	
Pakistan	Karachi	GlaxoSmithKline Pakistan Limited	Ph,CH	e m p r	83
Philippines	Makati	GlaxoSmithKline Philippines Inc	Ph,CH	d e m	
Singapore	Singapore	Glaxo Wellcome Manufacturing Pte Ltd	Ph	d e p r s	
	Singapore	GlaxoSmithKline Pte Ltd	Ph,CH	d e m s	
South Korea	Seoul	GlaxoSmithKline Korea Limited	Ph ,CH	m r	
Thailand	Bangkok	GlaxoSmithKline (Thailand) Limited	Ph,CH	m	
Japan					
Japan	Tokyo	GlaxoSmithKline K.K.	Ph,CH	d m p	
Latin America					
Argentina	Buenos Aires	GlaxoSmithKline Argentina S.A.	Ph,CH	e m p r	
Brazil	Rio de Janeiro	GlaxoSmithKline Brasil Limitada	Ph,CH	d e m p	
Colombia	Bogota	GlaxoSmithKline Colombia S.A.	Ph,CH	m	
Venezuela	Caracas	GlaxoSmithKline Venezuela, C.A.	Ph,CH	m	
Middle East & Africa					
Nigeria	Lagos	GlaxoSmithKline Consumer Nigeria plc (ii)	Ph,CH	e m p	46
Saudi Arabia	Jeddah	Glaxo Saudi Arabia Limited	Ph	p	49
South Africa	Johannesburg	GlaxoSmithKline South Africa (Pty) Limited	Ph,CH	d e m p	
Turkey	Istanbul	GlaxoSmithKline Ilaclari Sanayi ve Ticaret A.S.	Ph,CH	m	

Middle East & Africa	Location	Associate	Sector	Activity	%
South Africa	Johannesburg	Aspen Pharmacare Holdings Limited (iii)	Ph,CH	m p r	12

(i) Exempt from the provisions of section 7 of the Companies (Amendment) Act 1986 (Ireland). In addition to those subsidiary companies scheduled in the table above, Stiefel Distributors (Ireland) Limited; SmithKline Beecham (Manufacturing) Limited; GlaxoSmithKline Consumer Healthcare Investments (Ireland) Limited; GlaxoSmithKline Consumer Healthcare Investments (Ireland) (No. 2); GlaxoSmithKline Investments (Ireland) Limited and GlaxoSmithKline Consumer Healthcare Ireland IP Limited are also exempt from these provisions as they are consolidated in the group financial statements.

(ii) Consolidated as a subsidiary in accordance with section 1162 (4)(a) of the Companies Act 2006 on the grounds of dominant influence.

(iii) Equity accounted on the grounds of significant influence.

(iv) Incorporated in Ireland.

* Directly held wholly owned subsidiary of GlaxoSmithKline plc.

Key

Business sector: Ph Pharmaceuticals, CH Consumer Healthcare

Business activity: d development, e exporting, f finance, h holding company, i insurance, m marketing, p production, r research, s service

Full details of all Group subsidiaries and associates will be attached to the company's Annual Return to be filed with the UK Registrar of Companies. Each of GlaxoSmithKline Capital Inc. and GlaxoSmithKline Capital plc is a wholly-owned finance subsidiary of the company, and the company has fully and unconditionally guaranteed the securities issued by each of GlaxoSmithKline Capital Inc. and GlaxoSmithKline Capital plc.

Notes to the financial statements
continued

45 Legal proceedings

The Group is involved in significant legal and administrative proceedings, principally product liability, intellectual property, tax, anti-trust and governmental investigations, as well as related private litigation. The Group makes provision for these proceedings on a regular basis as summarised in Note 2, 'Accounting principles and policies' and Note 29, 'Other provisions'. The Group may become involved in significant legal proceedings in respect of which it is not possible to make a reliable estimate of the expected financial effect, if any, that could result from ultimate resolution of the proceedings. In these cases, appropriate disclosures about such cases would be included, but no provision would be made.

With respect to each of the legal proceedings described below, other than those for which a provision has been made, the Group is unable to make a reliable estimate of the expected financial effect at this stage. The Group does not believe that information about the amount sought by the plaintiffs, if that is known, would be meaningful with respect to those legal proceedings. This is due to a number of factors, including, but not limited to, the stage of proceedings, the entitlement of parties to appeal a decision and clarity as to theories of liability, damages and governing law. Intellectual property claims include challenges to the validity and enforceability of the Group's patents on various products or processes as well as assertions of non-infringement of those patents. A loss in any of these cases could result in loss of patent protection for the product at issue. The consequences of any such loss could be a significant decrease in sales of that product and could materially affect future results of operations for the Group.

Legal expenses incurred and provisions related to legal claims are charged to selling, general and administration costs. Provisions are made, after taking appropriate legal and other specialist advice, where an outflow of resources is considered probable and a reliable estimate can be made of the likely outcome of the dispute. For certain product liability claims, the Group will make a provision where there is sufficient history of claims made and settlements to enable management to make a reliable estimate of the provision required to cover unasserted claims. At 31 December 2014, the Group's aggregate provision for legal and other disputes (not including tax matters described in Note 14, 'Taxation') was £0.5 billion. 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 Group's 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 by a material amount the amount of the provisions reported in the Group's financial statements. If this were to happen, it could have a material adverse impact on the results of operations of the Group in the reporting period in which the judgments are incurred or the settlements entered into. The most significant of these matters are described below.

