Financial statements

In this section

Directors’ statement of responsibilities

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

UK company law requires the Directors to prepare financial statements for each financial year. The Directors are required to prepare the Group consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. In preparing the Group consolidated financial statements, the Directors have also elected to comply with IFRS as issued by the International Accounting Standards Board (IASB). 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 financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and its profit or loss for that period.

In preparing the 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 pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and IFRS as issued by the IASB, subject to any material departures disclosed and explained in the Group financial statements;

– 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; and

– prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company’s transactions and disclose with reasonable accuracy at any time the financial position of the 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 2020, comprising principal statements and supporting notes, are set out in the ‘Financial statements’ on pages 154 to 237 of this report. The parent company financial statements for the year ended 31 December 2020, comprising the balance sheet and the statement of changes in equity for the year ended 31 December 2020 and supporting notes, are set out on pages 238 to 242.

The responsibilities of the auditor in relation to the financial statements are set out in the Independent Auditor’s report on pages 142 to 153.

The financial statements for the year ended 31 December 2020 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 2020 confirms that, to the best of his or her knowledge:

– the Group financial statements, which have been prepared in accordance with IFRS, as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, 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, which represent the management 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.

Directors' statement of responsibilities continued

Disclosure of information to auditor

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 auditor is 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 auditor is 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 51 to 76 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 43 to the financial statements, 'Financial instruments and related disclosures'. Having assessed the principal risks and other matters considered in connection with the viability statement, the Directors considered it appropriate to adopt the going concern basis of accounting 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 2018 UK Corporate Governance Code

The Board considers that GlaxoSmithKline plc applies the principles and complies with the provisions of the UK Corporate Governance Code maintained by the Financial Reporting Council, as described in the Corporate Governance section on pages 77 to 110. 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 position and performance, business model and strategy.

As required by the Financial Conduct Authority's Listing Rules, the auditor has 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 2020, 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 Jonathan Symonds
Chairman

8 March 2021

Independent Auditor's report to the members of GlaxoSmithKline plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- The financial statements of GlaxoSmithKline plc (the 'Parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- The Parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework"; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise the:

Group

- Consolidated balance sheet as at 31 December 2020;
- Consolidated income statement for the year then ended;
- Consolidated statement of comprehensive income for the year then ended;
- Consolidated statement of changes in equity for the year then ended;
- Consolidated cash flow statement for the year then ended; and
- Notes 1 to 46 to the financial statements, which includes the accounting principles and policies.

Parent company

- Balance sheet as at 31 December 2020;
- Statement of changes in equity for the year then ended; and
- Notes A to M to the financial statements, which includes the accounting principles and policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union and as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent company, as noted in the Audit & Risk Committee report within the Corporate Governance section of the Annual Report on page 101.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Audit scope and execution

We structured our approach to the audit to reflect how the Group is organised as well as ensuring our audit was both effective and risk focused. Our audit approach can be summarised into the following areas that enabled us to obtain the evidence required to form an opinion on the Group and Parent company financial statements:

- **Risk assessment and audit planning at a Group level.** The central control and common systems throughout most of the Group enabled us to structure our audit centrally. The use of data analytic tools allowed for a more detailed understanding of the flow of transactions, enabling us to focus our risk assessment and design targeted audit testing procedures. Our risk assessment procedures considered the impact of the global pandemic on the account balances, disclosures and company practices. In addition to appointing partners for each of the three businesses, we also had partners coordinate the component and legal entity audits in each country. These global business partners met regularly with the relevant management to understand strategy and matters which arose throughout the year that could have impacted the financial reporting. The regular meetings we had with members of the Internal Audit, the internal Legal Counsel and the Global Ethics & Compliance teams allowed us to understand their work and to review their reports to enhance our risk assessment;
- **Audit work performed at global shared service centres.** A significant amount of the Group's operational processes that cover financial reporting are undertaken in shared service centres. Our Group audit team that included senior individuals responsible for each of the global processes, coordinated our audit work at the shared service centres in scope for the Group audit, to ensure we developed a good understanding of the end-to-end view of the key processes that supported material account balances, classes of transactions and disclosures within the Group financial statements.

Independent Auditor's report continued

Report on the audit of the financial statements continued

We then evaluated the effectiveness of internal controls over financial reporting for these processes and considered the implications for the remainder of our audit work;

– **Audit work executed at component level and individual legal entities.** The following components were subject to audit procedures as well as the assessment of the internal controls over financial reporting: Australia; Belgium; Canada; China; France; Germany; Italy; Japan; Spain; Switzerland; United Kingdom and United States. The Group audit team was in active dialogue throughout the audit with the component audit teams responsible for the audit work under the direction and supervision of the Group audit team. This included determining whether the work was planned and performed in accordance with the overall Group audit strategy and the requirements of our Group audit instructions to the components. Due to restrictions on overseas travel we did not visit the components this year, as we did in the prior year. To satisfy ourselves that our oversight and supervision was appropriate we have performed remote reviews over videoconferencing, we have increased the frequency and length of those reviews depending on the significance and risk of the component and we have continued to attend the planning and clearance meetings of components to engage with local management;

– **Audit procedures undertaken at a Group level and on the Parent company.** In addition to the above, we also performed audit work on the Group and Parent company financial statements, including but not limited to the consolidation of the Group's results, the preparation of the financial statements, certain disclosures within the directors' remuneration report, litigation provisions and exposures in addition to management's entity level and oversight controls relevant to financial reporting. All components or legal entities with annual revenue greater than 1.8% of the total Group revenue were included in our audit scope. The components or legal entities not covered by our audit scope are subject to analytical procedures to confirm our conclusion that there were no significant risks of material misstatement in the aggregated financial information; and

– **Internal controls testing approach.** We tested internal controls over financial reporting across all in-scope entities and entity level controls at the Group level. Common systems allowed for relevant IT controls to be tested centrally across all components. We were able to place reliance on controls where planned and it was more efficient. Notwithstanding the IT controls deficiencies disclosed in the key audit matters section of this report, mitigating controls existed which allowed us to continue to take reliance on controls where planned.

Our audit scope addressed 74% of the Group's revenue, 74% of the Group's profit before tax and 89% of the Group's total assets.

4. Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

	Group financial statements	Parent company financial statements
Materiality	£290 million (2019 – £275 million)	£68 million (2019 – £68 million)
Basis for determining materiality	In determining our benchmark for materiality we considered the metrics used by investors and other readers of the financial statements. In particular, we considered: Statutory profit before tax, Adjusted profit before tax, Revenue and Net cash flows from operations. Using professional judgement we have determined materiality to be £290 million.	Materiality was determined using the total assets benchmark.
Rationale for the benchmark applied	Given the importance of the above metrics used by investors and other readers of the financial statements, we concluded statutory profit before tax to be the primary benchmark with adjusted profit before tax, revenue and net cash inflow from operating activities the supporting benchmarks. The component materiality allocated to the in-scope components ranged between £87 million and £203 million. The range of materiality allocated across components in the audit of the prior year's Group financial statements was between £82.5 million and £192.5 million.	The Parent company holds the Group's investments and is not in itself profit-oriented. The strength of the balance sheet is the key measure of financial health that is important to shareholders since the primary concern for the Parent company is the payment of dividends. Using a benchmark of total assets is therefore the appropriate metric.

Metric	%
Statutory profit before tax	4.2%
Adjusted profit before tax*	3.6%
Revenue	0.9%
Net cash inflow from operating activities	3.4%

* A reconciliation between the Statutory profit before tax and Adjusted profit before tax is detailed in the Adjusting Items section of the strategic report.

Report on the audit of the financial statements continued

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group and Parent company performance materiality was set at 70% of Group and Parent materiality respectively for the 2020 audit (2019: 70%). In determining performance materiality, we considered factors including:

- Our risk assessment, including our assessment of the Group's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; and
- Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £10 million (2019 – £10 million) as well as any differences below this threshold, which in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

5. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Parent company's ability to continue to adopt the going concern basis of accounting included:

- Enquiring of management regarding the assumptions used in the going concern models;
- Evaluating the Group's existing access to sources of financing, including undrawn committed bank facilities;
- Reading analyst reports, industry data and other external information to determine if it provided corroborative or contradictory evidence in relation to management's assumptions;
- Comparing forecasted sales to recent historical financial information;
- Testing the underlying data generated to prepare the forecast scenarios and determined whether there was adequate support for the assumptions underlying the forecast; and
- Evaluating the Group's disclosures on going concern against the requirements of IAS 1.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's report continued

6. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter description

Valuation of the ViiV Healthcare Shionogi contingent consideration liability

In recent years the Group has completed a number of significant transactions which resulted in the recognition of material contingent consideration liabilities, which are a key source of estimation uncertainty. The most significant of these liabilities was the ViiV Healthcare Shionogi Contingent Consideration Liability ("ViiV CCL").

The Group completed the acquisition of the remaining 50% interest in the Shionogi-ViiV Healthcare joint venture in 2012. Upon completion, the Group recognised a contingent consideration liability for the fair value of the expected future payments to be made to Shionogi. As at 31 December 2020 the liability was valued at £5,359 million.

We identified the ViiV CCL as a key audit matter because of the significant estimates and assumptions management makes related to the sales forecasts used in valuing the ViiV CCL and the sensitivity of the valuation to these inputs. The most significant of these relate to sales forecasts in the United States (US) on certain products in the treatment portfolio. Such forecasts are based on management's assessment of the expected launch dates, the ability to shift market practice and prescriber behaviour towards 2-drug regimens, and subsequent sales volumes and pricing. The forecasts also required significant audit effort to perform appropriate audit procedures to challenge and evaluate the reasonableness of those forecasts.

Contingent consideration liabilities, including the ViiV CCL, are disclosed as a key source of estimation uncertainty in Note 3 of the Group financial statements with further disclosures provided in Notes 28, 32 and 43. The matter is also discussed in the Audit & Risk Committee report within the Corporate Governance section of the Annual Report.

How the scope of our audit responded to the key audit matter

Audit procedures performed

We performed the following audit procedures, amongst others, related to the sales forecasts:

- Challenged management's evidence through enquiries of key individuals from the senior leadership team, commercial strategy team and key personnel involved in the budgeting and forecasting process, and obtained objective evidence with respect to key inputs and assumptions;
- Challenged the US volume assumptions made by management to estimate sales forecasts. This involved benchmarking market share data against external data, such as total prescription volumes and new patient prescription volumes, in order to assess for any sources of contradictory evidence;
- Challenged the reasonableness of US pricing assumptions made by management, by comparing the forecasted Returns and Rebates rate by product against the current rate, and assessing the forecasted Returns and Rebates against comparable products and expected changes in payer policy;
- Reviewed the results of clinical studies undertaken in the year by management and key competitors in order to assess whether these are corroborative or contradictory to management's assumptions on the treatment product portfolio sales forecasts in the US;
- Benchmarked management's sales forecasts against those included in reports from 16 analysts and considered sales forecasts on both a total ViiV basis and an individual product basis; and
- Tested the controls over the key inputs and assumptions used in the valuation of the contingent consideration liability, including management review controls over the sales forecasts of the treatment product portfolio used to value the ViiV CCL.

Key observations communicated to the Audit & Risk Committee

The underlying sales forecasts used in the valuation are reasonable and in line with both internal supporting data and external evidence such as analyst forecasts. We are satisfied that the sales forecasts have been updated in the year to reflect appropriately both actual performance in 2020 and changes in the overall HIV treatment market.

The approach to valuing the ViiV CCL was consistent with prior periods and overall we are satisfied that the valuation liability is reasonable and consistent with IFRS.

Report on the audit of the financial statements continued

Key audit matter description	How the scope of our audit responded to the key audit matter
Valuation of US Returns and Rebates (RAR) accruals In the US the Group sells to customers under various commercial and government mandated contracts and reimbursement arrangements that include rebates, chargebacks and a right of return for certain pharmaceutical products. As such, revenue recognition reflects gross-to-net sales adjustments. These adjustments are known as the Returns and Rebates ("RAR") accruals and are a source of significant estimation uncertainty which could have a material impact on reported revenue. The three most significant payer channels (also referred to as buying groups) within the RAR accrual are managed healthcare organisations, Medicaid and Medicare Part D. The two main causes of significant estimation uncertainty are: – The utilisation rate, which is the portion of total sales that will be made into each payer channel, estimated by management in recording the accruals. The utilisation assumption is the most challenging of the key assumptions used to derive the accrual given that it is influenced by market demand and other factors outside the control of the Group; and – The time lag between the point of sale and the point at which exact rebate amounts are known to the Group upon receipt of a claim. Those payer channels with the longest time lag result in a greater accrued period, and therefore, a greater level of estimation uncertainty in estimating the period end accrual. The level of estimation uncertainty is also impacted by significant shifts in channel mix often driven by changes in the competitive landscape, including competitor and generic product launches and other macroeconomic factors. As such, we focus on the utilisation assumptions for those products where we deem the level of estimation uncertainty to be the most significant. Furthermore, auditing standards presume that a significant fraud risk exists in revenue recognition. In line with this presumption, we also focus on the period-end adjustments management made to the RAR accruals. These adjustments reflected updates made by management to the initial assumptions included within the forecasted RAR rates and, in our view, present the greatest opportunity for fraud in revenue recognition (notwithstanding the existence of internal controls). In the US Pharmaceuticals business in 2020 $17,343 million of RAR deductions were made to gross revenue of $31,744 million, resulting in net revenue of $14,401 million. The balance sheet accrual at 31 December 2020 for the combined US Pharmaceuticals and Vaccines businesses amounted to $6,394 million. US Pharmaceuticals returns and rebates are disclosed as a key source of estimation uncertainty in Note 3 of the Group financial statements with further disclosures provided in Note 28. The matter is also discussed in the Audit & Risk Committee report within the Corporate Governance section of the Annual Report.	**Audit procedures performed** We performed the following audit procedures, amongst others, related to management estimates in the RAR accruals: – Challenged management's assumptions for a selection of utilisation rates, focusing on certain products where we concluded the accrual is most sensitive to these assumptions. Our challenge included comparison to historical utilisation rates, consideration of historical accuracy and drivers of market changes such as the impact of ongoing generic competition and the macroeconomic impacts from the COVID-19 pandemic; – Supplemented this with substantive analytical procedures by developing an independent expectation of the accrual balance for each of the key segments, based on historical claims received adjusted to reflect market changes in the period including an assessment of the time lag between the initial point of sale and the claim receipt. We then compared this independent expectation to those of management to evaluate the appropriateness of management's ending accrual position; – Considered the historical accuracy of management's estimates and evaluated whether management had appropriately updated their forecast assumptions in a selection of cases where the actual rebate claims differed to the amount accrued; – Challenged the appropriateness of, and completeness of, period-end adjustments to the liability made by management as part of the ongoing review of the estimated accrual; and – Tested the key controls over the estimation of RAR accruals including the controls associated with the forecasting of utilisation rates process and the month-end accrual review controls. **Key observations communicated to the Audit & Risk Committee** We are satisfied that management's estimated liability of the RAR accruals at the year end are appropriate. We observed prudence when assessing certain key assumptions against our own independent expectations and the historical accuracy of prior year estimates against actual rebates but were satisfied that these are reasonable and in accordance with the requirements of 'IFRS 15 Revenue from contracts with customers'.

Independent Auditor's report continued

Report on the audit of the financial statements continued

Key audit matter description	How the scope of our audit responded to the key audit matter
Valuation of other intangible assets As at 31 December 2020, the Group held £28,771 million of other intangible assets (including licences, patents, trademarks and brand names, but excluding goodwill and computer software). The recoverable amount of these other intangible assets relies on certain assumptions and estimates of future trading performance which create estimation uncertainty. The assets most at risk of material impairment were identified using sensitivity analysis on key assumptions and a review of potential triggering events that could be indicative of an impairment in the carrying value of associated assets. As a result of this analysis, we performed additional audit procedures on certain indefinite life Consumer Healthcare intangible assets acquired from Pfizer in 2019. Key assumptions applied by management in determining the recoverable amount include the future sales growth rates and profit margin levels, as well as the likelihood of successful new product innovations. Changes in these assumptions could lead to an impairment of the carrying value of the other intangible assets. We identified the valuation of other intangible assets as a key audit matter due to the inherent judgements involved in estimating future cash flows. During the year there was increased uncertainty brought about by the COVID-19 pandemic and associated lockdowns. Auditing such estimates required extensive audit effort to challenge and evaluate the reasonableness of forecasts. The disclosures relating to other intangible assets are included in Note 20 and 40 of the Group financial statements. The matter is also discussed in the Audit & Risk Committee report within the Corporate Governance section of the Annual Report.	**Audit procedures performed** We performed the following audit procedures, amongst others, related to the future sales growth, likelihood of successful new product innovations and profit margin levels used in the assessment of other intangible assets for impairment: – Met with the key individuals from the senior leadership team, product category leads and key personnel involved in the forecasting process to discuss and evaluate management's evidence to support future sales growth rates and profitability assumptions; – Challenged the business assumptions applied by management in estimating sales forecasts, including the macroeconomic impacts resulting from the ongoing COVID-19 pandemic. This involved benchmarking of sales forecasts and product compound annual growth rates to external data for the specific market segments; – Evaluated independent market research to corroborate expected category growth rates and assessed any sources of contradictory evidence; – Compared the forecast sales to the plan data (asset by asset internal forecasts) approved by senior management and the Board of directors; – Assessed the historical accuracy of management's forecasts including consumption data and estimates of new sales from innovation; – Considered whether events or transactions that occurred after the balance sheet date but before the reporting date affect the conclusions reached on the carrying values of the assets and associated disclosures; and – Tested management review controls over the key inputs and assumptions used in the valuation of other intangible assets, including controls over review of the revenue growth rates and profit margins. **Key observations communicated to the Audit & Risk Committee** Our audit challenged the future forecast performance of consumer healthcare products, including the potential adverse impact of the COVID-19 pandemic, and we concluded that the assumptions underpinning the impairment review of intangible assets were reasonable and in accordance with IFRS.