Intellectual property

Avodart/Jalyn

On 29 November 2010, Banner Pharmacaps, Inc. (Banner) notified the Group that it had filed an Abbreviated New Drug Application (ANDA) to market a generic version of *Avodart* (dutasteride) in the USA. Banner's notification contained a Paragraph IV certification alleging that two patents expiring in 2013 and one patent expiring in 2015 (the '467 patent) covering the compound dutasteride were invalid or not infringed by Banner's proposed generic dutasteride product. The Group subsequently received similar notices from Anchen Pharmaceuticals (Anchen), Apotex (Apotex), Roxane Laboratories (Roxane), Watson Laboratories, Inc (Watson), and Mylan Pharmaceuticals, Inc. (Mylan) each variously challenging either the '467 patent or all three patents.

On 29 December 2010, Anchen notified the Group that it had filed an ANDA for *Jalyn* with a Paragraph IV certification alleging that the '467 patent was invalid, unenforceable or not infringed. *Jalyn*, a combination of dutasteride and tamsulosin, is covered by the same three patents that cover *Avodart*. Subsequently, the Group received similar notices from Impax Laboratories, Inc. (Impax) and Watson challenging one or more of the patents covering *Jalyn*.

The Group filed suit against Anchen, Banner, Impax, Mylan, Roxane and Watson in the United States District Court for the District of Delaware for infringement of the *Avodart* and *Jalyn* patents, as applicable, and the cases were consolidated for trial. On 31 August 2012, the Group filed a separate suit against Apotex in the same court for infringement of the '467 patent. This case was not consolidated with the original case against the other generic defendants. On 31 May 2013, the Court ordered that the Apotex case would be stayed pending the entry of judgment in the Banner et al case, and Apotex subsequently agreed to be bound by the outcome of the consolidated cases. On 17 January 2013, the Group and Anchen settled the litigation on terms that would allow Anchen to enter the market for *Jalyn* in the fourth quarter of 2015 or earlier under certain circumstances. The Group previously had settled an earlier patent challenge against *Avodart* by Teva Pharmaceuticals (Teva) on terms that will allow Teva to launch its generic dutasteride product in the fourth quarter of 2015 or earlier under certain circumstances. Teva's generic dutasteride product was approved by the FDA on 21 December 2010.

A trial on the consolidated case against the generic defendants was held on 28 January 2013. On 13 August 2013, the District Court upheld the validity of the '467 patent. Banner, Impax, Mylan, Roxane and Watson appealed the decision in favour of the Group to the United States Court of Appeals for the Federal Circuit on 27 August 2013. On 24 February 2014, the Federal Circuit entered a decision in favour of the Group affirming the decision of the District Court and concluding the matter.

Benlysta

Human Genome Sciences, Inc. (HGS), a Group company, holds a European Patent covering 18 countries, including the UK, which covers antibodies that bind to BLyS, defined in functional terms. Eli Lilly and Company (Eli Lilly) previously had challenged the validity of this patent, but the patent has been upheld by the European Patent Office and the UK courts, and these validity challenges have concluded.

Eli Lilly also had requested a declaration that any Supplementary Protection Certificate (SPC) filed by HGS to extend the term of this patent for five years, based upon Eli Lilly's future Marketing Authorisation (MA) for an anti-BLyS antibody, will be invalid. The UK High Court denied Lilly's motion in July 2014. On 2 October 2014, Eli Lilly announced that it was ceasing the development of its anti-BLyS antibody. HGS applied to have the appeal dismissed and, on 14 November 2014, Eli Lilly consented not to appeal the Court's decision, thus ending the litigation.

Epzicom/Trizivir/Kivexa

On 30 November 2007, the Group's affiliate, ViiV Healthcare, received notice that Teva Pharmaceuticals USA, Inc. (Teva) had filed an ANDA with a Paragraph IV certification for *Epzicom* (the combination of lamivudine and abacavir). The certification challenged only the patent covering the hemisulfate salt of abacavir, which expires in 2018. ViiV Healthcare did not sue Teva under this patent. On 27 June 2011, ViiV Healthcare received notice that Teva had amended its ANDA for *Epzicom* to contain a Paragraph IV certification for two additional patents listed in the Orange Book, alleging the patents were invalid, unenforceable or not infringed.

The patents challenged in this new certification relate to a method of treating HIV using the combination (expiring in 2016), and a certain crystal form of lamivudine (expiring in 2016). On 5 August 2011, ViiV Healthcare filed suit against Teva under the combination patent in the United States District Court for the District of Delaware.

45 Legal proceedings continued

On 18 May 2011, ViiV Healthcare received notice that Lupin Ltd. (Lupin) had filed an ANDA containing a Paragraph IV certification for *Trizivir* (the triple combination of lamivudine, abacavir and zidovudine) alleging that three patents listed in the Orange Book for *Trizivir* were invalid, unenforceable or not infringed. These patents relate to a method of treating HIV using the triple combination (expiring in 2016), the hemisulfate salt of abacavir (expiring in 2018), and a certain crystal form of lamivudine (expiring in 2016). On 29 June 2011, ViiV Healthcare filed suit against Lupin under the patent covering the triple combination in the United States District Court for the District of Delaware. The District Court consolidated the case relating to *Epzicom* with the case relating to *Trizivir*.

On 17 December 2013, the United States District Court for the District of Delaware upheld the validity of the US patent with an expiry date in March 2016 which covers the combination of lamivudine and abacavir (*Epzicom*) and the triple combination of lamivudine, abacavir and zidovudine (*Trizivir*). In a separate component to the decision, the judge ruled that the Lupin generic version of *Trizivir* did not infringe the patent. Lupin subsequently launched its generic version of *Trizivir*. Teva earlier had stipulated that its generic version of *Epzicom* would infringe the patent, and the District Court enjoined Teva from launching its generic version of *Epzicom* until the expiration of the patent. The parties appealed the judgments. On 12 February 2015, the United States Court of Appeals for the Federal Circuit affirmed the decision of the District Court.