Independent Auditor's report continued

Report on the audit of the financial statements continued

Key audit matter description	How the scope of our audit responded to the key audit matter
Valuation of uncertain tax positions, including transfer pricing The Group operates in numerous jurisdictions and there are open tax and transfer pricing matters and exposures with UK, US and overseas tax authorities that give rise to uncertain tax positions. There is a range of possible outcomes for provisions and contingencies and management are required to make certain judgements in respect of estimates of tax exposures and contingencies in order to assess the adequacy of tax provisions, which are sometimes complex as a result of the considerations required over multiple tax laws and regulations. At 31 December 2020, the Group has recorded provisions of £856 million in respect of uncertain tax positions. Valuation of uncertain tax positions is disclosed as a key source of estimation uncertainty in Note 3 of the Group financial statements with further disclosures included in Note 14. The matter is also discussed in the Audit & Risk Committee report within the Corporate Governance section of the Annual Report.	**Audit procedures performed** With the support of tax specialists, we assessed the appropriateness of the uncertain tax provisions by performing the following audit procedures amongst others: – Assessed and challenged provisions for uncertain tax positions, and focused our work on those jurisdictions where the Group has the greatest potential exposure and where the highest level of judgement is required; – Assessed management's policies for recognition and measurement of uncertain tax positions for compliance with the guidance per IFRIC 23; – Involved our transfer pricing specialists to review the transfer pricing methodology of the Group and associated approach to provisioning; – Involved our UK, US and international tax and transfer pricing specialists to challenge the conclusions reached by management, both in relation to the expected outcome and the financial impact; – Considered evidence such as the actual results from the recent tax authority audits and enquiries, third-party tax advice where obtained and our tax specialists' own knowledge of market practice in relevant jurisdictions; and – Tested key controls over preparation, review and reporting of judgmental tax balances and transactions, which include provisions for uncertain tax provisions. **Key observations communicated to the Audit & Risk Committee** We are satisfied that management's estimates in relation to uncertain tax positions and the related disclosures are in accordance with IFRS. From our work we concluded that management have applied a consistent approach to estimating uncertain tax provisions, the judgements continue to be prudent and are appropriately recorded.

Independent Auditor's report continued

Report on the audit of the financial statements continued

Key audit matter description	How the scope of our audit responded to the key audit matter
IT systems which impact financial reporting The IT systems within the Group form a critical component of the Group's financial reporting activities and impact all account balances. We identified the IT systems that impact financial reporting as a key audit matter because of the: – Pervasive reliance on complex technology that is integral to the operation of key business processes and financial reporting; – Reliance on technology which continues to increase in line with the business strategy, such as the increase in the use of automation across the Group; – Importance of the IT controls in maintaining an effective control environment. A key interdependency exists between the ability to rely on IT controls and the ability to rely on financial data, system configured automated controls and system reports; – Continued remediation of IT controls supporting the in scope application systems; and; – The implementation of application systems in key business areas during the year. IT controls, in the context of our scope for the financial audit, primarily relate to user access security and change control. The Group continue to implement their programme of remediation across the IT landscape of deficiencies identified in prior years, which has been extended into 2021. IT systems which impact financial reporting are discussed in the Audit & Risk Committee report within the Corporate Governance section of the Annual Report.	**Audit procedures performed** Our IT audit scope is driven by the level of reliance placed on Technology to obtain assurance within a business process. The Technology deemed relevant to the audit is based on the financial data, system configured automated controls and/or key financial reports that reside within it. We utilised IT specialists to support our evaluation of the risks associated with Technology and with the testing of the design and operation of IT controls. Testing over the in scope Technology was performed to address the group's control objectives and financial reporting risks and included testing in the following areas: – General IT Controls , including user access and change management controls; – Key financial reports and system configured automated controls; – Controls to provide assurance over the completeness and accuracy of relevant data migrations; and – Testing of management's remediation of previously identified deficiencies. Our risk assessment procedures included an assessment of the impact of all unremediated IT control deficiencies to determine the impact on our audit plan. Where relevant, the audit plan was adjusted to include the testing of additional manual business process controls to mitigate the unaddressed IT risk. **Key observations communicated to the Audit & Risk Committee** We are satisfied that IT controls impacting the Group's financial reporting activities are designed and operating effectively or control deficiencies identified were remediated by year end or mitigated by compensating controls. Management continue to make significant progress in the year in remediating control deficiencies relating to user access and change management. The Group has many layers of business process controls to mitigate the risk associated with the IT control deficiencies.

Report on the audit of the financial statements continued

7. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in course of the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard

We summarise below our work in relation to areas of the other information including those areas upon which we are specifically required to report:

Matters we are specifically required to report

Our responsibility	Our reporting
Principal risks and viability statement Review the confirmation and description in the light of the knowledge gathered during the audit, such as through considering the directors' processes to support the statements made, challenging management's key judgements and estimates, consideration of historical forecasting accuracy and evaluating macro-economic assumptions. Consider if the statements are aligned with the relevant provisions of the Code.	As set out in the section "Corporate governance statement", we have nothing material to report, add or draw attention to in respect of these matters.
Directors' Remuneration report Report whether the part of the directors' remuneration report to be audited is properly prepared and the disclosures specified by the Companies Act have been made.	As set out in the section "Opinions on other matters prescribed by the Companies Act 2006", in our opinion, the part of the directors' remuneration report to be audited has been prepared in accordance with the Companies Act 2006.
Strategic report and directors' report Report whether they are consistent with the audited financial statements and are prepared in accordance with applicable legal requirements. Report if we have identified any material misstatements in either report in the light of the knowledge and understanding of the Group and of the Parent company and their environment obtained in the course of the audit.	As set out in the section "Opinions on other matters prescribed by the Companies Act 2006", in our opinion, based on the work undertaken in the course of the audit, the information in these reports is consistent with the audited financial statements and has been prepared in accordance with applicable legal requirements.

Independent Auditor's report continued

Report on the audit of the financial statements continued

Other reporting on other information

Our responsibility	Our reporting
Alternative performance measures (APMs) APMs are measures that are not defined by generally accepted accounting practice (GAAP) and therefore are not typically included in the financial statement part of the Annual Report. The Group use APMs, such as adjusted profit, free cash flow and constant currency growth rates in some of its quarterly and annual reporting of financial performance. We have reviewed and assessed management's calculation and reporting of these metrics to assess consistency with the Group's published definitions and policies for these items. We have also considered and assessed whether the use of APMs in the Group's reporting results is consistent with the guidelines produced by regulators such as the European Securities and Markets Authority ("ESMA") guidelines on the use of APMs and the FRC Alternative Performance Measures Thematic Review published in November 2017. We also considered whether there was an appropriate balance between the use of statutory metrics and APMs, in addition to whether clear definitions and reconciliation for APMs used in financial reporting have been provided.	In our opinion: – the use, calculation and disclosure of APMs is consistent with the Group's published definitions and policies; – the use of APMs in the Group's reporting results is consistent with the guidelines produced by ESMA and FRC; and – there is an appropriate balance between the use of statutory metrics and APMs, together with clear definitions and reconciliation for APMs used in financial reporting.
Dividends and distribution policy Consider whether the dividends policy is transparent and the dividends paid are consistent with the policy as outlined in the strategic report on page 63.	In our opinion, the dividends policy is appropriately disclosed and dividends paid are consistent with the policy.

8. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

9. Auditor's responsibilities for the audit of the financial statements

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

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

Report on the audit of the financial statements continued

10. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Identifying and assessing potential risks related to irregularities

In identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- The nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- Enquiring of management, internal audit and the Audit & Risk Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - The internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud; and;
- Obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements, such as provisions of the UK Companies Act, pensions legislation and tax legislation or that had a fundamental effect on the operations of the Group, including the Good Clinical Practice, the FDA regulations, General Data Protection requirements, Anti-bribery and corruption policy and the Foreign Corrupt Practices Act.

Audit response to risks identified

As a result of performing the above, we identified the Valuation of US Returns and Rebates accruals as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures in response to that key audit matter. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

In addition to the above, our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- Enquiring of management, the Audit & Risk Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with regulators.
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

11. Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- The strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent Auditor's report continued

Report on the audit of the financial statements continued

In the light of the knowledge and understanding of the Group and of the Parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

12. Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Group's compliance with the provisions of the UK corporate governance code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

– the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 141;

– the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate is set out on page 48;

– the directors' statement on fair, balanced and understandable Annual Report set out on page 102;

– the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 43 to 45;

– the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on pages 98 to 99; and

– the section describing the work of the audit & risk committee set out on pages 97 to 102.

13. Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
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;

– Adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or

– The Parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. Other matters which we are required to address

Auditor tenure
Following the recommendation of the Audit & Risk Committee, with effect from 1 January 2018 we were appointed by the Board of Directors to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement of the firm is 3 years.

Consistency of the audit report with the additional report to the Audit & Risk Committee
Our audit opinion is consistent with the additional report to the Audit & Risk Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

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

The Parent 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.

Deloitte LLP
Statutory Auditor
London, United Kingdom
8 March 2021

Consolidated income statement
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m	2018 £m
Turnover	6	**34,099**	33,754	30,821
Cost of sales		**(11,704)**	(11,863)	(10,241)
Gross profit		**22,395**	21,891	20,580
Selling, general and administration		**(11,456)**	(11,402)	(9,915)
Research and development		**(5,098)**	(4,568)	(3,893)
Royalty income		**318**	351	299
Other operating income/(expense)	7	**1,624**	689	(1,588)
Operating profit	8	**7,783**	6,961	5,483
Finance income	11	**44**	98	81
Finance expense	12	**(892)**	(912)	(798)
Profit on disposal of interest in associates		**–**	–	3
Share of after tax profits of associates and joint ventures	13	**33**	74	31
Profit before taxation		**6,968**	6,221	4,800
Taxation	14	**(580)**	(953)	(754)
Profit after taxation for the year		**6,388**	5,268	4,046
Profit attributable to non-controlling interests		**639**	623	423
Profit attributable to shareholders		**5,749**	4,645	3,623
		6,388	5,268	4,046
Basic earnings per share (pence)	15	**115.5p**	93.9p	73.7p
Diluted earnings per share (pence)	15	**114.1p**	92.6p	72.9p

Consolidated statement of comprehensive income
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m	2018 £m
Profit for the year		**6,388**	5,268	4,046
Other comprehensive income/(expense) for the year				
Items that may be subsequently reclassified to income statement:				
Exchange movements on overseas net assets and net investment hedges	37	**(59)**	(832)	(480)
Reclassification of exchange movements on liquidation or disposal of overseas subsidiaries	37	**36**	(75)	–
Fair value movements on cash flow hedges		**(19)**	(20)	140
Tax on fair value movements on cash flow hedges		**(18)**	16	(22)
Reclassification of cash flow hedges to income statement		**54**	3	(175)
Deferred tax reversed on reclassification of cash flow hedges		**–**	–	20
		(6)	(908)	(517)
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests	37	**(34)**	(75)	(1)
Fair value movements on equity investments		**1,348**	372	180
Tax on fair value movements on equity investments		**(220)**	(95)	10
Remeasurement (losses)/gains on defined benefit plans		**(187)**	(1,050)	728
Tax on remeasurement of defined benefit plans		**69**	189	(146)
		976	(659)	771
Other comprehensive income/(expense) for the year	37	**970**	(1,567)	254
Total comprehensive income for the year		**7,358**	3,701	4,300
Total comprehensive income for the year attributable to:				
Shareholders		**6,753**	3,153	3,878
Non-controlling interests		**605**	548	422
Total comprehensive income for the year		**7,358**	3,701	4,300

Consolidated balance sheet
as at 31 December 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Property, plant and equipment	17	**10,176**	10,348
Right of use assets	18	**830**	966
Goodwill	19	**10,597**	10,562
Other intangible assets	20	**29,824**	30,955
Investments in associates and joint ventures	21	**364**	314
Other investments	22	**3,060**	1,837
Deferred tax assets	14	**4,287**	4,096
Derivative financial instruments	43	**5**	103
Other non-current assets	23	**1,041**	1,020
Total non-current assets		**60,184**	60,201
Current assets			
Inventories	24	**5,996**	5,947
Current tax recoverable	14	**671**	262
Trade and other receivables	25	**6,952**	7,202
Derivative financial instruments	43	**152**	421
Liquid investments	29	**78**	79
Cash and cash equivalents	26	**6,292**	4,707
Assets held for sale	27	**106**	873
Total current assets		**20,247**	19,491
Total assets		**80,431**	79,692
Current liabilities			
Short-term borrowings	29	**(3,725)**	(6,918)
Contingent consideration liabilities	32	**(765)**	(755)
Trade and other payables	28	**(15,840)**	(14,939)
Derivative financial instruments	43	**(221)**	(188)
Current tax payable	14	**(545)**	(629)
Short-term provisions	31	**(1,052)**	(621)
Total current liabilities		**(22,148)**	(24,050)
Non-current liabilities			
Long-term borrowings	29	**(23,425)**	(23,590)
Corporation tax payable	14	**(176)**	(189)
Deferred tax liabilities	14	**(3,600)**	(3,810)
Pensions and other post-employment benefits	30	**(3,650)**	(3,457)
Other provisions	31	**(707)**	(670)
Derivative financial instruments	43	**(10)**	(1)
Contingent consideration liabilities	32	**(5,104)**	(4,724)
Other non-current liabilities	33	**(803)**	(844)
Total non-current liabilities		**(37,475)**	(37,285)
Total liabilities		**(59,623)**	(61,335)
Net assets		**20,808**	18,357
Equity			
Share capital	36	**1,346**	1,346
Share premium account	36	**3,281**	3,174
Retained earnings	37	**6,755**	4,530
Other reserves	37	**3,205**	2,355
Shareholders' equity		**14,587**	11,405
Non-controlling interests		**6,221**	6,952
Total equity		**20,808**	18,357

The financial statements on pages 154 to 237 were approved by the Board on 8 March 2021 and signed on its behalf by

Sir Jonathan Symonds
Chairman

Consolidated statement of changes in equity
for the year ended 31 December 2020

	Share capital £m	Share premium £m	Retained earnings £m	Other reserves* £m	Total £m	Non-controlling interests £m	**Total equity £m**
	Shareholders' equity						
At 31 December 2017	1,343	3,019	(6,477)	2,047	(68)	3,557	**3,489**
Implementation of IFRS 15	–	–	(4)	–	(4)	–	**(4)**
Implementation of IFRS 9	–	–	277	(288)	(11)	–	**(11)**
At 31 December 2017, as adjusted	1,343	3,019	(6,204)	1,759	(83)	3,557	**3,474**
Profit for the year	–	–	3,623	–	3,623	423	**4,046**
Other comprehensive income for the year	–	–	124	131	255	(1)	**254**
Total comprehensive income for the year	**–**	**–**	**3,747**	**131**	**3,878**	**422**	**4,300**
Distributions to non-controlling interests	–	–	–	–	–	(570)	**(570)**
Contribution from non-controlling interests	–	–	–	–	–	21	**21**
Derecognition of non-controlling interests in Consumer Healthcare Joint Venture	–	–	4,056	–	4,056	(4,118)	**(62)**
Dividends to shareholders	–	–	(3,927)	–	(3,927)	–	**(3,927)**
Realised profits on disposal of equity investments	–	–	56	(56)	–	–	**–**
Share of associates and joint ventures realised profits on disposal of equity investments	–	–	38	(38)	–	–	**–**
Shares issued	2	72	–	–	74	–	**74**
Write-down of shares held by ESOP Trusts	–	–	(265)	265	–	–	**–**
Share-based incentive plans	–	–	360	–	360	–	**360**
Tax on share-based incentive plans	–	–	2	–	2	–	**2**
At 31 December 2018, as reported	1,345	3,091	(2,137)	2,061	4,360	(688)	**3,672**
Adjustment to non-controlling interest	–	–	(579)	–	(579)	579	**–**
At 31 December 2018, as revised	1,345	3,091	(2,716)	2,061	3,781	(109)	**3,672**
Implementation of IFRS 16	–	–	(93)	–	(93)	–	**(93)**
At 31 December 2018, as adjusted	1,345	3,091	(2,809)	2,061	3,688	(109)	**3,579**
Profit for the year	–	–	4,645	–	4,645	623	**5,268**
Other comprehensive income for the year	–	–	(1,766)	274	(1,492)	(75)	**(1,567)**
Total comprehensive income for the year	**–**	**–**	**2,879**	**274**	**3,153**	**548**	**3,701**
Distributions to non-controlling interests	–	–	–	–	–	(364)	**(364)**
Changes in non-controlling interests	–	–	–	–	–	(10)	**(10)**
Dividends to shareholders	–	–	(3,953)	–	(3,953)	–	**(3,953)**
Recognition of interest in Consumer Healthcare JV	–	–	8,082	–	8,082	6,887	**14,969**
Realised losses on disposal of equity investments	–	–	(4)	4	–	–	**–**
Shares issued	1	50	–	–	51	–	**51**
Shares acquired by ESOP Trusts	–	33	295	(328)	–	–	**–**
Write-down of shares held by ESOP Trusts	–	–	(344)	344	–	–	**–**
Share-based incentive plans	–	–	365	–	365	–	**365**
Tax on share-based incentive plans	–	–	19	–	19	–	**19**
At 31 December 2019	1,346	3,174	4,530	2,355	11,405	6,952	**18,357**
Profit for the year	–	–	5,749	–	5,749	639	**6,388**
Other comprehensive (expense)/income for the year	–	–	(133)	1,137	1,004	(34)	**970**
Total comprehensive income for the year	**–**	**–**	**5,616**	**1,137**	**6,753**	**605**	**7,358**
Distributions to non-controlling interests	–	–	–	–	–	(1,208)	**(1,208)**
Contributions from non-controlling interests	–	–	–	–	–	3	**3**
Changes in non-controlling interests	–	–	–	–	–	(131)	**(131)**
Dividends to shareholders	–	–	(3,977)	–	(3,977)	–	**(3,977)**
Realised profits on disposal of equity investments	–	–	163	(163)	–	–	**–**
Share of associates and joint ventures realised profits on disposal of equity investments	–	–	44	(44)	–	–	**–**
Shares issued	–	29	–	–	29	–	**29**
Shares acquired by ESOP Trusts	–	78	531	(609)	–	–	**–**
Write-down of shares held by ESOP Trusts	–	–	(529)	529	–	–	**–**
Share-based incentive plans	–	–	381	–	381	–	**381**
Tax on share-based incentive plans	–	–	(4)	–	(4)	–	**(4)**
At 31 December 2020	**1,346**	**3,281**	**6,755**	**3,205**	**14,587**	**6,221**	**20,808**

* an analysis of Other reserves is presented as part of Note 37 'Movements in equity'.

Consolidated cash flow statement

for the year ended 31 December 2020

	Notes	2020 £m	2019 £m	2018 £m
Cash flow from operating activities				
Profit after taxation for the year		**6,388**	5,268	4,046
Adjustments reconciling profit after tax to operating cash flows	41	**3,708**	4,264	5,701
Cash generated from operations		**10,096**	9,532	9,747
Taxation paid		**(1,655)**	(1,512)	(1,326)
Net cash inflow from operating activities		**8,441**	8,020	8,421
Cash flow from investing activities				
Purchase of property, plant and equipment		**(1,226)**	(1,265)	(1,344)
Proceeds from sale of property, plant and equipment		**68**	95	168
Purchase of intangible assets		**(1,013)**	(898)	(452)
Proceeds from sale of intangible assets		**1,255**	404	256
Purchase of equity investments		**(411)**	(258)	(309)
Proceeds from sale of equity investments		**3,269**	69	151
Contingent consideration paid		**(120)**	(113)	(153)
Purchase of businesses, net of cash acquired	40	**15**	(3,571)	–
Disposal of businesses	40	**259**	104	26
Investments in associates and joint ventures	40	**(4)**	(11)	(10)
Proceeds from disposal of interests in associates	40	**–**	–	3
(Increase)/decrease in liquid investments		**(1)**	1	–
Interest received		**39**	82	72
Dividends from associates, joint ventures and equity investments		**31**	7	39
Net cash inflow/(outflow) from investing activities		**2,161**	(5,354)	(1,553)
Cash flow from financing activities				
Issue of share capital	36	**29**	51	74
Purchase of non-controlling interests		**–**	(7)	(9,320)
Increase in long-term loans		**3,298**	4,794	10,138
Repayment of short-term Notes		**(3,738)**	(4,160)	(2,067)
(Repayment of)/increase in other short-term loans		**(3,567)**	3,095	81
Repayment of lease liabilities		**(227)**	(214)	(28)
Interest paid		**(864)**	(895)	(766)
Dividends paid to shareholders		**(3,977)**	(3,953)	(3,927)
Distributions to non-controlling interests		**(1,208)**	(364)	(570)
Contributions from non-controlling interests		**3**	–	21
Other financing cash flows		**119**	(187)	(25)
Net cash outflow from financing activities		**(10,132)**	(1,840)	(6,389)
Increase in cash and bank overdrafts	42	**470**	826	479
Cash and bank overdrafts at beginning of year		**4,831**	4,087	3,600
Exchange adjustments		**(39)**	(82)	8
Increase in cash and bank overdrafts		**470**	826	479
Cash and bank overdrafts at end of year		**5,262**	4,831	4,087
Cash and bank overdrafts at end of year comprise:				
Cash and cash equivalents		**6,292**	4,707	3,874
Cash and cash equivalents reported in assets held for sale		**–**	507	485
		6,292	5,214	4,359
Overdrafts		**(1,030)**	(383)	(272)
		5,262	4,831	4,087

Notes to the financial statements

1. Presentation of the financial statements

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

Compliance with applicable law and IFRS
The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

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 subsidiaries and associates which, in the opinion of the Directors, principally affected the amount of profit or net assets of the Group is given in Note 45, 'Principal Group companies'.

Financial period
These financial statements cover the financial year from 1 January to 31 December 2020, with comparative figures for the financial years from 1 January to 31 December 2019 and, where appropriate, from 1 January to 31 December 2018.

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.

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 238 and the accounting policies are given on pages 239 and 240.

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.

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.

Notes to the financial statements continued

2. Accounting principles and policies continued

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.

Business combinations

Business combinations are accounted for using the acquisition accounting method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration.

The fair value of contingent consideration liabilities are reassessed at each balance sheet date with changes recognised in the income statement. Payments of contingent consideration reduce the balance sheet liability and as a result are not recorded in the income statement.

The part of each payment relating to the original estimate of the fair value of the contingent consideration on acquisition is reported within investing activities in the cash flow statement and the part of each payment relating to the increase in the liability since the acquisition date is reported within operating cash flows.

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 effecting an acquisition are charged to the income statement in the period in which they are incurred.

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.

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

Turnover

The Group receives revenue for supply of goods to external customers against orders received. The majority of contracts that GSK enters into relate to sales orders containing single performance obligations for the delivery of pharmaceutical, vaccine and consumer healthcare products. The average duration of a sales order is less than 12 months.

Product revenue is recognised when control of the goods is passed to the customer. The point at which control passes is determined by each customer arrangement, but generally occurs on delivery to the customer.

Product revenue represents net invoice value including fixed and variable consideration. Variable consideration arises on the sale of goods as a result of discounts and allowances given and accruals for estimated future returns and rebates. Revenue is not recognised in full until it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. 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. Once the uncertainty associated with the returns and rebates is resolved, revenue is adjusted accordingly.

Other operating income and royalty income

GSK enters into development and marketing collaborations and out-licences of the Group's compounds or products to other parties. These contracts give rise to fixed and variable consideration from upfront payments, development milestones, sales-based milestones and royalties.

Income dependent on the achievement of a development milestone is recognised when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur, which is usually when the related event occurs. Sales-based milestone income is recognised when it is highly probable that the sales threshold will be reached.

2. Accounting principles and policies continued

Sales-based royalties on a licence of intellectual property are not recognised until the relevant product sale occurs.

For all revenue, if the time between the recognition of revenue and payment from the customer is expected to be more than one year and the impact is material, the amount of consideration is discounted using appropriate discount rates.

Value added tax and other sales taxes are excluded from revenue.

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.

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 respect of product liability claims related to certain products, provision is made when 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. In addition, provision is made for legal or other expenses arising from claims received or other disputes.

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. The service cost of providing retirement benefits to employees during the year, together with the cost of any curtailment, is charged to operating profit in the year.

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 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.

Notes to the financial statements continued

2. Accounting principles and policies continued

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 (applicable from 1 January 2019)

The Group recognises right of use assets under lease arrangements in which it is the lessee. Rights to use assets owned by third parties under lease agreements are capitalised at the inception of the lease and recognised on the consolidated balance sheet.

The corresponding liability to the lessor is recognised as a lease obligation within short and long-term borrowings. The carrying amount is subsequently increased to reflect interest on the lease liability and reduced by lease payments made.

For calculating the discounted lease liability on leases with annual payments of £2 million or more, the implicit rate in the lease is used. If this is not available, the incremental borrowing rate with a lease specific adjustment is used. If neither of these is available, and for leases with annual payments of less than £2 million, the incremental borrowing rate is used. The incremental borrowing rate is calculated at the rate of interest at which GSK would have been able to borrow for a similar term and with a similar security the funds necessary to obtain a similar asset in a similar market.

Finance costs are charged to the income statement so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Variable rents are not part of the lease liability and the right of use asset. These payments are charged to the income statement as incurred. Short-term and low-value leases are not capitalised and lease rentals are also charged to the income statement as incurred.

Non-lease components are accounted for separately from the lease components in plant and equipment leases but are not separately accounted for in land and buildings or vehicle leases.

If modifications or reassessments occur, the lease liability and right of use asset are re-measured.

Right of use assets where title is expected to pass to GSK at a point in the future are depreciated on a basis consistent with similar owned assets. In other cases, right of use assets are depreciated over the shorter of the useful life of the asset or the lease term.

Leases (applicable up to 31 December 2018)

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.

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.

2. Accounting principles and policies continued

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.

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.

Financial instruments

Financial assets

Financial assets are measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL). The measurement basis is determined by reference to both the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. For financial assets other than trade receivables a 12-month expected credit loss (ECL) allowance is recorded on initial recognition. If there is subsequent evidence of a significant increase in the credit risk of an asset, the allowance is increased to reflect the full lifetime ECL. If there is no realistic prospect of recovery, the asset is written off.

Expected credit losses are recognised in the income statement on financial assets measured at amortised cost and at fair value through other comprehensive income apart from equity investments.

Other investments

Other investments comprise equity investments and investments in limited life funds. The Group has elected to designate equity investments as measured at FVTOCI. They are initially recorded at fair value plus transaction costs and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses are recognised in other comprehensive income.

On disposal of the equity investment, gains and losses that have been deferred in Other comprehensive income are transferred directly to retained earnings. Investments in limited life funds are measured at FVTPL. They are initially recorded at fair value and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses are recognised in the income statement.

Dividends on equity investments and distributions from funds are recognised in the income statement when the Group's right to receive payment is established.

Purchases and sales of Other investments are accounted for on the trade date.

Trade receivables

Trade receivables are measured in accordance with the business model under which each portfolio of trade receivables is held. The Group has portfolios in each of the three business models under IFRS 9 due to factoring arrangements in place: to collect the contractual cash flows (measured at amortised cost), to sell the contractual cash flows (measured at FVTPL), and both to collect and to sell the contractual cash flows (measured at FVTOCI). Trade receivables measured at amortised cost are carried at the original invoice amount less allowances for expected credit losses.

Expected credit losses are calculated in accordance with the simplified approach permitted by IFRS 9, using a provision matrix applying lifetime historical credit loss experience to the trade receivables. The expected credit loss rate varies depending on whether, and the extent to which, settlement of the trade receivables is overdue and it is also adjusted as appropriate to reflect current economic conditions and estimates of future conditions. For the purpose of determining credit loss rates, customers are classified into groupings that have similar loss patterns. The key drivers of the loss rate are the nature of the business unit and the location and type of customer.

When a trade receivable is determined to have no reasonable expectation of recovery it is written off, firstly against any expected credit loss allowance available and then to the income statement.

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

Notes to the financial statements continued

2. Accounting principles and policies continued

Cash and cash equivalents
Cash held in deposit accounts is measured at amortised cost. Investments in money market funds are held at fair value through profit or loss because the funds fail the solely payments of principal and interest (SPPI) test.

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.

Derivative financial instruments
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 assets and liabilities, including derivatives embedded in host contracts which have been separated from the host contract, are classified as held-for-trading and are measured at fair value. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Hedge accounting
Derivatives designated as hedging instruments are classified at inception of hedge relationship 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.

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.

Where an uncertain tax position is identified, management will make a judgement as to what the probable outcome will be, assuming the relevant tax authority has full knowledge of the situation. Where it is assessed that an economic outflow is probable to arise, a provision is made for the best estimate of the liability. In estimating any such liability GSK applies a risk-based approach which takes into account, as appropriate, the probability that the Group would be able to obtain compensatory adjustments under international tax treaties. These estimates take into account the specific circumstances of each dispute and relevant external advice.

Discounting
Where the time value of money is material, balances are discounted to current values using appropriate discount rates. 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 judgements about when or how items should be recognised in the financial statements and 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 critical accounting judgements and key sources of estimation uncertainty.

Turnover
Reported Group turnover for 2020 was £34,099 million (2019 – £33,754 million).

Estimates
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.

3. Key accounting judgements and estimates continued

The US Pharmaceuticals business has the largest and most complex arrangements for rebates, discounts and allowances. The US Pharmaceuticals turnover for 2020 of £7,451 million (2019 – £7,402 million) was after recording deductions of £12,584 million (2019 – £11,069 million) for rebates, discounts, allowances and returns. The balance sheet accruals for rebates, discounts, allowances and returns for the US Pharmaceuticals and Vaccines businesses are managed on a combined basis. At 31 December 2020, the total accrual amounted to £4,686 million (2019 – £4,200 million). Because of the nature of these accruals it is not practicable to give meaningful sensitivity estimates due to the large volume of variables that contribute to the overall rebates, chargebacks, returns and other revenue accruals.

As there can be significant variability in final outcomes, the group applies a constraint when measuring the variable element within revenue, so that revenue is recognised at a suitably cautious amount. The objective of the constraint is to ensure that it is highly probable that a significant reversal of revenue will not occur when the uncertainties are resolved. The constraint is applied by making suitably cautious estimates of the inputs and assumptions used in estimating the variable consideration. 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 constraints applied in recognising revenue mean that the risk of a material downward adjustment to revenue in the next financial year is low.

The level of accrual for rebates and returns 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. It is reasonably possible that there could be a significant adjustment within the next 12 months to recognise additional revenue, if actual outcomes are better than the cautious constrained estimates. Revenue is not recognised in full until it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The amount of turnover recognised in the year from performance obligations satisfied in previous periods is set out in Note 6, 'Turnover and segment information', and is an indication of the level of sensitivity in the estimate.

Future events could cause the assumptions on which the accruals are based to change, which could materially affect the future results of the Group.

Taxation

The tax charge for the year was £580 million (2019 – £953 million). At December 2020, current tax payable was £545 million (2019 – £629 million), non-current corporation tax payable was £176 million (2019 – £189 million) and current tax recoverable was £671 million (2019 – £262 million).

Estimates

The Group has open tax issues with a number of revenue authorities. Management makes a judgement of whether there is sufficient information to be able to make a reliable estimate of the outcome of the dispute. If insufficient information is available, no provision is made.

If sufficient information is available, in estimating a potential tax liability GSK applies a risk-based approach which takes into account, as appropriate, the probability that the Group would be able to obtain compensatory adjustments under international tax treaties. 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 each dispute progresses and new facts emerge.

At 31 December 2020, the Group had recognised provisions of £856 million in respect of uncertain tax positions (2019 – £933 million). Due to the number of uncertain tax positions held and the number of jurisdictions to which these relate, it is not practicable to give meaningful sensitivity estimates.

Factors affecting the tax charge in future years are set out in Note 14, 'Taxation'. 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.

Legal and other disputes

Legal costs for the year were £231 million (2019 – £363 million). At 31 December 2020 provisions for legal and other disputes amounted to £320 million (2019 – £198 million).

Estimates

Management makes a judgement of whether there is sufficient information to be able to make a reliable estimate of the likely outcome of the dispute and the legal and other expenses arising from claims against the Group. If insufficient information is available, no provision is made and disclosure of the claim is given.

The estimated provisions take into account the specific circumstances of each dispute and relevant external advice, are inherently judgemental and could change substantially over time as each dispute progresses and new facts emerge. Details of the status and various uncertainties involved in the significant unresolved disputes are set out in Note 46, '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.

3. Key accounting judgements and estimates continued

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, or practicable to give a meaningful range of outcomes that could result from ultimate resolution of the proceedings. In these cases, appropriate disclosure about such cases would be provided, but no provision would be made and no contingent liability can be quantified.

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.

Contingent consideration

The 2020 income statement charge for contingent consideration was £1,275 million (2019 – £83 million).

At 31 December 2020, the liability for contingent consideration amounted to £5,869 million (2019 – £5,479 million). Of this amount, £5,359 million (2019 – £5,103 million) related to the acquisition of the former Shionogi-ViiV Healthcare joint venture in 2012.

Estimates

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 post-tax discount rates. The fair values are reviewed on a regular basis, at least annually, and any changes are reflected in the income statement. See Note 32, 'Contingent consideration liabilities'.

Pensions and other post-employment benefits

Judgement

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. Three UK schemes are in surplus, with a combined surplus of £77 million at 31 December 2020 (2019 – £70 million). GSK has made the judgement that these amounts meet the requirements of recoverability.

Estimates

The costs of providing pensions and other post-employment benefits 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 30, 'Pensions and other post-employment benefits'.

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. A sensitivity analysis is provided in Note 30, 'Pensions and other post-employment benefits', a 0.5% reduction in the discount rate would lead to an increase in the net pension deficit of approximately £1,745 million and an increase in the annual pension cost of approximately £27 million. Similarly, a 0.5% increase in the discount rate would lead to a decrease in the net pension deficit of approximately £1,550 million and a decrease in the annual pension cost of approximately £39 million. The selection of different assumptions could affect the future results of the Group.

4. New accounting requirements

During the year, the Group implemented an amendment to IFRS 3 'Business combinations' which was issued in October 2018. The amendment clarifies the definition of a business and permits a simplified initial assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendment did not have a material impact on the results or financial position of the Group in 2020.

'Covid-19-Related Rent Concessions (Amendment to IFRS 16)' was issued in May 2020. It introduces a practical expedient to IFRS 16 'Leases' which permits a lessee to elect not to assess whether a COVID-19-related concession in respect of rent due for periods to 30 June 2021 is a lease modification. The amendment is applicable for annual reporting periods beginning on or after 1 June 2020 and earlier application is permitted.

'Interest Rate Benchmark Reform Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' was issued in August 2020 and will be effective from 1 January 2021. The Phase 2 amendments address issues that arise from implementation of the reforms, including the replacement of one benchmark with an alternative one. A practical expedient is provided such that the change to contractual cash flows for financial assets and liabilities (including lease liabilities) is accounted for prospectively by revising the effective interest rate. In addition, hedge accounting will not be discontinued solely because of the IBOR reform.

The amendments are not expected to have a material impact on the results or financial position of the Group.

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 associates into Sterling and period end rates to translate the net assets of those entities. The currencies which most influence these translations and the relevant exchange rates were:

	2020	2019	2018
Average rates:			
US$/£	**1.29**	1.28	1.33
Euro/£	**1.13**	1.14	1.13
Yen/£	**137**	139	147

	2020	2019	2018
Period end rates:			
US$/£	**1.36**	1.32	1.27
Euro/£	**1.11**	1.18	1.11
Yen/£	**141**	143	140

6. Turnover and segment information

Operating segments are reported based on the financial information provided to the Chief Executive Officer and the responsibilities of the Corporate Executive Team (CET). GSK reports results under four segments: Pharmaceuticals; Pharmaceuticals R&D; Vaccines and Consumer Healthcare, and individual members of the CET are responsible for each segment.