On 6 February 2014, ViiV Healthcare received notice that Lupin had filed an ANDA containing a Paragraph IV certification for *Epzicom*, alleging that the three patents listed in the Orange Book for *Epzicom* are either invalid, unenforceable or not infringed. ViiV Healthcare filed suit against Lupin on 3 March 2014, alleging infringement of both the patent covering the combination of lamivudine and abacavir and the patent covering the hemisulfate salt of abacavir. A trial date has been set for 18 April 2016.

On 2 June 2014, Apotex filed a Petition requesting Inter Partes Review (IPR) of the combination patent covering *Epzicom* and *Trizivir*. The United States Patent and Trademark Office (USPTO) granted the petition on 8 December 2014 which initiates an IPR of the patent by the USPTO. On 8 January 2015, Teva filed a petition with the USPTO to join the proceedings.

Teva Canada and Apotex have each challenged patents for *Kivexa* (lamivudine/abacavir) listed on the Canadian Patent Register. ViiV Healthcare filed suit for infringement against each party under the patent covering the combination of lamivudine and abacavir and the patent covering the hemisulfate salt of abacavir. A ruling that the hemisulfate salt patent was improperly listed has resulted in the de-listing of such patent from the Canadian Patent Register. ViiV Healthcare has appealed this ruling. Notwithstanding this ruling, the infringement cases against Teva Canada and Apotex relating to the validity of the combination and hemisulfate salt patents will proceed; a hearing on the infringement case against Teva Canada has been scheduled for 27 April 2015, and a hearing on the infringement case against Apotex has been scheduled for December 2015.

In addition, Teva has challenged the claims of the combination patent covering *Kivexa* in Germany, France and Italy. There is also related litigation ongoing in the United Kingdom. The combination patent litigation involving ViiV Healthcare and Teva commenced in Germany in December 2013, in France in June 2014, and in Italy in September 2014. The combination patent expires across Europe in 2016. In addition, ViiV Healthcare has a corresponding Supplementary Protection Certificate (SPC) for *Kivexa* (but not *Trizivir*) that does not expire until late 2019.

As well as challenging the validity of the underlying patents, Teva is challenging the SPCs on the basis that they are invalid due to a failure to comply with the requirements of Article 3(d) of Regulation (EC) No. 469/2009 (the SPC Regulation) ('Teva's Article 3(d) contention'). These cases are pending. In Germany, oral hearing has been set for 19 May 2015, and in France, oral hearing has been set for 15 December 2015. A final hearing date has yet to be set in Italy.

On 26 November 2014, ViiV Healthcare commenced an action in the UK against Teva for a declaration that Teva's Article 3(d) contention concerning the *Kivexa* SPC is incorrect. An interim hearing is scheduled for 25 March 2015 to determine whether questions regarding the SPC Regulation should be referred to the Court of Justice for the European Union.

Lexiva

On 23 April 2012, Ranbaxy Laboratories Limited (Ranbaxy) notified ViiV Healthcare that it had filed a Paragraph IV certification alleging that a patent claiming a polymorphic form of fosamprenavir calcium, the active ingredient in *Lexiva*, was invalid or not infringed. The patent expires in 2020. ViiV Healthcare did not sue under this patent.

On 30 July 2012, Mylan Pharmaceuticals, Inc. (Mylan) notified ViiV Healthcare that it had filed an ANDA for *Lexiva* with a Paragraph IV certification asserting that patents claiming (i) the active ingredient (expiring in 2018) and (ii) a polymorphic form of the active ingredient (expiring 2020), are invalid, unenforceable, or not infringed. Mylan is the second generic company to file an ANDA for *Lexiva*, but the first generic company to challenge the basic compound patent on the active ingredient. On 23 August 2012, ViiV Healthcare and its licensor, Vertex Pharmaceuticals Incorporated, filed a patent infringement suit against Mylan on the patent claiming the active ingredient (but not the patent claiming the polymorph) in the United States District Court for the District of Delaware. On 26 May 2014, the parties settled the case on terms that are confidential.

On 18 October 2012, Ranbaxy filed a petition for an Inter Partes Review (IPR) alleging that the patent claiming the active ingredient for *Lexiva* is invalid. On 5 March 2013, the USPTO granted Ranbaxy's petition. The IPR was settled October 2014 on terms that are confidential.

On 10 December 2014, Lupin Limited filed a petition with the USPTO for an IPR alleging that the compound patent covering the active ingredient for *Lexiva* is invalid. The USPTO has not yet ruled on whether the petition for the IPR will be granted.

Product liability

Pre-clinical and clinical trials are conducted during the development of potential products to determine the safety and efficacy of products for use by humans following approval by regulatory bodies. Notwithstanding these efforts, when drugs and vaccines are introduced into the marketplace, unanticipated safety issues may become, or be claimed by some to be, evident. The Group is currently a defendant in a number of product liability lawsuits related to the Group's Pharmaceutical, Vaccine and Consumer Healthcare products. The most significant of those matters are described below.

The Group has been able to make a reliable estimate of the expected financial effect of the matters discussed in this category and has included a provision, as appropriate, for the matters below in the provision for legal and other disputes. Matters for which the Group has made a provision are also noted in Note 29, 'Other provisions'.

Notes to the financial statements
continued

45 Legal proceedings continued

Avandia
The Group has been named in product liability lawsuits on behalf of individuals asserting personal injury claims arising out of the use of *Avandia*. The federal cases filed against the Group are part of a multi-district litigation proceeding pending in the United States District Court for the Eastern District of Pennsylvania (the 'MDL Court'). Cases have also been filed in a number of state courts.

As of February 2015, the Group has reached agreements to settle the substantial majority of federal and state cases pending in the US. 15 purported class actions on *Avandia* are pending in Canada. The Group has reached an agreement in principle to resolve the single purported consumer class action in Israel, which has now been approved by the Court. In the UK, litigation against the Group has ended following the formal discontinuance of the claims of the majority of the claimants and a court order striking the claims of the remaining claimants.

There are four purported class actions seeking economic damages on behalf of third party payers asserting claims arising under various state and federal laws, including the Racketeer Influenced and Corrupt Organizations Act (RICO), state unfair trade practices and/or consumer protection laws. The MDL Court denied the Group's motion to dismiss three of the third party payer actions, and the fourth action has been stayed. The Group has appealed the decision to the United States Court of Appeals for the Third Circuit. One consumer class action brought on behalf of Missouri residents remains pending in the MDL Court. Humana Medical Group (Humana) has brought two separate subrogation actions, one as a purported class action in the MDL Court. The MDL Court has denied class certification. United Health Group, Inc. has brought a separate subrogation action against the Group.

Paxil/Seroxat and *Paxil CR*
The Group has received numerous lawsuits and claims alleging that use of *Paxil* (paroxetine) has caused a variety of injuries. Most of these lawsuits in recent years have alleged that the use of *Paxil* during pregnancy resulted in the birth of a child with birth defects or health issues. Other lawsuits and claims have alleged that patients who took *Paxil* committed or attempted to commit suicide or acts of violence or that patients suffered symptoms on discontinuing treatment with *Paxil*.

- **Pregnancy**

The Group has reached agreements to settle the substantial majority of the US claims relating to the use of *Paxil* during pregnancy as of February 2015, but a number of claims related to use during pregnancy are still pending in various courts in the US. Other matters have been dismissed without payment. Currently, there are three trials scheduled in 2015.

There are two proposed, and one certified, class actions in Canada. The action that has been certified as a national class action is in British Columbia and relates to cardiovascular defects. An appeal from that certification decision was dismissed in October 2013, and the case is scheduled to be tried in October 2016.

- **Acts of violence**

As of February 2015, there were eight pending matters, including one lawsuit on appeal (pending in the United States Court of Appeals for the Ninth Circuit) concerning allegations that patients who took *Paxil* committed or attempted to commit suicide or acts of violence. Currently, there are no trials scheduled for 2015.

- **Discontinuation**

In the UK, in late 2010, public funding was withdrawn from the claimants who had received funding to pursue litigation alleging that *Paxil/Seroxat* had caused them to suffer from withdrawal reactions and dependency. The majority of the claimants discontinued their claims.

In June 2013, the Group was informed that the Legal Aid Agency (LAA) (formerly the Legal Services Commission) was considering whether to discharge the public funding certificate following the recommendation of its Special Cases Review Panel that the case has poor prospects of success. On 29 January 2015, the LAA discharged the public certificate, effectively ending the group action.

Poligrip
Beginning in 2005, a number of product liability lawsuits and claims were filed against the Group in both state and federal courts in the USA, including purported class actions, alleging that the zinc in *Super Poligrip* causes copper depletion and permanent neurologic injury. The federal cases were consolidated in the Denture Cream Adhesive multi-district litigation (MDL) in the United States District Court for the Southern District of Florida which was established in June 2009. The original four putative class actions in the MDL have been dismissed. In 2013, a putative class action was filed in Puerto Rico, which was removed to federal court and transferred to the MDL where it remains pending as of February 2015.

With two current exceptions (one state court case in Pennsylvania, and one state court case in small claims court in Tennessee), all other state court cases were consolidated in the Philadelphia state court Mass Tort Program (MTP). As of February 2015, there are no cases currently pending against GSK in the Philadelphia MTP. The vast majority of individual cases have been dismissed, with seven active individual cases and one putative class action in the MDL, and two state court cases, still pending against the Group in the USA.

In Canada, one individual lawsuit and five purported class actions asserting consumer fraud claims have also been filed. Of those, the individual lawsuit and one putative class action have been dismissed. In addition, there are a few filed and unfiled claims in Turkey, the UK and elsewhere. The Group voluntarily withdrew all zinc-containing formulations of *Super Poligrip* from the market in early 2010.

Sales and marketing and regulation
The Group has been able to make a reliable estimate of the expected financial effect of the matters discussed in this category, and has included a provision for such matters in the provision for legal and other disputes, except as noted below. Matters for which the Group has made a provision are also noted in Note 29, 'Other provisions'.

China investigation
On 19 September 2014, the Group announced that the Changsha Intermediate People's Court in Hunan Province, China ruled that according to Chinese law, GSK China Investment Co. Ltd (GSKCI) had offered money or property to non-government personnel in order to obtain improper commercial gains, and been found guilty of bribing non-government personnel. The verdict followed investigations initiated by China's Ministry of Public Security in June 2013. As a result of the Court's verdict, GSKCI paid a fine of RMB 3 billion (£301 million) to the Chinese government.

SEC/DOJ and SFO Anti-Corruption enquiries
The US Securities and Exchange Commission (SEC) and the US Department of Justice (DOJ) initiated an industry-wide enquiry in 2010 into whether pharmaceutical companies may have engaged in violations of the US Foreign Corrupt Practices Act (FCPA) relating to the sale of pharmaceuticals, including in Argentina, Brazil, Canada, China, Germany, Italy, Poland, Russia and Saudi Arabia. The Group is one of the companies that has been asked to respond to this enquiry and is cooperating with the SEC and DOJ. The Group has informed the DOJ and SEC about the investigation of its China operations by the Chinese government that was initiated in 2013 and the outcome of that investigation.