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.

Corporate and other unallocated turnover and costs includes the results of certain Consumer Healthcare products which are being held for sale in a number of markets in order to meet anti-trust approval requirements, together with the costs of corporate functions.

Revenue recognised in the year from performance obligations satisfied in previous periods totalled £1,207 million (2019 – £793 million) and included £649 million (2019 – £451 million) impacting turnover arising from changes to prior year estimates of RAR (returns and rebates) accruals, £238 million (2019 – £15 million) of milestone income and £320 million (2019 – £328 million) of royalty income recognised in the current year.

Turnover by segment	2020 £m	2019 £m	2018 £m
Pharmaceuticals	**17,056**	17,554	17,269
Vaccines	**6,982**	7,157	5,894
Consumer Healthcare	**10,033**	8,995	7,658
Segment turnover	**34,071**	33,706	30,821
Corporate and other unallocated turnover	**28**	48	–
	34,099	33,754	30,821

Pharmaceuticals turnover by therapeutic area	2020 £m	2019 £m	2018 £m
Respiratory	**3,749**	3,081	2,612
HIV	**4,876**	4,854	4,722
Immuno-inflammation	**727**	613	472
Oncology	**372**	230	–
Established Pharmaceuticals	**7,332**	8,776	9,463
	17,056	17,554	17,269

Vaccines turnover by category	2020 £m	2019 £m	2018 £m
Meningitis	**1,029**	1,018	881
Influenza	**733**	541	523
Shingles	**1,989**	1,810	784
Established Vaccines	**3,231**	3,788	3,706
	6,982	7,157	5,894

Notes to the financial statements continued

6. Turnover and segment information continued

During 2020, the US operations of the Pharmaceuticals and Vaccines businesses made sales to three wholesalers of approximately £2,928 million (2019 – £2,835 million, 2018 – £2,709 million), £3,085 million (2019 – £3,146 million, 2018 – £2,962 million) and £2,795 million (2019 – £2,820 million, 2018 – £2,656 million) respectively, after allocating final-customer discounts to the wholesalers.

GSK has reviewed the presentation of its Consumer Healthcare products and from 1 January 2020 has adopted a revised and more detailed disclosure of category sales closely aligned to consumer healthcare industry standard definitions. Comparative information has been revised onto a consistent basis.

Consumer Healthcare turnover by category	2020 £m	2019 (revised) £m	2018 (revised) £m
Oral health	2,753	2,673	2,496
Pain relief	2,219	1,781	1,440
Vitamins, minerals and supplements	1,506	611	103
Respiratory health	1,209	1,186	1,085
Digestive health and other	1,824	1,646	1,435
	9,511	7,897	6,559
Brands divested/under review	522	1,098	1,099
	10,033	8,995	7,658

Segment profit	2020 £m	2019 £m	2018 £m
Pharmaceuticals	7,723	7,964	8,420
Pharmaceuticals R&D	(3,538)	(3,369)	(2,676)
Pharmaceuticals, including R&D	4,185	4,595	5,744
Vaccines	2,713	2,966	1,943
Consumer Healthcare	2,213	1,874	1,517
Segment profit	9,111	9,435	9,204
Corporate and other unallocated costs	(205)	(463)	(459)
Other reconciling items between segment profit and operating profit	(1,123)	(2,011)	(3,262)
Operating profit	7,783	6,961	5,483
Finance income	44	98	81
Finance costs	(892)	(912)	(798)
Profit on disposal of interest in associates	–	–	3
Share of after-tax profits of associates and joint ventures	33	74	31
Profit before taxation	6,968	6,221	4,800
Taxation	(580)	(953)	(754)
Profit after taxation for the year	6,388	5,268	4,046

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 costs, which include impairments of tangible assets and computer software; transaction-related adjustments related to significant acquisitions; proceeds and costs of disposals of associates, products and businesses, significant legal charges and expenses on the settlement of litigation and government investigations, other operating income other than royalty income and other items, and separation costs.

Depreciation and amortisation by segment	2020 £m	2019 £m	2018 £m
Pharmaceuticals	557	606	506
Pharmaceuticals R&D	298	230	123
Pharmaceuticals, including R&D	855	836	629
Vaccines	404	418	395
Consumer Healthcare	235	224	146
Segment depreciation and amortisation	1,494	1,478	1,170
Corporate and other unallocated depreciation and amortisation	82	79	106
Other reconciling items between segment depreciation and amortisation and total depreciation and amortisation	775	777	580
Total depreciation and amortisation	2,351	2,334	1,856

6. Turnover and segment information continued

PP&E, intangible asset and goodwill impairment by segment	2020 £m	2019 £m	2018 £m
Pharmaceuticals	38	137	51
Pharmaceuticals R&D	37	16	15
Pharmaceuticals, including R&D	75	153	66
Vaccines	49	33	5
Consumer Healthcare	5	–	4
Segment impairment	129	186	75
Corporate and other unallocated impairment	5	19	14
Other reconciling items between segment impairment and total impairment	680	621	261
Total impairment	814	826	350

PP&E and intangible asset impairment reversals by segment	2020 £m	2019 £m	2018 £m
Pharmaceuticals	(12)	(6)	(4)
Pharmaceuticals R&D	(4)	–	(1)
Pharmaceuticals, including R&D	(16)	(6)	(5)
Vaccines	(2)	(1)	–
Consumer Healthcare	–	–	–
Segment impairment reversals	(18)	(7)	(5)
Corporate and other unallocated impairment reversals	(1)	(3)	–
Other reconciling items between segment impairment reversals and total impairment reversals	(53)	(15)	(8)
Total impairment reversals	(72)	(25)	(13)

Net operating assets by segment	2020 £m	2019 £m
Pharmaceuticals	789	1,722
Pharmaceuticals R&D	3,345	4,503
Pharmaceuticals, including R&D	4,134	6,225
Vaccines	8,995	8,828
Consumer Healthcare	25,176	26,328
Segment net operating assets	38,305	41,381
Corporate and other unallocated net operating assets	2,250	1,446
Net operating assets	40,555	42,827
Net debt	(20,780)	(25,215)
Investments in associates and joint ventures	364	314
Derivative financial instruments	(74)	335
Current and deferred taxation	637	(270)
Assets held for sale (excluding cash and cash equivalents)	106	366
Net assets	20,808	18,357

The Pharmaceuticals segment includes the Shionogi-ViiV Healthcare contingent consideration liability of £5,359 million (2019 – £5,103 million) and the Pfizer put option of £960 million (2019 – £1,011 million).

Notes to the financial statements continued

6. Turnover and segment information continued

Geographical information

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

Turnover by location of customer	2020 £m	2019 £m	2018 £m
UK	980	942	923
US	14,556	13,890	11,982
Rest of World	18,563	18,922	17,916
External turnover	34,099	33,754	30,821

Non-current assets by location of subsidiary	2020 £m	2019 £m
UK	6,279	6,116
US	17,899	19,483
Rest of World	27,712	27,696
Non-current assets	51,890	53,295

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/(expense)

	2020 £m	2019 £m	2018 £m
Fair value remeasurements of equity investments	(6)	(14)	20
Disposal of businesses and assets	2,779	541	258
Fair value remeasurements on contingent consideration recognised in business combinations	(1,286)	(92)	(1,252)
Remeasurement of ViiV Healthcare put option liabilities and preferential dividends	52	234	58
Remeasurement of Consumer Healthcare put option liability	–	–	(658)
Fair value adjustments on derivative financial instruments	20	–	(3)
Other income/(expense)	65	20	(11)
	1,624	689	(1,588)

Disposal of businesses and assets in 2020 included a net profit on disposal of the Horlicks and other Consumer Healthcare nutritional brands and two subsidiaries in India and Bangladesh of £2,815 million, which reflected reversal of £240 million of embedded derivative gains on the value of the shares taken in prior years. This was partly offset by the related £476 million loss on the shares in Hindustan Unilever Limited, including fair value remeasurement losses between their acquisition as consideration for the divestment of GSK Consumer Healthcare Limited in India and their subsequent disposal. Other operating income also included an increase in profit and milestone income from a number of asset disposals.

In 2019, there was a profit on disposal of rabies and tick-borne encephalitis vaccines of £306 million and a gain arising from the increase in value of the shares in Hindustan Unilever Limited subsequently received in 2020 of £143 million including fair value movements on related derivatives.

Fair value remeasurements on contingent consideration recognised in business combinations included £1,114 million related to the acquisition of the former Shionogi-ViiV Healthcare joint venture and £172 million related to the Vaccines acquisition from Novartis, together with fair value movements on related hedging contracts.

8. Operating profit

The following items have been included in operating profit:	2020 £m	2019 £m	2018 £m
Employee costs (Note 9)	**10,249**	9,855	9,440
Advertising	**1,777**	1,567	1,376
Distribution costs	**408**	393	389
Depreciation of property, plant and equipment	**989**	1,017	954
Impairment of property, plant and equipment, net of reversals	**443**	669	203
Depreciation of right of use assets	**225**	214	
Impairment of right of use assets	**3**	2	
Amortisation of intangible assets	**1,137**	1,103	902
Impairment of intangible assets, net of reversals	**257**	126	134
Impairment of property, plant and equipment held for sale, net of reversals	**3**	–	7
Impairment of intangible assets held for sale, net of reversals	**20**	1	–
Impairment of goodwill allocated to a disposal group, net of reversals	**16**	4	–
Net foreign exchange losses/(gains)	**110**	(37)	81
Inventories:			
Cost of inventories included in cost of sales	**9,480**	9,482	8,713
Write-down of inventories	**699**	578	695
Reversal of prior year write-down of inventories	**(274)**	(230)	(302)
Short-term lease charge	**11**	12	
Low-value lease charge	**5**	4	
Variable lease payments	**11**	13	
Operating lease rentals:			
Minimum lease payments			188
Contingent rents			12
Sub-lease payments			5
Fees payable to the company's auditor and its associates in relation to the Group (see below)	**29.9**	30.4	29.8

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

Net foreign exchange gains include a net loss of £36 million (2019 – £75 million gain; 2018 – £nil) arising on the reclassification of exchange on liquidation or disposal of overseas subsidiaries.

Included within operating profit are Major restructuring charges of £1,532 million (2019 – £1,105 million; 2018 – £809 million), see Note 10, 'Major restructuring costs'.

Fees payable to the company's auditor and its associates:	2020 £m	2019 £m	2018 £m
Audit of parent company and consolidated financial statements including attestation under s.404 of Sarbanes-Oxley Act 2002	**13.8**	15.6	13.3
Audit of the company's subsidiaries	**14.5**	13.5	12.9
Total audit services	**28.3**	29.1	26.2
Taxation compliance	**–**	–	0.1
Audit related and other assurance services	**1.6**	1.2	3.0
All other services	**–**	0.1	0.5
Total audit-related and non-audit services	**1.6**	1.3	3.6
	29.9	30.4	29.8

The other assurance services provided by the auditor related to agreed upon procedures and other assurance services outside of statutory audit requirements. In addition to the above, fees paid to the auditor in respect of the GSK pension schemes were:

	2020 £m	2019 £m	2018 £m
Audit	**0.2**	0.2	0.3
Other services	**–**	–	–

Fees of £0.2 million (2019 – £0.8 million, 2018 – £nil) were also paid to other auditors in respect of audits of certain of the company's subsidiaries acquired during the year.

Notes to the financial statements continued

9. Employee costs

	2020 £m	2019 £m	2018 £m
Wages and salaries	**7,802**	7,583	7,203
Social security costs	**917**	852	795
Pension and other post-employment costs, including augmentations (Note 30)	**519**	560	586
Cost of share-based incentive plans	**393**	432	393
Severance and other costs from integration and restructuring activities	**618**	428	463
	10,249	9,855	9,440

The increase in wages and salaries included the impact of movements in exchange rates. 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 cost of share-based incentive plans is analysed as follows:

	2020 £m	2019 £m	2018 £m
Share Value Plan	**313**	302	304
Performance Share Plan	**64**	58	49
Share option plans	**4**	4	4
Cash settled and other plans	**12**	68	36
	393	432	393

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

	2020 Number	2019 Number	2018 Number
Manufacturing	**34,898**	36,653	37,296
Selling, general and administration	**49,162**	48,535	47,887
Research and development	**11,824**	12,026	11,668
	95,884	97,214	96,851

The average monthly 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 251.

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

	2020 £m	2019 £m	2018 £m
Wages and salaries	**23**	28	29
Social security costs	**4**	4	3
Pension and other post-employment costs	**3**	3	3
Cost of share-based incentive plans	**25**	27	20
	55	62	55

Further information on the remuneration of the Directors is given in the sections of the annual report on remuneration labelled as audited within pages 112 to 138.

10. Major restructuring costs

Within the Pharmaceuticals sector, the highly regulated manufacturing operations and supply chains and long lifecycle of the business mean that restructuring programmes, particularly those that involve the rationalisation or closure of manufacturing or R&D sites, are likely to take several years to complete.

Major restructuring costs are those related to specific Board-approved Major restructuring programmes, including integration costs following material acquisitions, which are structural and are of a significant scale where the costs of individual or related projects exceed £25 million.

The existing Combined restructuring and integration programme incorporates the previous Major Change programme, the Pharmaceuticals restructuring programme and the restructuring and integration programme following the Novartis transaction in 2015. This programme is now substantially complete. In July 2018, the Board-approved a Major restructuring programme, designed to significantly improve the competitiveness and efficiency of the Group's cost base with savings delivered primarily through supply chain optimisation and reductions in administrative costs. In February 2019, the Board approved a Major restructuring plan to generate synergies from the integration of the Pfizer consumer healthcare business into GSK's Consumer Healthcare business. In January 2020, the Board approved a two-year Separation Preparation programme to prepare for the separation of GSK into two companies.

The total restructuring costs of £1,532 million in 2020 were incurred in the following areas:

– Restructuring costs to prepare for separation of GSK into two companies
– Restructuring following the integration of the Pfizer consumer healthcare business into GSK Consumer Healthcare
– Continued implementation of the restructuring programme that started in July 2018, to simplify the operating models and improve resource allocation of the Pharmaceutical and Consumer Healthcare supply chains
– Continued transformation of central functions, including GSK technology platforms and interfaces, to deliver greater digital synergies, simplification of applications and staff reductions.

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

	2020 £m	2019 £m	2018 £m
Increase in provision for Major restructuring programmes (see Note 31)	**746**	345	450
Amount of provision reversed unused (see Note 31)	**(96)**	(148)	(99)
Impairment losses recognised	**361**	521	130
Other non-cash charges	**104**	99	72
Other cash costs	**417**	288	256
	1,532	1,105	809

Provision reversals of £96 million (2019 – £148 million, 2018 – £99 million) reflected provision releases mainly for the Combined restructuring and integration programme. Asset impairments of £361 million and other non-cash charges of £104 million principally comprised fixed asset write-downs of manufacturing facilities and accelerated depreciation where asset lives have been shortened in the supply chain manufacturing network as a result of the Major restructuring programmes. All other charges have been or will be settled in cash and include site closure costs, consultancy and project management costs.

The analysis of Major restructuring charges by programme was as follows:

			2020
	Cash £m	Non-cash £m	Total £m
Separation Preparation programme	625	216	841
Consumer Healthcare Joint Venture integration programme	298	28	326
2018 Major restructuring programme (including Tesaro)	105	210	315
Combined restructuring and integration programme	39	11	50
	1,067	465	1,532

			2019
	Cash £m	Non-cash £m	Total £m
Consumer Healthcare Joint Venture integration programme	248	4	252
2018 Major restructuring programme (including Tesaro)	227	572	799
Combined restructuring and integration programme	10	44	54
	485	620	1,105

Notes to the financial statements continued

10. Major restructuring costs continued

The analysis of Major restructuring charges by income statement line was as follows:

	2020 £m	2019 £m	2018 £m
Cost of sales	667	658	443
Selling, general and administration	659	332	315
Research and development	206	114	49
Other operating expense	–	1	2
	1,532	1,105	809

11. Finance income

	2020 £m	2019 £m	2018 £m
Finance income arising from:			
Financial assets measured at amortised cost	29	69	73
Financial assets measured at fair value through profit or loss	10	10	1
Net gains arising from the forward element of forward contracts in net investment hedge relationships	5	19	7
	44	98	81

12. Finance expense

	2020 £m	2019 £m	2018 £m
Finance expense arising on:			
Financial liabilities at amortised cost	(813)	(832)	(677)
Derivatives at fair value through profit or loss	(7)	(6)	(38)
Net losses arising from:			
Financial instruments mandatorily measured at fair value through profit or loss	353	(425)	55
Retranslation of loans	(357)	424	(52)
Reclassification of hedges from other comprehensive income	(2)	(2)	(2)
Unwinding of discounts on provisions	(3)	(8)	(15)
Finance expense arising on lease liabilities	(40)	(39)	(2)
Other finance expense	(23)	(24)	(67)
	(892)	(912)	(798)

Finance expense arising on derivatives at fair value through profit or loss relates to swap interest expense. The 2018 figure in finance expense arising on lease liabilities related to interest arising on finance leases under the previous leasing standard, IAS 17, which was originally reported in 'Other finance expense'. In 2018, other finance expense included a £39 million charge for interest relating to historical income tax settlements.

13. Associates and joint ventures

The Group's share of after-tax profits and losses of associates and joint ventures is set out below:

	2020 £m	2019 £m	2018 £m
Share of after-tax profits of associates	33	85	28
Share of after-tax (losses)/profits of joint ventures	–	(11)	3
	33	74	31

At 31 December 2020, the Group held one significant associate, Innoviva, Inc.

Summarised income statement information in respect of Innoviva is set out below. The Group's 2020 share of after-tax profits of associates and other comprehensive income includes a profit of £41 million and other comprehensive income of £nil in respect of Innoviva.