45 Legal proceedings continued

The Group also has advised the UK Serious Fraud Office (SFO) regarding the investigation of its China operations by the Chinese government and the outcome of that investigation. The SFO has requested information from the Group on its commercial operations in a number of countries. On 27 May 2014, the SFO informed the Group that it had formally opened a criminal investigation into the Group's practices. The Group is responding to the SFO's requests. The Group is unable to make a reliable estimate of the expected financial effect of these investigations, and no provision has been made for them.

US State Sales and Marketing Investigations

After the Group concluded an agreement in 2012 with the United States Government, multiple states and the District of Columbia to conclude the Group's most significant ongoing United States federal government investigations, the Group was notified by a consortium of US state attorneys general that they were investigating the conduct underlying the Group's 2012 federal and state settlements related to products other than *Avandia* to determine if the Group violated state unfair and deceptive trade practices statutes. The Group has resolved these allegations with 47 states and the District of Columbia through civil settlement agreements. No other state attorney general actions are pending related to this matter.

Avandia

The Group is defending an action by the County of Santa Clara, California, which was brought under California's consumer protection laws seeking civil penalties and restitution as a result of the Group's marketing of *Avandia*. Pre-trial activities are continuing. If the case proceeds to trial, the MDL Court will send the case back to California federal court for a bench trial.

Seven lawsuits were filed on behalf of Native American tribes relating to the sale and marketing of *Avandia* and other Group products. The Group resolved all claims by and against these groups in December 2014.

Average wholesale price

A number of states through their respective Attorneys General, and most of the counties in New York State, filed civil lawsuits in state and federal courts against the Group and many other pharmaceutical companies claiming damages and restitution due to average wholesale price (AWP) and/or wholesale acquisition cost (WAC) price reporting for pharmaceutical products covered by the states' Medicaid programmes. These cases alleged that the Group reported or caused to be reported false AWP and WAC prices, which, in turn, allegedly caused state Medicaid agencies to reimburse providers more money for covered medicines than the agencies intended. The states have sought recovery on behalf of the states as payers and, in some cases, on behalf of in-state patients as consumers. The Group has resolved AWP claims by state Medicaid programmes in almost all of the states through the Group's settlement agreement with the federal government announced in September 2005 and in multiple additional settlements since then. Litigation concerning AWP issues is continuing with two states, Illinois and Wisconsin. No trial involving the Group is scheduled for 2015.

Cidra third-party payer litigation

On 25 July 2013, a number of major US healthcare insurers filed suit against the Group in the Philadelphia, Pennsylvania County Court of Common Pleas seeking compensation for reimbursements they made for medicines manufactured at the Group's former Cidra plant in Puerto Rico. These insurers claim that the Group knowingly and illegally marketed and sold adulterated drugs manufactured under conditions non-compliant with cGMP and that they, as third-party insurers, were unlawfully induced to pay for them. The suit alleges both US federal and various state law causes of action.

On 12 August 2013, the Group removed the case to the United States District Court for the Eastern District of Pennsylvania and has moved to dismiss the complaint. Oral argument on the motion to dismiss was held on 4 February 2013. The case has been stayed pending the decision of the United States Court of Appeals for the Third Circuit on an overlapping, potentially dispositive issue in the Group's third-party payer litigation regarding *Avandia*. The Group has made no provision for this matter.

The manufacturing issues at the Group's plant at Cidra were the subject of federal and state claims that the Group resolved with the US federal Government in 2010 and for which the Group has compliance obligations under a Corporate Integrity Agreement with the US Government.

Paxil/Seroxat

In 2004, the Group settled a lawsuit filed by the New York State Attorney General's office alleging that the Group failed to disclose data on the use of *Paxil* in children and adolescents. In 2007 and 2008, the Group made class settlements of lawsuits brought by consumers and third-party payers, respectively, for economic damages allegedly resulting from prescriptions of *Paxil* to children and adolescents. The Group denied liability in these settlements. In 2010, plaintiffs voluntarily dismissed a similar purported class action filed on behalf of governmental entities that paid for prescriptions of *Paxil* to minors.

There remains a similar purported class action in Canada seeking economic damages on behalf of individuals who purchased *Paxil* for use by patients under the age of 18. The certification application as part of this purported class action was adjourned in 2012 to permit the filing of further evidence and is likely to resume in 2015.

Anti-trust/competition

The Group has been able to make a reliable estimate of the expected financial effect of the matters discussed in this category and has included a provision for such matters in the provision for legal and other disputes, except as noted below. Matters for which the Group has made a provision are also noted in Note 29, 'Other provisions'.

EU sector enquiry

In 2008, the European Commission launched an enquiry to investigate possible anti-competitive conditions in the pharmaceutical sector. The Final Report of the Pharmaceutical Sector Inquiry was published on 8 July 2009. As announced in the Final Report, the Commission decided to continue monitoring patent settlement agreements between originator and generic companies relating to EU markets. As a result, the Group has provided input to the reports published in 2010, 2011, 2012, 2013 and 2014. No provision has been made for this matter.