The results of Innoviva included in the summarised income statement information below represent the estimated earnings of Innoviva in the relevant periods, based on publicly available information at the balance sheet date. Innoviva's turnover arises from royalty income from GSK in relation to *Relvar/Breo Ellipta, Anoro Ellipta* and *Trelegy Ellipta* sales.

	2020 £m	2019 £m	2018 £m
Turnover	253	193	183
Profit after taxation	174	116	134
Total comprehensive income	174	116	134

Aggregated financial information in respect of GSK's share of other associated undertakings and joint ventures is set out below:

	2020 £m	2019 £m	2018 £m
Share of turnover	–	32	242
Share of after-tax losses	(8)	(5)	(2)
Share of other comprehensive income	53	1	–
Share of total comprehensive income/(expense)	45	(5)	(2)

The Group's sales to associates and joint ventures were £nil in 2020 (2019 – £11 million; 2018 – £43 million).

Notes to the financial statements continued

14. Taxation

The Group's tax charge is the sum of the total current and deferred tax expense.

Taxation charge based on profits for the year	2020 £m	2019 £m	2018 £m
UK current year charge	30	149	234
Rest of World current year charge	1,177	1,407	1,426
Charge/(credit) in respect of prior periods	66	(420)	(492)
Current taxation	1,273	1,136	1,168
Deferred taxation	(693)	(183)	(414)
	580	953	754

In 2020, GSK made payments of £235 million in UK corporation tax to HMRC. These amounts are for UK corporation tax only, and do not include the various other business taxes borne in the UK by GSK each year.

The deferred tax credit in 2020 reflected the origination of current year expenses where offset against taxable profits in future periods is probable. This relates primarily to the unwind of deferred tax liabilities on intangible assets, the recognition of current year tax losses and the reversal of other temporary differences. In 2018, this also included an uplift in the tax carrying value of certain Consumer Healthcare brands as a result of the acquisition of Novartis' interest in the former Consumer Healthcare joint venture.

Significant prior year credits in 2019 and 2018 reflected the impact of the settlement of a number of open issues with tax authorities in each period.

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.

Reconciliation of taxation on Group profits	2020 £m	2020 %	2019 £m	2019 %	2018 £m	2018 %
Profit before tax	6,968		6,221		4,800	
UK statutory rate of taxation	1,324	19.0	1,182	19.0	912	19.0
Differences in overseas taxation rates	552	7.9	667	10.7	635	13.2
Benefit of intellectual property incentives	(586)	(8.4)	(691)	(11.1)	(482)	(10.0)
R&D credits	(105)	(1.5)	(119)	(1.9)	(73)	(1.5)
Fair value remeasurement of non-taxable put options	(3)	(0.0)	(45)	(0.7)	221	4.6
Tax losses where no benefit is recognised	18	0.3	15	0.2	24	0.5
Permanent differences on disposals and acquisitions	(338)	(4.9)	68	1.1	(7)	(0.1)
Other permanent differences	98	1.4	119	1.9	53	1.1
Re-assessments of prior year estimates	(228)	(3.3)	(364)	(5.9)	(436)	(9.1)
Changes in tax rates	(152)	(2.2)	121	2.0	(93)	(1.9)
Tax charge/tax rate	580	8.3	953	15.3	754	15.7

GSK has a substantial business presence in many countries around the globe. The impact of differences in overseas taxation rates arose from profits being earned in countries with tax rates higher than the UK statutory rate, the most significant of which in 2020 were the US, Belgium, Germany, India and Japan. The adverse impact was partly offset by the benefit of intellectual property incentives such as the UK Patent Box and Belgian Patent Income Deduction regimes, which provide a reduced rate of corporation tax on profits earned from qualifying patents. We claim these incentives in the manner intended by the relevant statutory or regulatory framework.

In 2020, 'Changes in tax rates' included credits in relation to the UK, where a reduction in the corporation tax rate from 19% to 17% was cancelled, and India, where the tax treatment of dividends changed with effect from 1 April 2020. The UK credit in 2020 partly reversed the expense in 2019 where a future benefit was provided at the formerly enacted corporation tax rate of 17%.

Permanent differences on disposals and acquisitions in 2020 reflects the tax impact of the disposal of Horlicks and other Consumer Healthcare brands to Unilever and subsequent disposal of shares received in Hindustan Unilever.

The Group's 2020 tax rate of 8.3% has also been influenced by the reassessment of open issues with tax authorities in various jurisdictions. The re-assessment of prior year estimates includes both current and deferred tax.

Future tax charges, and therefore our effective tax rate, may be affected by factors such as acquisitions, disposals, restructurings, the location of R&D activity, tax regime reforms and resolution of open matters as we continue to bring our tax affairs up to date around the world.

14. Taxation continued

Tax on items charged to equity and statement of comprehensive income	2020 £m	2019 £m	2018 £m
Current taxation			
Share-based payments	(14)	1	–
Defined benefit plans	(18)	16	(2)
Fair value movements on cash flow hedges	12	–	–
Fair value movements on equity investments	89	–	–
	69	17	(2)
Deferred taxation			
Share-based payments	18	18	2
Defined benefit plans	(51)	173	(144)
Fair value movements on cash flow hedges	6	16	(2)
Fair value movements on equity investments	131	(95)	10
	104	112	(134)
Total credit/(charge) to equity and statement of comprehensive income	173	129	(136)

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

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. In line with current OECD guidelines we base our transfer pricing policy on the 'arm's length' principle. However, different tax authorities may seek to attribute further profit to activities being undertaken in their jurisdiction potentially resulting in double taxation. The Group also has open items in several jurisdictions concerning such matters as the deductibility of particular expenses and the tax treatment of certain business transactions. GSK applies a risk based approach to determine the transactions most likely to be subject to challenge and the probability that the Group would be able to obtain compensatory adjustments under international tax treaties.

The calculation of the Group's total tax charge therefore necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process. At 31 December 2020 the Group had recognised provisions of £856 million in respect of such uncertain tax positions (2019 – £933 million). The decrease in recognised provisions during 2020 was driven by the reassessment of estimates and the utilisation of provisions for uncertain tax positions following the settlement of a number of open issues with tax authorities in various jurisdictions. Whilst the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of agreements with the relevant tax authorities, or litigation where appropriate, the Group continues to believe that it has made appropriate provision for periods which are open and not yet agreed by the tax authorities.

A provision for deferred tax liabilities of £150 million as at 31 December 2020 (2019 – £198 million) has been made in respect of taxation that would be payable on the remittance of profits by certain overseas subsidiaries. Whilst the aggregate amount of unremitted profits at the balance sheet date was approximately £17 billion (2019 – £19 billion), the majority of these unremitted profits would not be subject to tax (including withholding tax) on repatriation, as UK legislation relating to company distributions provides for exemption from tax for most overseas profits, subject to certain exceptions. Deferred tax is not provided on temporary differences of £974 million (2019 – £326 million) arising on unremitted profits as management has the ability to control any future reversal and does not consider such a reversal to be probable.

Continued focus on tax reform is expected in 2021 and future years driven by the OECD's project to address the tax challenges arising from the digitalisation of the economy. This may result in significant changes to established tax principles and an increase in tax authority disputes. In turn, this could adversely affect GSK's effective tax rate or could result in higher cash tax liabilities.

Notes to the financial statements continued

14. Taxation continued

Movement in deferred tax assets and liabilities

	Accelerated capital allowances £m	Intangible assets £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 2019	(295)	(959)	834	1,029	694	447	71	950	2,771
Exchange adjustments	17	88	–	(8)	(40)	(8)	(1)	55	103
Credit/(charge) to income statement	35	(204)	(77)	59	9	225	(7)	143	183
Credit/(charge) to statement of comprehensive income and equity	–	–	–	–	186	–	18	(92)	112
Acquisitions and disposals	1	(3,117)	–	40	15	278	–	(60)	(2,843)
R&D credits utilisation	–	–	–	–	–	–	–	(40)	(40)
At 31 December 2019	(242)	(4,192)	757	1,120	864	942	81	956	286
Exchange adjustments	(9)	41	–	(29)	4	(2)	(3)	(57)	(55)
(Charge)/credit to income statement	(45)	194	86	(67)	(44)	120	(5)	454	693
Credit/(charge) to statement of comprehensive income and equity	–	–	–	–	50	–	(13)	(141)	(104)
Acquisitions and disposals	–	(25)	–	–	–	–	–	–	(25)
R&D credits utilisation	–	–	–	–	–	–	–	(108)	(108)
At 31 December 2020	(296)	(3,982)	843	1,024	874	1,060	60	1,104	687

Deferred tax liabilities provided in relation to intangible assets predominately relate to temporary differences arising on assets and liabilities acquired as part of historic business combinations. Acquisitions and disposals in 2019 includes deferred tax liabilities of £2,591 million related to the Pfizer consumer healthcare business acquisition and £252 million related to the Tesaro acquisition.

The Group continues to recognise deferred tax assets on future obligations in respect of contingent consideration amounts payable to minority shareholders. These payments are tax deductible at the point in time at which payment is made.

A deferred tax asset is recognised on intra-Group profits arising on inter-company inventory which are eliminated within the consolidated accounts. As intra-Group profits are not eliminated from the individual entities' tax returns a temporary difference arises that will reverse at the point in time inventory is sold externally.

The deferred tax asset of £1,060 million (2019 – £942 million) recognised on tax losses relates to trading losses. Such deferred tax assets are only recognised where it is probable that future taxable profit will be available to utilise losses, as supported by product level forecasts. Other net temporary differences included accrued expenses for which a tax deduction is only available on a paid basis.

Deferred tax asset and liabilities are recognised on the balance sheet as follows:

	2020 £m	2019 £m
Deferred tax assets	**4,287**	4,096
Deferred tax liabilities	**(3,600)**	(3,810)
	687	286

	2020		2019	
Unrecognised tax losses	**Tax losses £m**	**Unrecognised deferred tax asset £m**	Tax losses £m	Unrecognised deferred tax asset £m
Trading losses expiring:				
Within 10 years	**962**	**181**	556	117
More than 10 years	**414**	**51**	838	108
Available indefinitely	**265**	**47**	159	27
At 31 December	**1,641**	**279**	1,553	252
Capital losses expiring:				
Available indefinitely	**2,287**	**419**	2,148	355
At 31 December	**2,287**	**419**	2,148	355

15. Earnings per share

	2020 pence	2019 pence	2018 pence
Basic earnings per share	115.5	93.9	73.7
Diluted earnings per share	114.1	92.6	72.9

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	2020 millions	2019 millions	2018 millions
Basic	4,976	4,947	4,914
Dilution for share options and awards	62	69	57
Diluted	5,038	5,016	4,971

16. Dividends

	2020			2019			2018		
	Paid/payable	Dividend per share (pence)	Total dividend £m	Paid	Dividend per share (pence)	Total dividend £m	Paid	Dividend per share (pence)	Total dividend £m
First interim	9 July 2020	19	946	11 July 2019	19	940	12 July 2018	19	934
Second interim	8 October 2020	19	946	10 October 2019	19	941	11 October 2018	19	934
Third interim	14 January 2021	19	946	9 January 2020	19	941	10 January 2019	19	935
Fourth interim	8 April 2021	23	1,146	9 April 2020	23	1,144	11 April 2019	23	1,137
Total		80	3,984		80	3,966		80	3,940

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 2020 financial statements recognise those dividends paid in 2020, namely the third and fourth interim dividends for 2019, and the first and second interim dividends for 2020.

The amounts recognised in each year were as follows:

	2020 £m	2019 £m	2018 £m
Dividends to shareholders	3,977	3,953	3,927

Notes to the financial statements continued

17. Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Assets in construction £m	Total £m
Cost at 31 December 2018	7,811	12,537	2,140	22,488
Implementation of IFRS 16	(64)	(106)	–	(170)
At 31 December 2018, as adjusted	7,747	12,431	2,140	22,318
Exchange adjustments	(254)	(381)	(70)	(705)
Additions through business combinations	149	177	34	360
Other additions	42	154	1,084	1,280
Capitalised borrowing costs	–	–	25	25
Disposals and write-offs	(34)	(528)	(11)	(573)
Reclassifications	243	919	(1,231)	(69)
Transfer to assets held for sale	(261)	(711)	(65)	(1,037)
Cost at 31 December 2019	7,632	12,061	1,906	21,599
Exchange adjustments	106	121	10	237
Additions through business combinations	–	5	–	5
Other additions	29	147	1,052	1,228
Capitalised borrowing costs	–	–	15	15
Disposals and write-offs	(336)	(875)	(29)	(1,240)
Reclassifications	189	840	(1,058)	(29)
Transfer to assets held for sale	(132)	(194)	(6)	(332)
Cost at 31 December 2020	7,488	12,105	1,890	21,483
Depreciation at 31 December 2018	(3,233)	(7,534)	–	(10,767)
Implementation of IFRS 16	30	42	–	72
At 31 December 2018, as adjusted	(3,203)	(7,492)	–	(10,695)
Exchange adjustments	74	196	–	270
Charge for the year	(265)	(752)	–	(1,017)
Disposals and write-offs	19	380	–	399
Transfer to assets held for sale	159	477	–	636
Depreciation at 31 December 2019	(3,216)	(7,191)	–	(10,407)
Exchange adjustments	(49)	(77)	–	(126)
Charge for the year	(271)	(718)	–	(989)
Disposals and write-offs	154	716	–	870
Transfer to assets held for sale	72	130	–	202
Depreciation at 31 December 2020	(3,310)	(7,140)	–	(10,450)
Impairment at 31 December 2018	(174)	(421)	(68)	(663)
Implementation of IFRS 16	–	–	–	–
At 31 December 2018, as adjusted	(174)	(421)	(68)	(663)
Exchange adjustments	13	11	6	30
Disposals and write-offs	2	77	36	115
Impairment losses	(312)	(329)	(38)	(679)
Reversal of impairments	2	8	–	10
Transfer to assets held for sale	90	209	44	343
Impairment at 31 December 2019	(379)	(445)	(20)	(844)
Exchange adjustments	(6)	–	1	(5)
Disposals and write-offs	190	124	16	330
Impairment losses	(147)	(303)	(27)	(477)
Reversal of impairments	13	18	3	34
Transfer to assets held for sale	49	55	1	105
Impairment at 31 December 2020	(280)	(551)	(26)	(857)
Total depreciation and impairment at 31 December 2019	(3,595)	(7,636)	(20)	(11,251)
Total depreciation and impairment at 31 December 2020	(3,590)	(7,691)	(26)	(11,307)
Net book value at 1 January 2019	4,404	4,582	2,072	11,058
Net book value at 31 December 2019	4,037	4,425	1,886	10,348
Net book value at 31 December 2020	3,898	4,414	1,864	10,176

17. Property, plant and equipment continued

The weighted average interest rate for capitalised borrowing costs in the year was 3% (2019 – 3%). Disposals and write-offs in the year included a number of assets with nil net book value that are no longer in use in the business.

The impairment losses principally arose from decisions to rationalise facilities and were calculated based on fair value less costs of disposal. 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 specific segment, country and currency risk.

Assets that continue to be used by the Group are generally assessed as part of their associated cash generating unit on a value in use basis. For value in use calculations, the post-tax cash flows do not include the impact of future uncommitted restructuring plans or improvements. 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 net impairment losses have been charged to cost of sales: £398 million (2019 – £624 million), R&D: £3 million (2019 – £1 million) and SG&A: £42 million (2019 – £44 million), and included £343 million (2019 – £502 million) arising from the Major restructuring programmes.

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

During 2020, £29 million (2019 – £69 million) of computer software was reclassified from assets in construction to intangible assets on becoming ready for use.

18. Right of use assets

	Land and buildings £m	Plant and equipment £m	Vehicles £m	**Total £m**
Net book value at 1 January 2019	907	27	137	**1,071**
Exchange adjustments	(28)	(2)	(6)	**(36)**
Additions through business combinations	66	11	2	**79**
Other additions	60	1	71	**132**
Depreciation	(145)	(8)	(61)	**(214)**
Disposals	(37)	(20)	(7)	**(64)**
Impairments	(2)	–	–	**(2)**
Reclassifications	–	13	(13)	**–**
Net book value at 31 December 2019	821	22	123	**966**
Exchange adjustments	(11)	1	1	**(9)**
Other additions	119	2	66	**187**
Depreciation	(152)	(5)	(68)	**(225)**
Disposals	(73)	(2)	(9)	**(84)**
Impairments	(3)	–	–	**(3)**
Reclassifications	(2)	–	–	**(2)**
Net book value at 31 December 2020	699	18	113	**830**

The total cash outflow for leases amounted to £227 million. There were no significant lease commitments for leases not commenced at year-end.

An analysis of lease liabilities is set out in Note 29, 'Net debt'.

Notes to the financial statements continued

19. Goodwill

	2020 £m	2019 £m
Cost at 1 January	10,562	5,789
Exchange adjustments	(54)	(277)
Additions through business combinations (Note 40)	124	5,023
Transfer (to)/from assets held for sale	(35)	27
Cost at 31 December	10,597	10,562
Net book value at 1 January	10,562	5,789
Net book value at 31 December	10,597	10,562

Goodwill is allocated to the Group's segments as follows:

	2020 £m	2019 £m
Pharmaceuticals	4,245	4,316
Vaccines	1,295	1,280
Consumer Healthcare	5,057	4,966
Net book value at 31 December	10,597	10,562

The recoverable amounts of the cash generating units are assessed using a fair value less costs of disposal model. Fair value less costs of disposal is calculated using a discounted cash flow approach, with a post-tax discount rate applied to the projected risk-adjusted post-tax cash flows and terminal value.

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 segment, country and currency risks. 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, Vaccines and Consumer Healthcare cash generating units are as follows:

Valuation basis	Fair value less costs of disposal		
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	Five years		
Terminal growth rate and discount rate		Terminal growth rate	Discount rate
	Pharmaceuticals	1% p.a.	7.5%
	Vaccines	1% p.a.	7.5%
	Consumer Healthcare	2% p.a.	6%

The terminal growth rates do not exceed the long-term projected growth rates for the relevant markets, reflect the impact of future generic competition and take account of new product launches.