UK Competition and Markets Authority investigation

On 12 August 2011, the UK Office of Fair Trading (now known as the Competition and Markets Authority (CMA)) launched a formal investigation of the Group and other pharmaceutical companies for potential infringement of the Competition Act. The investigation focuses on whether: (i) litigation settlements between the Group and potential suppliers of generic paroxetine formulations, entered between 2001 and 2003, had as their object or effect the prevention, restriction, or distortion of competition in the UK, and (ii) the Group has infringed its dominant position by making payments to potential suppliers of generic paroxetine with the aim of restricting the development of full generic competition in the UK. The Group terminated the agreements at issue in 2004. The CMA investigation covers issues that were also investigated by the European Commission in 2005 – 2006 in respect of paroxetine in the European Union, and also in 2008, as part of the European Commission Pharmaceutical Sector enquiry.

Notes to the financial statements
continued

45 Legal proceedings continued

On 2 March 2012, the Commission announced that it had formally concluded its enquiry with no further action. In March 2012, the CMA decided to focus its investigation on potential anti-competitive aspects of the paroxetine settlement agreements and dropped the investigation in relation to potential abuse of dominance. However, in February 2013, the CMA decided to re-open the dominance aspects of the matter.

The Group has cooperated with the CMA in its investigations since the outset. On 19 April 2013, the CMA issued its Statement of Objections (SO) setting out the decision that the CMA would propose to make and allowing the affected parties to make representations on the proposed decision. In the SO, the CMA states that it would propose a fine on the Group, but no details were provided on how any fine might be calculated. On 7 August 2013, the Group submitted its response to the SO, rebutting the CMA's arguments. On 21 October 2014, the CMA issued a Secondary Statement of Objections, amending its "theory of harm". The Group responded on 2 December 2014. At a "State of Play" meeting on 22 January 2015, the CMA informed the Group that no final decision has been made, but that it will continue its investigation. The CMA's website indicates that a final decision will be made in late spring 2015. If the CMA decides to fine the Group, the CMA's decision may be appealed to the Competition Appeal Tribunal.

Lamictal

Purported direct and indirect purchaser class actions were filed in the United States District Court for the District of New Jersey alleging that the Group and Teva Pharmaceuticals unlawfully conspired to delay generic competition for *Lamictal*, resulting in their being overcharged. A separate count accuses the Group of monopolising the market. The District Court denied the motion of the purported direct purchaser class for reconsideration of the order granting the Group's motion to dismiss in December 2012. The plaintiffs have appealed this decision to the United States Court of Appeals for the Third Circuit, and oral argument was heard on 18 November 2014. We await decision by the Third Circuit. The action by the purported indirect purchase class has been suspended pending a decision on the direct purchasers' appeal.

Wellbutrin XL

Actions have been filed against Biovail Corporation (Biovail) and the Group in the United States District Court for the Eastern District of Pennsylvania by purported classes of direct and indirect purchasers who allege unlawful monopolisation and other anti-trust violations related to the enforcement of Biovail's patents for *Wellbutrin XL* and the filing, by Biovail, of citizen petitions. Both direct and indirect purchaser classes have been certified, although a motion to decertify the indirect purchaser class remains pending. The District Court granted the Group's motion for partial summary judgment primarily on immunity grounds.

The sole remaining claim relates to plaintiffs' allegations that the Group entered into an anti-competitive reverse payment settlement to resolve the patent infringement litigation. Dispositive motions in connection with the remaining issue in the case are due on 20 March 2015.

Commercial and corporate

Where the Group is able to make a reliable estimate of the expected financial effect, if any, for the matters discussed in this category, it has included a provision in respect of such matters in the provision for legal and other disputes as set out in Note 29, 'Other provisions'.

Securities/ERISA class actions – Stiefel

On 6 July 2009, a class action suit brought on behalf of current and former employees of Stiefel Laboratories, Inc. (Stiefel), a Group company, was filed in the United States District Court for the Southern District of Florida.

The complaint alleges that Stiefel and its officers and directors violated the US Employee Retirement Income Security Act (ERISA) and federal and state securities laws by inducing Stiefel employees to sell their shares in the employee stock plan back to Stiefel at a greatly undervalued price and without disclosing to employees that Stiefel was about to be sold to the Group. On 21 July 2011, the District Court denied plaintiffs' motion for class certification.

In October 2011, the District Court granted the defendants' motions for summary judgment, dismissing all but one of the remaining plaintiffs in the litigation. Trial of claims of that one plaintiff, Timothy Finnerty, took place in May 2012 and resulted in a $1.5 million jury verdict in favour of Mr. Finnerty on his securities claims (separately, the Group settled Mr. Finnerty's ERISA claims). The Group appealed the verdict, but the Court of Appeals for the Eleventh Circuit affirmed the verdict on 30 June 2014. A petition for certiorari has been filed with the US Supreme Court. Additionally, Stiefel won a complete defence verdict in the Fried case, tried in federal court in Florida in October 2013. Plaintiff appealed that verdict to the Eleventh Circuit, and a decision from that Court is pending. Two other Stiefel cases pending in Florida now have been dismissed: the Bacon case, settled by the Group in January 2015, and MacKay (in which summary judgment was granted in favour of the Group, a ruling that was later upheld by the 11th Circuit). The remaining case in Florida (Martinolich) is scheduled for trial in August 2015. Discovery continues in the Georgia and New York suits. All of these lawsuits involve claims similar to those brought in Finnerty.

In addition to the private litigant suits, on 12 December 2011, the US Securities and Exchange Commission (SEC) filed a formal complaint against Stiefel and Charles Stiefel in the United States District Court for the District of Florida alleging that Stiefel and its principals violated federal securities laws by inducing Stiefel employees to sell their shares in the employee stock plan back to the company at a greatly undervalued price and without disclosing to employees that the company was about to be sold. This matter has been stayed pending a final ruling on the Finnerty appeal. The Group has made a provision for the Stiefel litigation.

Environmental matters

The Group has been notified of its potential responsibility relating to past operations and its past waste disposal practices at certain sites, primarily in the USA. Some of these matters are the subject of litigation, including proceedings initiated by the US federal or state governments for waste disposal, site remediation costs and tort actions brought by private parties.

The Group has been advised that it may be a responsible party at approximately 22 sites, of which 11 appear on the National Priority List created by the Comprehensive Environmental Response Compensation and Liability Act (Superfund). These proceedings seek to require the operators of hazardous waste facilities, transporters of waste to the sites and generators of hazardous waste disposed of at the sites to clean up the sites or to reimburse the US Government for cleanup costs. In most instances, the Group is involved as an alleged generator of hazardous waste.

Although Superfund provides that the defendants are jointly and severally liable for clean up costs, these proceedings are frequently resolved on the basis of the nature and quantity of waste disposed of by the generator at the site. The Group's proportionate liability for cleanup costs has been substantially determined for 18 of the sites referred to above.

The Group's potential liability varies greatly from site to site. While the cost of investigation, study and remediation at such sites could, over time, be significant, the Group routinely accrues amounts related to its share of the liability for such matters.

Financial statements of GlaxoSmithKline plc
prepared under UK GAAP

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

The Directors are responsible for preparing the parent company, GlaxoSmithKline plc, financial statements and the Remuneration report in accordance with applicable law and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the parent 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 parent 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 with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- prepare the financial statements on a 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 company and to enable them to ensure that the parent company financial statements and Remuneration report 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.

The parent company financial statements for the year ended 31 December 2014, comprising the balance sheet for the year ended 31 December 2014 and supporting notes, are set out on pages 213 to 216 of this report.

The responsibilities of the auditors in relation to the parent company financial statements are set out in the Independent Auditors' report on page 212.

The financial statements for the year ended 31 December 2014 are included in the Annual Report, which is published in printed form and made available on our website. The Directors are responsible for the maintenance and integrity of the Annual Report on our website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

The Strategic Report and risk sections of the Annual Report include a fair review of the development and performance of the business and the position of the company and the Group taken as a whole, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to auditors

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

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

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

Going concern basis

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

The UK Corporate Governance Code

The Board considers that GlaxoSmithKline plc applies the principles and provisions of the UK Corporate Governance Code maintained by the Financial Reporting Council, as described in the Corporate Governance section on pages 78 to 95, and has complied with its provisions. The Board further considers that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

As required by the Financial Conduct Authority's Listing Rules, the auditors have considered the Directors' statement of compliance in relation to those points of the UK Corporate Governance Code which are specified for their review.

Sir Christopher Gent
Chairman
26 February 2015

Independent Auditor's report
to the members of GlaxoSmithKline plc

Report on the parent company financial statements

Our Opinion
In our opinion, the parent company financial statements defined below:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2014;
- 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.

What we have audited
GlaxoSmithKline plc's financial statements comprise:

- the Company balance sheet as at 31 December 2014; and
- the notes to the Company balance sheet, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information
Companies Act 2006 opinion
In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting
Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our` audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received
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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Directors' Remuneration report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Directors' statement of responsibilities set out on page 211, 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 ISAs (UK & 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.

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of GlaxoSmithKline plc for the year ended 31 December 2014.

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
26 February 2015

Company balance sheet – UK GAAP
at 31 December 2014

	Notes	2014 £m	2013 £m
Fixed assets – investments	E	**19,691**	19,691
Debtors	F	**10,900**	3,358
Cash at bank		**2**	12
Current assets		**10,902**	3,370
Creditors: amounts due within one year	G	**(1,799)**	(531)
Net current assets		**9,103**	2,839
Total assets less current liabilities		**28,794**	22,530
Provisions for liabilities	H	**(25)**	–
Net assets		**28,769**	22,530
Capital and reserves			
Called up share capital	I	**1,339**	1,336
Share premium account	I	**2,759**	2,595
Other reserves	J	**1,420**	1,420
Profit and loss account	J	**23,251**	17,179
Equity shareholders' funds		**28,769**	22,530

The financial statements on pages 213 to 216 were approved by the Board on 26 February 2015 and signed on its behalf by

Sir Christopher Gent
Chairman

GlaxoSmithKline plc
Registered number: 3888792

Notes to the company balance sheet – UK GAAP

A) Presentation of the financial statements

Description of business

GlaxoSmithKline plc is the parent company of GSK, a major global healthcare group which is engaged in the creation and discovery, development, manufacture and marketing of pharmaceutical products, including vaccines, over-the-counter (OTC) medicines and health-related consumer products.

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 Practice (UK GAAP) and with UK accounting presentation as at 31 December 2014, with comparative figures as at 31 December 2013. Where appropriate, comparative figures are reclassified to ensure a consistent presentation with current year information.

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

The company is included in the Group financial statements of GlaxoSmithKline plc, which are publicly available. Advantage has been taken of the exemption provided by FRS 1 'Cash flow statements (revised 1996)' not to prepare a cash flow statement and of the exemption provided by FRS 8 'Related party disclosures' not to disclose any related party transactions within the Group.

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, or at the forward rate if hedged by a forward exchange contract. Foreign currency assets and liabilities are translated at rates of exchange ruling at the balance sheet date, or at the forward rate.

Dividends paid and received

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

Expenditure

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

Investments in subsidiary companies

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

Impairment of investments

The carrying value 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.