Goodwill is monitored for impairment at the segmental level. In each case the valuations indicated sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

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 £18.4 billion (2019 – £19.6 billion).

Details of indefinite life brands are given in Note 20, 'Other intangible assets'.

20. Other intangible assets

	Computer software £m	Licences, patents, amortised brands etc. £m	Indefinite life brands £m	Total £m
Cost at 1 January 2019	2,365	16,166	9,056	**27,587**
Exchange adjustments	(37)	(418)	(1,037)	**(1,492)**
Capitalised development costs	–	239	–	**239**
Capitalised borrowing costs	1	–	–	**1**
Additions through business combinations	31	3,091	12,357	**15,479**
Other additions	197	465	–	**662**
Disposals and asset write-offs	(235)	(7)	–	**(242)**
Transfer to assets held for sale	(7)	(62)	(227)	**(296)**
Reclassifications	82	242	(255)	**69**
Cost at 31 December 2019	2,397	19,716	19,894	**42,007**
Exchange adjustments	(1)	(7)	(74)	**(82)**
Capitalised development costs	–	313	–	**313**
Additions through business combinations	2	–	–	**2**
Other additions	240	494	–	**734**
Disposals and asset write-offs	(260)	(20)	–	**(280)**
Transfer to assets held for sale	(4)	(246)	(635)	**(885)**
Reclassifications	29	572	(572)	**29**
Cost at 31 December 2020	2,403	20,822	18,613	**41,838**
Amortisation at 1 January 2019	(1,307)	(6,413)	–	**(7,720)**
Exchange adjustments	19	123	–	**142**
Charge for the year	(233)	(870)	–	**(1,103)**
Disposals and asset write-offs	215	4	–	**219**
Transfer to assets held for sale	4	42	–	**46**
Amortisation at 31 December 2019	(1,302)	(7,114)	–	**(8,416)**
Exchange adjustments	(3)	28	–	**25**
Charge for the year	(241)	(896)	–	**(1,137)**
Disposals and asset write-offs	221	8	–	**229**
Transfer to assets held for sale	3	42	–	**45**
Amortisation at 31 December 2020	(1,322)	(7,932)	–	**(9,254)**
Impairment at 1 January 2019	(12)	(2,329)	(324)	**(2,665)**
Exchange adjustments	3	70	–	**73**
Impairment losses	(49)	(84)	(3)	**(136)**
Reversal of impairments	–	10	–	**10**
Disposals and asset write-offs	19	3	–	**22**
Transfer to assets held for sale	2	5	53	**60**
Impairment at 31 December 2019	(37)	(2,325)	(274)	**(2,636)**
Exchange adjustments	–	39	1	**40**
Impairment losses	(29)	(255)	(11)	**(295)**
Reversal of impairments	–	38	–	**38**
Disposals and asset write-offs	38	–	–	**38**
Transfer to assets held for sale	–	55	–	**55**
Reclassification	–	(39)	39	**–**
Impairment at 31 December 2020	(28)	(2,487)	(245)	**(2,760)**
Total amortisation and impairment at 31 December 2019	(1,339)	(9,439)	(274)	**(11,052)**
Total amortisation and impairment at 31 December 2020	(1,350)	(10,419)	(245)	**(12,014)**
Net book value at 1 January 2019	1,046	7,424	8,732	**17,202**
Net book value at 31 December 2019	1,058	10,277	19,620	**30,955**
Net book value at 31 December 2020	1,053	10,403	18,368	**29,824**

The weighted average interest rate for capitalised borrowing costs in the year was 3% (2019 – 3%).

The net book value of computer software included £612 million (2019 – £560 million) of internally generated costs.

The carrying value at 31 December 2020 of intangible assets, for which impairments have been charged or reversed in the year, following those impairments or reversals, was £272 million (2019 – £175 million).

The patent expiry dates of the Group's most significant assets, where relevant, are set out on pages 258 and 259.

Notes to the financial statements continued

20. Other intangible assets continued

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

	Amortisation		Net impairment losses	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Cost of sales	**779**	781	**21**	34
Selling, general and administration	**167**	163	**17**	43
Research and development	**191**	159	**219**	49
	1,137	1,103	**257**	126

Licences, patents, amortised brands 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 40, 'Acquisitions and disposals' gives details of additions through business combinations in the year. The book values of the largest individual items are as follows:

	2020 £m	2019 £m
Tesaro Assets	**2,669**	2,878
Meningitis portfolio	**2,114**	2,139
Dolutegravir	**1,177**	1,280
Benlysta	**745**	834
Lamisil	**275**	–
Merck Assets	**264**	264
BMS Assets	**239**	286
Fluarix/FluLaval	**219**	237
Okairos	**205**	175
Stiefel trade name	**180**	204
Others	**2,316**	1,980
	10,403	10,277

Tesaro assets comprise *Zejula*, the currently marketed monotherapy, as well as combination therapies. The Meningitis portfolio includes *Menveo*, *Bexsero*, Men ABCWY and *Menjugate*. *Lamisil* has been moved into licences, patents, amortised brands etc. following the decision to start amortisation during 2020. GSK has divested the *Breathe Right* brand during the year.

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, CNS, Inc. in 2006, the Novartis consumer healthcare business in 2015 and the Pfizer consumer healthcare business in 2019. The book values of the major brands are as follows:

	2020 £m	2019 £m
Advil	**3,349**	3,408
Voltaren	**2,725**	2,725
Centrum	**1,824**	1,808
Caltrate	**1,678**	1,648
Otrivin	**1,385**	1,385
Preparation H	**1,139**	1,171
Robitussin	**1,111**	1,138
Nexium	**668**	682
Fenistil	**598**	598
Chapstick	**512**	523
Emergen-C	**433**	447
Theraflu	**433**	438
Panadol	**396**	397
Lamisil	**–**	291
Sensodyne	**270**	270
Breathe Right	**–**	251
Others	**1,847**	2,440
	18,368	19,620

20. Other intangible assets continued

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 factors 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 specific segment, country and currency 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, the future expenditure required to maintain the product's marketability and registration in the relevant jurisdictions and exchange rates. 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 -3% 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.

21. Investments in associates and joint ventures

	Joint ventures £m	Associates £m	**2020 Total £m**	Joint ventures £m	Associates £m	2019 Total £m
At 1 January	15	299	**314**	19	217	236
Exchange adjustments	–	(9)	**(9)**	(1)	(9)	(10)
Additions	–	4	**4**	16	11	27
Disposals	–	–	**–**	(1)	–	(1)
Distributions received	–	(31)	**(31)**	–	(7)	(7)
Net fair value movements through Other comprehensive income	–	53	**53**	–	–	–
Other movements	–	–	**–**	(7)	2	(5)
Profit/(loss) after tax recognised in the consolidated income statement	–	33	**33**	(11)	85	74
At 31 December	15	349	**364**	15	299	314

The Group held one significant associate at 31 December 2020, Innoviva, Inc. At 31 December 2020, the Group owned 32 million shares or 31.6% of Innoviva, which is a biopharmaceutical company listed on NASDAQ. Innoviva partnered with GSK in the development of the long acting beta agonist, vilanterol, and currently receives royalty income from sales of products that contain this component, namely *Relvar/Breo Ellipta* and *Anoro Ellipta*. It also has a 15% economic interest in royalties paid by GSK on sales of *Trelegy Ellipta*. The remaining 85% of the economic interest in these royalties is held by Theravance Biopharma Inc., in which the Group holds 15% of the common stock. The investment in Innoviva had a market value of £291 million at 31 December 2020 (2019 – £343 million).

Summarised balance sheet information, based on information published post the balance sheet date, in respect of Innoviva is set out below:

	At 31 December 2020 £m	At 31 December 2019 £m
Non-current assets	**482**	222
Current assets	**251**	326
Current liabilities	**(4)**	(4)
Non-current liabilities	**(283)**	(286)
Net assets	**446**	258

The carrying value of the Group's investment in Innoviva is analysed as follows:

	2020 £m	2019 £m
Interest in net assets of associate	**141**	82
Goodwill	**85**	88
Fair value and other adjustments	**65**	91
Carrying value at 31 December	**291**	261

Notes to the financial statements continued

22. Other investments

	Investments designated as measured at FVTOCI £m	Investments measured at FVTPL £m	2020 £m	Investments designated as measured at FVTOCI £m	Investments measured at FVTPL £m	2019 £m
At 1 January	1,781	56	**1,837**	1,250	72	1,322
Additions	409	3,205	**3,614**	274	3	277
Net fair value movements through Other comprehensive income	1,318	–	**1,318**	314	–	314
Net fair value movements through profit or loss	–	(438)	**(438)**	–	(14)	(14)
Disposals and settlements	(569)	(2,702)	**(3,271)**	(57)	(5)	(62)
At 31 December	2,939	121	**3,060**	1,781	56	1,837

Other investments comprise non-current equity investments which are 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, recent financing rounds and discounted cash flows of the underlying net assets. Net fair value movements include the impact of exchange (losses of £91 million through Other comprehensive income and £nil through profit or loss) (2019 – losses of £66 million and £2 million respectively). Other investments include listed investments of £2,281 million (2019 – £1,128 million).

GSK has elected to designate the majority of its equity investments as measured at fair value through other comprehensive income (FVTOCI). The most significant of these investments held at 31 December 2020 were in CureVac AG in which the Group holds 8.4% of the common stock, Crispr Therapeutics AG in which the Group holds 4.6%, Lyell Immunopharma, Inc. in which the Group holds 11.7%, 23andMe, Inc. in which the Group holds 12.4% and Turning Point Therapeutics, Inc. in which the Group holds 4.7%. These investments had a fair value at 31 December 2020 of £887 million, £361 million (2019 – £148 million), £261 million (2019 – £155 million), £220 million (2019 – £227 million) and £201 million (2019 – £102 million) respectively. The other investments include equity stakes in companies with which GSK has research collaborations and in companies which provide access to biotechnology developments of potential interest. In June 2020, GSK issued US$ US notes which are exchangeable at the option of the note holders at any time until maturity of the notes in June 2023 for shares held by GSK in Theravance Biopharma, Inc. Upon exchange of the notes, GSK expects to deliver the shares but may, at its option under certain circumstances, deliver cash or a combination of Theravance Biopharma shares and cash. The Theravance Biopharma shares are measured at FVTOCI and had a fair value at 31 December 2020 of £126 million.

On disposal of equity investments measured at FVTOCI, the accumulated fair value movements are reclassified from the fair value reserve to retained earnings. Investments with a fair value of £569 million (2019 – £57 million) were disposed of during the year. The cumulative gain on these investments after tax was £163 million (2019 – £4 million).

Certain other investments, such as investments in funds with limited lives and investments acquired with an intention to sell, are measured at fair value through profit or loss (FVTPL). Additions and disposals of investments measured at FVTPL in 2020 include the acquisition of shares in Hindustan Unilever Limited on the merger of GSK's Indian listed Consumer Healthcare entity with Hindustan Unilever and the subsequent divestment of those shares.

23. Other non-current assets

	2020 £m	2019 £m
Amounts receivable under insurance contracts	**756**	743
Pension schemes in surplus	**183**	127
Other receivables	**102**	150
	1,041	1,020

Amounts receivable under insurance contacts are held at cash surrender value with movements through profit or loss.

Within the other receivables of £102 million (2019 – £150 million), £67 million (2019 – £120 million) is classified as financial assets of which £30 million (2019 – £44 million) is classified as fair value through profit or loss. On the remaining balance of £37 million (2019 – £76 million), the expected credit loss allowance was immaterial at 31 December 2020 and 2019.

24. Inventories

	2020 £m	2019 £m
Raw materials and consumables	1,170	1,195
Work in progress	2,395	2,505
Finished goods	2,431	2,247
	5,996	5,947

25. Trade and other receivables

	2020 £m	2019 £m
Trade receivables, net of loss allowance	5,549	5,487
Accrued income	13	7
Other prepayments	359	316
Interest receivable	3	3
Employee loans and advances	11	13
Other receivables	1,017	1,376
	6,952	7,202

Trade receivables included £nil (2019 – £nil) due from associates and joint ventures. Other receivables included £nil (2019 – £nil) due from associates and joint ventures.

Loss allowance	2020 £m	2019 £m
At 1 January	130	128
Exchange adjustments	(4)	(3)
Charge for the year	41	16
Subsequent recoveries of amounts provided for	(8)	(5)
Utilised	(8)	(6)
At 31 December	151	130

Of the total trade receivables balance, £50 million (2019 – £110 million) was considered credit impaired, against which an £20 million (2019 – £11 million) expected credit loss allowance has been applied. No amount was purchased or originated credit impaired.

Within the other receivables of £1,017 million (2019 – £1,376 million), £402 million (2019 – £707 million) was classified as financial assets of which £nil (2019 – £nil) was classified as fair value through profit and loss. On the remaining balance of £402 million (2019 – £707 million), an expected credit loss allowance of £6 million (2019 – £8 million) was recognised at 31 December 2020 with no charge reported in profit or loss during the year.

For more discussion on credit risk practices, please refer to Note 43.

Notes to the financial statements continued

26. Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	**1,762**	795
Short-term deposits	**4,530**	3,912
	6,292	4,707

In addition, £nil (2019 – £507 million) of cash and cash equivalents has been reported in Assets held for sale, see Note 27, 'Assets held for sale'.

Cash and cash equivalents included £0.2 billion (2019 – £0.2 billion) not available for general use due to restrictions applying in the subsidiaries where it is held. Restrictions include exchange controls and taxes on repatriation.

27. Assets held for sale

	2020 £m	2019 £m
Property, plant and equipment	**25**	80
Right of use assets	**–**	7
Lease liabilities	**–**	(7)
Goodwill	**–**	124
Other intangibles	**62**	175
Inventory	**19**	109
Cash and cash equivalents	**–**	507
Other	**–**	(122)
	106	873

Non-current assets and disposal groups 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.

Included within Assets held for sale is inventory written down to fair value less costs to sell of £19 million (2019 – £109 million). The valuation methodology used significant inputs which were not based on observable market data and therefore this valuation is classified as level 3 in the fair value hierarchy.

Intangible assets of £785 million were transferred from Other intangibles during the year. The intangible assets held for sale remaining at 31 December 2020 of £62 million is after impairments, exchange movements and assets divested during the year.

Assets held for sale at 31 December 2019 primarily comprised the disposal group for ThermaCare, which had been acquired from Pfizer in 2019 as part of its consumer healthcare business and was to be divested to meet anti-trust requirements, and the disposal group for Horlicks and other Consumer Healthcare nutritional products in India and a number of other countries. The divestments of both of these disposal groups were completed in 2020.

28. Trade and other payables

	2020 £m	2019 £m
Trade payables	4,357	4,144
Wages and salaries	1,367	1,470
Social security	159	164
ViiV Healthcare put option	960	1,011
Other payables	409	515
Deferred income	361	158
Customer return and rebate accruals	5,775	5,108
Other accruals	2,452	2,369
	15,840	14,939

Trade and other payables included £65 million (2019 – £63 million) due to associates and joint ventures. The Group provides limited supplier financing arrangements to certain customers. The amounts involved at 31 December 2020 were not material.

Revenue recognised in the year that was included in deferred income at 1 January 2020 was £33 million (2019 – £72 million).

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, and included £4,686 million (2019 – £4,200 million) in respect of US Pharmaceuticals and Vaccines, as more fully described in the Group financial review on page 75. 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 light of historical experience of actual amounts paid 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.

Pfizer's put option over its shareholding in ViiV Healthcare is currently exercisable. Pfizer may request an IPO of ViiV Healthcare at any time and if either GSK does not consent to such IPO or an offering is not completed within nine months, Pfizer could require GSK to acquire its shareholding. The amount of the liability for this put option, which is held on the gross redemption basis, is derived from an internal valuation of the ViiV Healthcare business, utilising both discounted forecast future cash flow and multiples-based methodologies.

The table below shows on an indicative basis the income statement and balance sheet sensitivity of the Pfizer put option to reasonably possible changes in key assumptions.

Increase/(decrease) in financial liability and loss/(gain) in Income statement	2020 £m	2019 £m
10% increase in sales forecasts	117	119
10% decrease in sales forecasts	(116)	(118)
10 cent appreciation of US Dollar	52	58
10 cent depreciation of US Dollar	(45)	(49)
10 cent appreciation of Euro	42	37
10 cent depreciation of Euro	(34)	(31)

An explanation of the accounting for ViiV Healthcare is set out on page 52.

Notes to the financial statements continued

29. Net debt

	Listing exchange	2020 £m	2019 £m
Current assets:			
Liquid investments		78	79
Cash and cash equivalents		6,292	4,707
Cash and cash equivalents reported in Assets held for sale		–	507
		6,370	5,293
Short-term borrowings:			
Commercial paper		(17)	(3,586)
Bank loans, overdrafts and other		(1,128)	(434)
Drawn bank facility		–	(1,000)
EURIBOR +0.20% € Euro Medium Term Note 2020	London Stock Exchange	–	(638)
0.000% € Euro Medium Term Note 2020	London Stock Exchange	–	(1,020)
LIBOR +0.35% US$ US Medium Term Note 2021	New York Stock Exchange	(549)	–
EURIBOR +60% € Euro Medium Term Note 2021	London Stock Exchange	(1,351)	–
0.000% € Euro Medium Term Note 2021	London Stock Exchange	(450)	–
Lease liabilities		(230)	(240)
		(3,725)	(6,918)
Long-term borrowings:			
3.125% US$ US Medium Term Note 2021	New York Stock Exchange	–	(944)
LIBOR +0.35% US$ US Medium Term Note 2021	New York Stock Exchange	–	(567)
EURIBOR +0.60% € Euro Medium Term Note 2021	London Stock Exchange	–	(1,281)
0.000% € Euro Medium Term Note 2021	London Stock Exchange	–	(426)
2.850% US$ US Medium Term Note 2022	New York Stock Exchange	(1,463)	(1,509)
2.875% US$ US Medium Term Note 2022	New York Stock Exchange	(1,097)	(1,132)
2.800% US$ US Medium Term Note 2023	New York Stock Exchange	(913)	(941)
0.125% € Euro Medium Term Note 2023	London Stock Exchange	(673)	–
Exchangeable US$ US Medium Term Note 2023	New York Stock Exchange	(199)	–
3.375% US$ US Medium Term Note 2023	New York Stock Exchange	(912)	(941)
0.000% € Euro Medium Term Note 2023	London Stock Exchange	(450)	(425)
0.534% US$ US Medium Term Note 2023	New York Stock Exchange	(913)	–
3.000% US$ US Medium Term Note 2024	New York Stock Exchange	(728)	(751)
1.375% € Euro Medium Term Note 2024	London Stock Exchange	(894)	(844)
4.000% € Euro Medium Term Note 2025	London Stock Exchange	(670)	(633)
3.625% US$ US Medium Term Note 2025	New York Stock Exchange	(728)	(751)
1.000% € Euro Medium Term Note 2026	London Stock Exchange	(628)	(593)
1.250% € Euro Medium Term Note 2026	London Stock Exchange	(896)	(846)
3.375% £ Euro Medium Term Note 2027	London Stock Exchange	(595)	(594)
1.250% £ Euro Medium Term Note 2028	London Stock Exchange	(742)	–
3.875% US$ US Medium Term Note 2028	New York Stock Exchange	(1,278)	(1,319)
3.375% US$ US Medium Term Note 2029	New York Stock Exchange	(723)	(746)
1.375% € Euro Medium Term Note 2029	London Stock Exchange	(447)	(422)
1.750% € Euro Medium Term Note 2030	London Stock Exchange	(672)	(635)
5.250% £ Euro Medium Term Note 2033	London Stock Exchange	(983)	(983)
5.375% US$ US Medium Term Note 2034	New York Stock Exchange	(363)	(375)
1.625% £ Euro Medium Term Note 2035	London Stock Exchange	(743)	–
6.375% US$ US Medium Term Note 2038	New York Stock Exchange	(1,996)	(2,061)
6.375% £ Euro Medium Term Note 2039	London Stock Exchange	(695)	(694)
5.250% £ Euro Medium Term Note 2042	London Stock Exchange	(987)	(987)
4.200% US$ US Medium Term Note 2043	New York Stock Exchange	(359)	(371)
4.250% £ Euro Medium Term Note 2045	London Stock Exchange	(789)	(789)
Other long-term borrowings		(2)	(20)
Lease liabilities		(887)	(1,010)
		(23,425)	(23,590)
Net debt		(20,780)	(25,215)

29. Net debt continued

Current assets

Liquid investments are classified as financial assets at amortised cost. At 31 December 2020, they included US Treasury Notes and other government bonds. The effective interest rate on liquid investments at 31 December 2020 was approximately 1.1% (2019 – approximately 1.1%). Liquid investment balances at 31 December 2020 earning interest at floating rates amount to £78 million (2019 – £1 million). Liquid investment balances at 31 December 2020 earning interest at fixed rates amount to £nil (2019 – £78 million).

Balances reported within cash and cash equivalents have an original maturity of three months or less. The effective interest rate on cash and cash equivalents at 31 December 2020 was approximately 0.3% (2019 – approximately 1.6%). Cash and cash equivalents at 31 December 2020 earning interest at floating and fixed rates amounted to £6,100 million and £9 million respectively (2019 – £5,039 million and £10 million) and non-interest bearing holdings amounted to £183 million (2019 – £164 million).

GSK's policy regarding the credit quality of cash and cash equivalents is set out in Note 43, 'Financial instruments and related disclosures'.

Short-term borrowings

GSK has a $10 billion (£7.3 billion) US commercial paper programme, of which $25 million (£17 million) was in issue at 31 December 2020 (2019 – $4.8 billion (£3.6 billion)). GSK has a £5 billion Euro commercial paper programme newly established in 2020, of which £nil was in issue at 31 December 2020. GSK has a £1.9 billion three-year committed facility and $2.5 billion (£1.8 billion) under a 364 day committed facility. The three year committed facility was agreed in September 2019 and was extended by one year to 2023 in September 2020. The 364-day committed facility was agreed in September 2020. These facilities were undrawn at 31 December 2020.

The weighted average interest rate on commercial paper borrowings at 31 December 2020 was 2.4% (2019 – 1.8%).

The weighted average interest rate on current bank loans and overdrafts at 31 December 2020 was 5.8% (2019 – 4.6%).

The average effective pre-swap interest rate of notes classified as short-term at 31 December 2020 was 0.0% (2019 – 0.0%). The 0.0% rate reflects the upcoming maturities of a LIBOR +0.35% coupon note in May 2021, and both a zero coupon and a EURIBOR +0.60% note in September 2021.

Long-term borrowings

At the year-end, GSK had long-term borrowings of £23.4 billion (2019 – £23.6 billion), of which £12.9 billion (2019 – £13.3 billion) fell due in more than five years. The average effective pre-swap interest rate of all notes in issue at 31 December 2020 was approximately 3.6% (2019 – approximately 3.8%).

Long-term borrowings repayable after five years carry interest at effective rates between 1.0% and 6.8%, with repayment dates ranging from 2026 to 2045.

Pledged assets

The Group held pledged investments in US Treasury Notes with a par value of $50 million (£37 million), (2019– $50 million (£38 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 31, 'Other provisions'.

Lease liabilities

The maturity analysis of discounted lease liabilities recognised on the Group balance sheet is as follows:

	2020 £m	2019 £m
Rental payments due within one year	230	240
Rental payments due between one and two years	207	227
Rental payments due between two and three years	126	119
Rental payments due between three and four years	96	105
Rental payments due between four and five years	86	93
Rental payments due after five years	372	466
Total lease liabilities	1,117	1,250

30. Pensions and other post-employment benefits

Pension and other post-employment costs	2020 £m	2019 £m	2018 £m
UK pension schemes	255	181	246
US pension schemes	62	120	100
Other overseas pension schemes	189	185	190
Unfunded post-retirement healthcare schemes	13	74	50
	519	560	586
Analysed as:			
Funded defined benefit/hybrid pension schemes	341	300	369
Unfunded defined benefit pension schemes	32	41	43
Unfunded post-retirement healthcare schemes	13	74	50
Defined benefit schemes	386	415	462
Defined contribution pension schemes	133	145	124
	519	560	586

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

	2020 £m	2019 £m	2018 £m
Cost of sales	143	149	160
Selling, general and administration	185	195	228
Research and development	59	71	74
	387	415	462

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.

Pension costs of defined benefit schemes for accounting purposes have been calculated using the projected unit credit 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.

Remeasurement 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 S2 standard mortality tables to reflect recent scheme experience. These rates are then projected to reflect improvements in life expectancy in line with the CMI 2019 projections with a long-term rate of improvement of 1.25% per year for both males and females. In the US, mortality rates are calculated using the PRI-2012 white collar table adjusted to reflect recent experience. These rates are projected using MP-2020 to allow for future improvements in life expectancy.

30. Pensions and other post-employment benefits continued

The average life expectancy assumed now for an individual at the age of 60 and projected to apply in 2040 for an individual then at the age of 60 is as follows:

	UK		US	
	Male Years	Female Years	Male Years	Female Years
Current	27.4	29.0	26.8	28.2
Projected for 2040	28.8	30.5	28.4	29.7

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 physical asset allocation strategy for three of the four UK plans has been adjusted from 45% in return-seeking assets and 55% in liability-matching assets to 42.5% in return-seeking assets and 57.5% in liability-matching assets. During 2019, a buy-in insurance contract was purchased to cover substantially all of the obligations of the other UK plan. At 31 December 2020, the value of the insurance contract was £620 million (2019 – £607 million). The asset allocation of the US plans is currently set at 25% return-seeking assets and 75% 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, currency and bank counterparty risk.

The plan liabilities are a series of future cash flows with relatively long duration. On an IAS 19 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.

The interest rate risk and credit rate risk in the US are partially hedged. The targets are based on an accounting measure of the plan liabilities.

For the UK plans, there is an interest rate and inflation hedging strategy in place. The targets are based on an economic measure of the plan liabilities. Furthermore, the plans also currently hedge a portion of their equity exposure with a staggered maturity profile.

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 addition, the Group operates a number of post-retirement healthcare schemes, the principal one of which is in the US.

Following a period of consultation with impacted employees, it was announced on 17 December 2020 that the UK defined benefit plans would be closed to future accrual effective from 31 March 2022. As a result, post closure the accrued benefits of active participants will be revalued in line with inflation (RPI for the legacy Glaxo Wellcome plans and CPI for the legacy SmithKline Beecham plans subject to the relevant caps for each arrangement) rather than capped pay increases. In addition, all defined benefit plan participants who are still active at 1 April 2022 will receive a defined pension contribution of £10,000 each. The effect of closure and the defined contribution enhancement together result in a one off cost of £74 million.

It was announced on 9 September 2020 that the US cash balance pension plans would be closed to future accrual from 1 January 2021. This change resulted in a credit of £56 million. On 1 June 2020 and 9 September 2020, two amendments were made to the retiree healthcare plans in the US resulting in a credit of £55 million.

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

	UK			US			Rest of World		
	2020 % pa	2019 % pa	2018 % pa	**2020 % pa**	2019 % pa	2018 % pa	**2020 % pa**	2019 % pa	2018 % pa
Rate of increase of future earnings	**2.0**	2.00	2.00	**n/a**	4.00	4.00	**2.6**	2.70	2.70
Discount rate	**1.4**	2.00	2.90	**2.3**	3.20	4.20	**0.6**	1.10	1.80
Expected pension increases	**2.8**	3.00	3.20	**n/a**	n/a	n/a	**2.1**	2.10	2.10
Cash balance credit/conversion rate	**n/a**	n/a	n/a	**1.9**	2.60	3.20	**0.1**	0.10	0.40
Inflation rate	**2.8**	3.00	3.20	**2.0**	2.25	2.25	**1.3**	1.40	1.50

Sensitivity analysis detailing the effect of changes in assumptions is provided on page 199. The analysis provided reflects the assumption changes which have the most material impact on the results of the Group.

Notes to the financial statements continued

30. 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 2020 in relation to the defined benefit pension and post-retirement healthcare schemes were as follows:

2020	UK £m	US £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Amounts charged to operating profit					
Current service cost	61	83	147	**291**	**36**
Past service cost/(credit)	98	(56)	1	**43**	**(55)**
Net interest (income)/cost	3	23	10	**36**	**39**
Gains from settlements	–	–	(18)	**(18)**	**(7)**
Expenses	9	12	–	**21**	**–**
	171	62	140	**373**	**13**
Remeasurement gains/(losses) recorded in the statement of comprehensive income	51	(96)	(60)	**(105)**	**(82)**

2019	UK £m	US £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Amounts charged to operating profit					
Current service cost	62	74	130	266	22
Past service cost/(credit)	49	(3)	(15)	31	–
Net interest (income)/cost	(19)	29	16	26	52
Gains from settlements	–	–	(9)	(9)	–
Expenses	7	20	–	27	–
	99	120	122	341	74
Remeasurement losses recorded in the statement of comprehensive income	(894)	(1)	(78)	(973)	(77)

2018	UK £m	US £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Amounts charged to operating profit					
Current service cost	75	72	134	281	29
Past service cost/(credit)	93	1	–	94	(27)
Net interest (income)/cost	(3)	20	19	36	49
Gains from settlements	–	–	(14)	(14)	(1)
Expenses	8	7	–	15	–
	173	100	139	412	50
Remeasurement gains/(losses) recorded in the statement of comprehensive income	495	(108)	196	583	145

The amounts included within past service costs in the UK included £24 million (2019 – £58 million; 2018 – £43 million) of augmentation costs which arose from Major restructuring programmes, together with a charge of £74 million in relation to the impact of the closure of the defined benefit schemes to future accrual. In 2018, past service costs in the UK included a charge of £40 million in relation to the estimated impact of Guaranteed Minimum Pension (GMP) equalisation. GMPs are minimum pension entitlements for members of those schemes that elected to contract out of the State Earnings Related Pension Scheme. A UK High Court ruling in 2018 required the equalisation of benefits earned between 1990 and 1997 that included GMPs in order to address gender inequality arising because GMPs were different for men and women.

The past service credit of £56 million in the US reflected the closure of the cash balance pension plans from 1 January 2021. Amendments to the retiree healthcare plan in the US resulted in a credit of £55 million to past service costs in post-retirement benefits.

30. 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:

	2020 £m	2019 £m	2018 £m
Recognised in Other non-current assets:			
Pension schemes in surplus	183	127	760
Recognised in Assets held for sale:			
Post-retirement benefits	–	(9)	(9)
Recognised in Pensions and other post-employment benefits:			
Pension schemes in deficit	(2,287)	(2,048)	(1,755)
Post-retirement benefits	(1,363)	(1,409)	(1,370)
	(3,650)	(3,457)	(3,125)

In the event of a plan wind-up, GSK believes the UK pension scheme rules provide the company with the right to a refund of surplus assets following the full settlement of plan liabilities. As a result, the net surplus in the UK defined benefit pension schemes is recognised in full.

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 2020		UK £m	US £m	Rest of World £m	Group £m
Equities:	– listed	2,686	539	686	3,911
	– unlisted	–	–	5	5
Multi-asset funds		2,075	–	–	2,075
Property:	– listed	–	–	57	57
	– unlisted	447	136	2	585
Corporate bonds:	– listed	1,113	1,066	154	2,333
	– unlisted	–	–	20	20
Government bonds:	– listed	6,055	758	999	7,812
Insurance contracts		1,409	–	988	2,397
Other (liabilities)/assets		(203)	136	78	11
Fair value of assets		13,582	2,635	2,989	19,206
Present value of scheme obligations		(13,858)	(3,445)	(4,007)	(21,310)
Net surplus/(obligation)		(276)	(810)	(1,018)	(2,104)
Included in Other non-current assets		77	–	106	183
Included in Pensions and other post-employment benefits		(353)	(810)	(1,124)	(2,287)
		(276)	(810)	(1,018)	(2,104)
Actual return on plan assets		1,092	159	177	1,428

The multi-asset funds comprise investments in pooled investment vehicles that are invested across a range of asset classes, increasing diversification within the growth portfolio. The value of funds in this asset class with a quoted market price is £847 million (2019 – £861 million).

The ‘Other assets’ category comprises cash and mark to market values of derivative positions.

Index-linked gilts held as part of a UK repo programme are included in government bonds. The related loan of £650 million at 31 December 2020 (2019 – £243 million; 2018 – £nil) is deducted within ‘Other assets’.

Notes to the financial statements continued

30. Pensions and other post-employment benefits continued

At 31 December 2019		UK £m	US £m	Rest of World £m	Group £m
Equities:	– listed	2,904	671	638	4,213
	– unlisted	–	–	8	8
Multi-asset funds		2,700	–	–	2,700
Property:	– listed	–	–	55	55
	– unlisted	460	145	2	607
Corporate bonds:	– listed	297	855	141	1,293
	– unlisted	326	–	23	349
Government bonds:	– listed	4,923	803	889	6,615
Insurance contracts		1,406	–	832	2,238
Other (liabilities)/assets		(35)	315	74	354
Fair value of assets		12,981	2,789	2,662	18,432
Present value of scheme obligations		(13,293)	(3,506)	(3,554)	(20,353)
Net surplus/(obligation)		(312)	(717)	(892)	(1,921)
Included in Other non-current assets		70	–	57	127
Included in Pensions and other post-employment benefits		(382)	(717)	(949)	(2,048)
		(312)	(717)	(892)	(1,921)
Actual return on plan assets		787	356	345	1,488

At 31 December 2018		UK £m	US £m	Rest of World £m	Group £m
Equities:	– listed	3,257	1,280	518	5,055
	– unlisted	–	–	7	7
Multi-asset funds		2,997	–	–	2,997
Property:	– listed	–	–	33	33
	– unlisted	423	231	4	658
Corporate bonds:	– listed	404	783	111	1,298
	– unlisted	306	–	25	331
Government bonds:	– listed	3,835	286	795	4,916
Insurance contracts		770	–	831	1,601
Other assets		589	228	66	883
Fair value of assets		12,581	2,808	2,390	17,779
Present value of scheme obligations		(12,087)	(3,474)	(3,213)	(18,774)
Net surplus/(obligation)		494	(666)	(823)	(995)
Included in Other non-current assets		711	–	49	760
Included in Pensions and other post-employment benefits		(217)	(666)	(872)	(1,755)
		494	(666)	(823)	(995)
Actual return on plan assets		(88)	(123)	55	(156)

Notes to the financial statements continued

30. Pensions and other post-employment benefits continued

Movements in fair values of assets	UK £m	US £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Assets at 1 January 2018	13,154	2,874	2,252	**18,280**	**–**
Exchange adjustments	–	171	53	**224**	**–**
Interest income	323	102	29	**454**	**–**
Expenses	(8)	(7)	–	**(15)**	**–**
Settlements and curtailments	–	–	(14)	**(14)**	**–**
Remeasurement	(411)	(225)	26	**(610)**	**–**
Employer contributions	119	150	117	**386**	**93**
Scheme participants' contributions	4	–	16	**20**	**16**
Benefits paid	(600)	(257)	(89)	**(946)**	**(109)**
Assets at 31 December 2018	12,581	2,808	2,390	**17,779**	**–**
Exchange adjustments	–	(110)	(120)	**(230)**	**–**
Additions through business combinations	–	–	14	**14**	**–**
Interest income	360	111	37	**508**	**–**
Expenses	(7)	(20)	–	**(27)**	**–**
Settlements and curtailments	–	–	1	**1**	**–**
Remeasurement	427	245	312	**984**	**–**
Employer contributions	187	40	116	**343**	**110**
Scheme participants' contributions	3	–	17	**20**	**17**
Benefits paid	(570)	(285)	(105)	**(960)**	**(127)**
Assets at 31 December 2019	12,981	2,789	2,662	**18,432**	**–**
Exchange adjustments	–	(86)	138	**52**	**–**
Additions through business combinations	–	–	–	**–**	**–**
Interest income	256	87	29	**372**	**–**
Expenses	(9)	(12)	–	**(21)**	**–**
Settlements and curtailments	–	–	(20)	**(20)**	**–**
Remeasurement	836	72	148	**1,056**	**–**
Employer contributions	156	33	124	**313**	**105**
Scheme participants' contributions	3	–	18	**21**	**18**
Benefits paid	(641)	(248)	(110)	**(999)**	**(123)**
Assets at 31 December 2020	13,582	2,635	2,989	**19,206**	**–**

During 2020, the Group made special funding contributions to the UK pension schemes of £76 million (2019 – £78 million; 2018 – £nil) but £nil (2019 – £nil; 2018 – £125 million) to the US schemes. In 2018, GSK reached a revised agreement with the trustees of the UK pension schemes to make additional contributions to eliminate the pension deficits identified within the schemes at the 31 December 2017 actuarial funding valuation. Based on these funding agreements, the additional contributions to eliminate the pension deficit are expected to be £44 million in 2021 and 2022 and these are included within Note 35, 'Commitments' on page 202. This funding commitment supersedes the previous agreement made in 2016. 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 2021, including special funding contributions, are estimated to be approximately £320 million in respect of defined benefit pension schemes and £100 million in respect of post-retirement benefits.