Share based payments

The issuance by the company to its subsidiaries of a grant over the company's shares, represents additional capital contributions by the company in its subsidiaries. An additional investment in subsidiaries results in a corresponding increase in shareholders' equity. The additional capital contribution is based on the fair value of the grant issued, allocated over the underlying grant's vesting period.

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.

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.

Financial guarantees

Liabilities relating to guarantees issued by the company on behalf of its subsidiaries are initially recognised at fair value and amortised over the life of the guarantee.

Legal and other disputes

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

C) Operating profit

A fee of £11,523 (2013 – £10,299) relating to the audit of the company has been charged in operating profit.

D) Dividends

The directors declared four interim dividends resulting in a dividend for the year of 80 pence, a 2 pence increase on the dividend for 2013. For further details, see Note 16 to the Group financial statements, 'Dividends'.

Notes to the company balance sheet – UK GAAP continued

E) Fixed assets – investments

	2014 £m	2013 £m
Shares in GlaxoSmithKline Services Unlimited	**613**	613
Shares in GlaxoSmithKline Holdings (One) Limited	**18**	18
Shares in GlaxoSmithKline Holdings Limited	**17,888**	17,888
Shares in GlaxoSmithKline Mercury Limited	**33**	33
	18,552	18,552
Capital contribution relating to share based payments	**1,139**	1,139
	19,691	19,691

F) Debtors

	2014 £m	2013 £m
Amounts due within one year:		
UK Corporation tax recoverable	**205**	203
Other receivables	**3**	–
Deferred tax recoverable	**205**	–
Amounts owed by Group undertakings	**10,055**	2,761
	10,468	2,964
Amounts due after more than one year:		
Amounts owed by Group undertakings	**432**	394
	10,900	3,358

The deferred tax asset arises as a result of the recognition of deferred tax on tax losses expected to be used on completion of the Novartis transaction.

G) Creditors

	2014 £m	2013 £m
Amounts due within one year:		
Bank overdraft	**–**	10
Other creditors	**497**	460
Amounts owed to Group undertakings	**1,302**	61
	1,799	531

The company has guaranteed debt issued by one of its subsidiary companies for which it receives an annual fee from the subsidiary. In aggregate, the company has outstanding guarantees over $9 billion of debt instruments.

The amounts due from the subsidiary companies in relation to these guarantee fees will be recovered over the life of the bonds and are disclosed within debtors (see Note F).

H) Provisions for liabilities

	2014 £m	2013 £m
At 1 January	**–**	–
Charge for the year	**148**	–
Utilised	**(138)**	–
Other movements	**15**	–
At 31 December	**25**	–

The provisions for liabilities relate to a number of legal and other disputes in which the company is currently involved.

Notes to the company balance sheet – UK GAAP continued

I) Called up share capital and share premium account

	Ordinary Shares of 25p each		Share premium account
	Number	£m	£m
Share capital authorised			
At 31 December 2013	10,000,000,000	2,500	
At 31 December 2014	10,000,000,000	2,500	
Share capital issued and fully paid			
At 1 January 2013	5,397,595,969	1,349	2,022
Issued under employee share schemes	44,610,727	12	573
Share capital cancelled	(100,000,000)	(25)	–
At 31 December 2013	5,342,206,696	1,336	2,595
Issued under employee share schemes	13,090,536	3	164
At 31 December 2014	5,355,297,232	1,339	2,759

	31 December 2014 000	31 December 2013 000
Number of shares issuable under outstanding options	**88,801**	91,303
Number of unissued shares not under option	**4,555,902**	4,566,351

At 31 December 2014, of the issued share capital, 52,734,605 shares were held in the ESOP Trusts, 491,515,950 shares were held as Treasury shares and 4,811,046,677 shares were in free issue. All issued shares are fully paid. The nominal, carrying and market values of the shares held in the ESOP Trusts are disclosed in Note 42, 'Employee share schemes'.

A total of 15 million shares were purchased by the company during 2014 at a cost of £238 million.

J) Reserves

	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2013	1,393	22,401	**23,794**
Profit attributable to shareholders	–	(38)	**(38)**
Dividends to shareholders	–	(3,680)	**(3,680)**
Shares purchased and cancelled or held as Treasury shares	25	(1,504)	**(1,479)**
Capital contribution relating to share based payments	2	–	**2**
At 31 December 2013	1,420	17,179	**18,599**
Profit attributable to shareholders	–	10,003	**10,003**
Dividends to shareholders	–	(3,843)	**(3,843)**
Shares purchased and held as Treasury shares	–	(238)	**(238)**
Treasury shares transferred to the ESOT held by a subsidiary company	–	150	**150**
At 31 December 2014	1,420	23,251	**24,671**

The profit of GlaxoSmithKline plc for the year was £10,003 million (2013 – £38 million loss), which after dividends of £3,843 million (2013 – £3,680 million), gave a retained profit of £6,160 million (2013 – £3,718 million loss). After the cost of shares purchased and held as Treasury shares of £238 million (2013 – £1,504 million) and the effect of the £150 million Treasury shares transferred to a subsidiary company (2013 – £nil), the profit and loss account reserve at 31 December 2014 stood at £23,251 million (2013 – £17,179 million), of which £4,096 million is unrealised (2013 – £4,096 million).

K) Adoption of Financial Reporting Standard (FRS) 101 'Reduced Disclosure Framework'

Following the publication of FRS 100 'Application of Financial Reporting Requirements', GlaxoSmithKline plc is required to change its accounting framework for its entity financial statements, which is currently UK GAAP, for its financial year commencing 1 January 2015. It considers that it is in the best interests of the Group for GlaxoSmithKline plc to adopt FRS 101. No disclosures in the current financial statements would be omitted on adoption of FRS 101.