Notes to the financial statements continued

30. Pensions and other post-employment benefits continued

				Pensions	Post-retirement benefits
Movements in defined benefit obligations	UK £m	US £m	Rest of World £m	**Group £m**	**Group £m**
Obligations at 1 January 2018	(13,101)	(3,445)	(3,239)	**(19,785)**	**(1,496)**
Exchange adjustments	–	(208)	(63)	**(271)**	**(71)**
Service cost	(75)	(72)	(134)	**(281)**	**(29)**
Past service cost/(credit)	(93)	(1)	–	**(94)**	**27**
Interest cost	(320)	(122)	(48)	**(490)**	**(49)**
Settlements and curtailments	–	–	28	**28**	**1**
Remeasurement	906	117	170	**1,193**	**145**
Scheme participants' contributions	(4)	–	(16)	**(20)**	**(16)**
Benefits paid	600	257	89	**946**	**109**
Obligations at 31 December 2018	(12,087)	(3,474)	(3,213)	**(18,774)**	**(1,379)**
Exchange adjustments	–	140	177	**317**	**50**
Additions through business combinations	–	–	(56)	**(56)**	**(48)**
Service cost	(62)	(74)	(130)	**(266)**	**(22)**
Past service cost	(49)	3	15	**(31)**	**–**
Interest cost	(341)	(140)	(53)	**(534)**	**(52)**
Settlements and curtailments	–	–	8	**8**	**–**
Remeasurement	(1,321)	(246)	(390)	**(1,957)**	**(77)**
Scheme participants' contributions	(3)	–	(17)	**(20)**	**(17)**
Benefits paid	570	285	105	**960**	**127**
Obligations at 31 December 2019	(13,293)	(3,506)	(3,554)	**(20,353)**	**(1,418)**
Exchange adjustments	–	118	(188)	**(70)**	**36**
Disposals	–	–	–	**–**	**9**
Service cost	(61)	(83)	(147)	**(291)**	**(36)**
Past service cost	(98)	56	(1)	**(43)**	**55**
Interest cost	(259)	(110)	(39)	**(408)**	**(39)**
Settlements and curtailments	–	–	38	**38**	**7**
Remeasurement	(785)	(168)	(208)	**(1,161)**	**(82)**
Scheme participants' contributions	(3)	–	(18)	**(21)**	**(18)**
Benefits paid	641	248	110	**999**	**123**
Obligations at 31 December 2020	(13,858)	(3,445)	(4,007)	**(21,310)**	**(1,363)**

The defined benefit pension obligation is analysed as follows:

	2020 £m	2019 £m	2018 £m
Funded	**(20,504)**	(19,547)	(18,025)
Unfunded	**(806)**	(806)	(749)
	(21,310)	(20,353)	(18,774)

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 6.0% (2019 – 6.25%) in 2021, grading down to 4.75% in 2026 and thereafter. At 31 December 2020, the US post-retirement healthcare scheme obligation was £1,124 million (2019 – £1,198 million; 2018 – £1,179 million). Post-retirement benefits are unfunded.

30. Pensions and other post-employment benefits continued

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

	2020 £m	2019 £m	2018 £m
At 1 January	(1,921)	(995)	(1,505)
Exchange adjustments	(18)	87	(47)
Additions through business combinations	–	(42)	–
Service cost	(291)	(266)	(281)
Past service cost	(43)	(31)	(94)
Interest cost	(36)	(26)	(36)
Settlements and curtailments	18	9	14
Remeasurements:			
Return on plan assets, excluding amounts included in interest	1,056	984	(610)
Gain from change in demographic assumptions	69	78	131
(Loss)/gain from change in financial assumptions	(1,340)	(2,022)	1,149
Experience gains/(losses)	110	(13)	(87)
Employer contributions	313	343	386
Expenses	(21)	(27)	(15)
At 31 December	(2,104)	(1,921)	(995)

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

	2020 £m	2019 £m	2018 £m
Gain from change in demographic assumptions	7	–	6
(Loss)/gain from change in financial assumptions	(93)	(80)	100
Experience gains	4	3	39
	(82)	(77)	145

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

	2020 £m	2019 £m	2018 £m
Active	4,660	4,572	4,427
Retired	11,257	10,485	9,542
Deferred	5,393	5,296	4,805
	21,310	20,353	18,774

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

	2020 £m	2019 £m	2018 £m
Active	551	549	499
Retired	808	869	879
Deferred	4	–	1
	1,363	1,418	1,379

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

	2020 years	2019 years	2018 years
Pension benefits	16	15	15
Post-retirement benefits	12	12	11

Notes to the financial statements continued

30. Pensions and other post-employment benefits continued

Sensitivity analysis

The effect of changes in assumptions used on the benefit obligations and on the 2021 annual defined benefit pension and post-retirement costs are detailed below. This information has been determined by taking into account the duration of the liabilities and the overall profile of the plan memberships.

	0.25% increase £m	0.25% decrease £m
Discount rate		
(Decrease)/increase in annual pension cost	(20)	15
Increase/(decrease) in annual post-retirement benefits cost	1	(1)
(Decrease)/increase in pension obligation	(797)	846
(Decrease)/increase in post-retirement benefits obligation	(40)	42
	0.5% increase £m	0.5% decrease £m
(Decrease)/increase in annual pension cost	(39)	27
Increase/(decrease) in annual post-retirement benefits cost	2	(2)
(Decrease)/increase in pension obligation	(1,550)	1,745
(Decrease)/increase in post-retirement benefits obligation	(78)	86

	0.25% increase £m	0.25% decrease £m
Inflation rate		
Increase/(decrease) in annual pension cost	14	(13)
Increase/(decrease) in pension obligation	617	(572)

	1 year increase £m
Life expectancy	
Increase in annual pension cost	15
Increase in annual post-retirement benefits cost	1
Increase in pension obligation	801
Increase in post-retirement benefits obligation	40

	1% increase £m
Rate of future healthcare inflation	
Increase in annual post-retirement benefits cost	1
Increase in post-retirement benefits obligation	50

31. Other provisions

	Legal and other disputes £m	Major restructuring programmes £m	Employee related provisions £m	Other provisions £m	Total £m
At 1 January 2020	198	505	387	201	**1,291**
Exchange adjustments	(12)	4	4	(3)	**(7)**
Charge for the year	234	746	64	102	**1,146**
Reversed unused	(3)	(96)	(21)	(7)	**(127)**
Unwinding of discount	1	2	–	–	**3**
Utilised	(98)	(287)	(99)	(44)	**(528)**
Reclassifications and other movements	–	18	(9)	4	**13**
Transfer to Pension obligations	–	(32)	–	–	**(32)**
At 31 December 2020	320	860	326	253	**1,759**
To be settled within one year	279	634	63	76	**1,052**
To be settled after one year	41	226	263	177	**707**
At 31 December 2020	320	860	326	253	**1,759**

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 46 'Legal proceedings'. Provisions for legal and other disputes include amounts relating to product liability, anti-trust, government investigations, contract terminations and self insurance.

The net charge for the year of £231 million (including reversals and estimated insurance recoveries) primarily related to provisions for product liability cases, commercial disputes and various other government investigations.

The discount on the provisions increased by £1 million in 2020 (2019 – increased by £3 million). The discount was calculated using risk-adjusted projected cash flows and risk-free rates of return.

In respect of product liability claims related to certain products, provision is made when 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. Indemnified disputes will result in a provision charge and a corresponding receivable.

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 £279 million of the amount provided at 31 December 2020 will be settled within one year. At 31 December 2020, it was expected that £13 million (2019 – £9 million) of the provision made for legal and other disputes will be reimbursed by third parties. For a discussion of legal issues, see Note 46, 'Legal proceedings'.

Major restructuring programmes

During 2020, the Group had four major restructuring programmes in progress: the Combined restructuring and integration programme, which is now substantially complete, the 2018 Major restructuring programme, the Consumer Healthcare Joint Venture integration programme and the Separation Preparation programme. The programmes are focused primarily on simplifying supply chain processes, rationalising the Group's manufacturing network, restructuring the Pharmaceuticals commercial operations, integrating the Pfizer consumer healthcare business and preparing for the separation of GSK into two new companies.

Restructuring provisions primarily include severance costs 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 paid immediately.

Pension augmentations arising from staff redundancies of £32 million (2019 – £47 million) have been charged during the year and then transferred to the pensions obligations provision. £24 million relates to defined benefit plans and £8 million relates to defined contribution schemes as shown in Note 30, 'Pensions and other post-employment benefits'.

Notes to the financial statements continued

31. Other provisions continued

Employee related provisions
Employee related provisions include obligations for certain medical benefits to disabled employees and their spouses in the US. At 31 December 2020, the provision for these benefits amounted to £77 million (2019 – £85 million). Other employee benefits reflect a variety of provisions for severance costs, jubilee awards and other long-service benefits.

Given the nature of these provisions, the amounts are likely to be settled over many years.

Other provisions
Included in other provisions are insurance provisions of £13 million (2019 – £14 million), and a number of other provisions including vehicle insurance and regulatory matters.

32. Contingent consideration liabilities

The consideration for certain acquisitions includes amounts contingent on future events such as development milestones or sales performance. The Group has provided for the fair value of this contingent consideration as follows:

	Shionogi-ViiV Healthcare £m	Novartis Vaccines £m	Other £m	Total £m
At 1 January 2018	5,542	584	46	6,172
Remeasurement through income statement	1,188	56	7	1,251
Cash payments: operating cash flows	(703)	(281)	–	(984)
Cash payments: investing activities	(90)	(63)	–	(153)
At 31 December 2018	5,937	296	53	6,286
Remeasurement through income statement	31	67	(15)	83
Cash payments: operating cash flows	(767)	(13)	–	(780)
Cash payments: investing activities	(98)	(11)	(4)	(113)
Other movements	–	–	3	3
At 31 December 2019	5,103	339	37	5,479
Remeasurement through income statement	1,114	161	–	1,275
Cash payments: operating cash flows	(751)	(14)	–	(765)
Cash payments: investing activities	(107)	(9)	(4)	(120)
At 31 December 2020	5,359	477	33	5,869

Of the contingent consideration payable at 31 December 2020, £765 million (2019 – £755 million) is expected to be paid within one year.

The consideration payable for the acquisition of the Shionogi-ViiV Healthcare joint venture and the Novartis Vaccines business is expected to be paid over a number of years. As a result, the total estimated liabilities are discounted to their present values, shown above. The Shionogi-ViiV Healthcare contingent consideration liability is discounted at 8.5% and the Novartis Vaccines contingent consideration liability is discounted at 8% for commercialised products and at 9% for pipeline assets.

The Shionogi-ViiV Healthcare and Novartis Vaccines contingent consideration liabilities are calculated principally based on the forecast sales performance of specified products over the lives of those products.

The table below shows on an indicative basis the income statement and balance sheet sensitivity to reasonably possible changes in key inputs to the valuations of the contingent consideration liabilities.

	2000		2019	
Increase/(decrease) in financial liability and loss/(gain) in Income statement	**Shionogi-ViiV Healthcare £m**	**Novartis Vaccines £m**	Shionogi-ViiV Healthcare £m	Novartis Vaccines £m
10% increase in sales forecasts	515	80	489	65
10% decrease in sales forecasts	(516)	(78)	(490)	(65)
1% increase in discount rate	(207)	(39)	(192)	(24)
1% decrease in discount rate	223	45	205	27
5% increase in probability of milestone success		7		7
5% decrease in probability of milestone success		(7)		(7)
10 cent appreciation of US Dollar	305	4	302	(8)
10 cent depreciation of US Dollar	(262)	(2)	(261)	7
10 cent appreciation of Euro	125	30	106	26
10 cent depreciation of Euro	(105)	(24)	(91)	(22)

An explanation of the accounting for ViiV Healthcare is set out on page 52.

33. Other non-current liabilities

	2020 £m	2019 £m
Accruals	41	42
Deferred income	21	24
Other payables	741	778
	803	844

Other payables includes a number of employee-related liabilities including employee savings plans.

34. Contingent liabilities

At 31 December 2020, contingent liabilities where GSK has a present obligation as a result of a past event, comprising guarantees, discounted bills and other items arising in the normal course of business, amounted to £138 million (2019 – £97 million). These contingent liabilities arise where the Group has a present obligation arising from a past event. At 31 December 2020, £0.4 million (2019 – £1 million) 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 2020, 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 legal and other disputes to which the Group is a party are set out in Note 46, 'Legal proceedings'.

35. Commitments

Contractual obligations and commitments	2020 £m	2019 £m
Contracted for but not provided in the financial statements:		
Intangible assets	12,307	9,727
Property, plant and equipment	528	413
Investments	153	47
Purchase commitments	746	1,047
Pensions	88	163
Interest on loans	8,309	8,952
Future finance charges on leases	180	223
	22,311	20,572

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. The increase in intangible commitments in 2020 is mainly attributable to a number of new R&D collaborations, including with CureVac, Ideaya Biosciences and Surface Oncology.

In 2018, 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 2017 actuarial funding valuation. A payment of £44 million is due in both 2021 and 2022. The table above includes this commitment, but excludes the normal ongoing annual funding requirement in the UK of approximately £130 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.

Notes to the financial statements continued

36. Share capital and share premium account

	Ordinary Shares of 25p each		Share premium
	Number	£m	£m
Share capital issued and fully paid			
At 1 January 2018	5,372,553,820	1,343	3,019
Issued under employee share schemes	6,513,804	2	72
At 31 December 2018	5,379,067,624	1,345	3,091
Issued under employee share schemes	4,034,607	1	50
Ordinary shares acquired by ESOP Trusts	–	–	33
At 31 December 2019	5,383,102,231	1,346	3,174
Issued under employee share schemes	2,087,386	–	29
Ordinary shares acquired by ESOP Trusts	–	–	78
At 31 December 2020	5,385,189,617	1,346	3,281

	31 December 2020 000	31 December 2019 000
Number of shares issuable under employee share schemes	**48,205**	57,871
Number of unissued shares not under option	**4,566,605**	4,559,027

At 31 December 2020, of the issued share capital, 48,975,304 shares were held in the ESOP Trusts, 355,205,950 shares were held as Treasury shares and 4,981,008,363 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 44, ‘Employee share schemes’.

37. Movements in equity

Retained earnings and other reserves amounted to £9,960 million at 31 December 2020 (2019 – £6,885 million; 2018 – £655 million loss) of which £440 million (2019 – £394 million; 2018 – £337 million) related to associates and joint ventures.

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 2018	443	23	345	**811**
Exchange movements on overseas net assets	(458)	(22)	(1)	**(481)**
At 31 December 2018, as reported	(15)	1	344	**330**
Adjustment of exchange movements on overseas net assets	396	–	(396)	**–**
At 31 December 2018, as revised	381	1	(52)	**330**
Exchange movements on overseas net assets	(830)	(2)	(75)	**(907)**
Reclassification of exchange movements on liquidation or disposal of overseas subsidiaries	(75)	–	–	**(75)**
At 31 December 2019	(524)	(1)	(127)	**(652)**
Exchange movements on overseas net assets	(51)	(8)	(34)	**(93)**
Reclassification of exchange movements on liquidation or disposal of overseas subsidiaries	36	–	–	**36**
At 31 December 2020	(539)	(9)	(161)	**(709)**

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

2020	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	(51)	(8)	–	**(59)**
Reclassification of exchange movements on liquidation or disposal of overseas subsidiaries	36	–	–	**36**
Fair value movements on cash flow hedges	–	(19)	–	**(19)**
Reclassification of cash flow hedges to income and expense	–	54	–	**54**
Tax on fair value movements on cash flow hedges	–	(18)	–	**(18)**
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests	–	–	(34)	**(34)**
Fair value movements on equity investments	–	1,348	–	**1,348**
Tax on fair value movements on equity investments	–	(220)	–	**(220)**
Remeasurement losses on defined benefit plans	(187)	–	–	**(187)**
Tax on remeasurement losses in defined benefit plans	69	–	–	**69**
Other comprehensive (expense)/income for the year	(133)	1,137	(34)	**970**

2019	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	(830)	(2)	–	(832)
Reclassification of exchange movements on liquidation or disposal of overseas subsidiaries	(75)	–	–	(75)
Fair value movements on cash flow hedges	–	(20)	–	(20)
Reclassification of cash flow hedges to income and expense	–	3	–	3
Tax on fair value movements on cash flow hedges	–	16	–	16
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests	–	–	(75)	(75)
Fair value movements on equity investments	–	372	–	372
Tax on fair value movements on equity investments	–	(95)	–	(95)
Remeasurement gains on defined benefit plans	(1,050)	–	–	(1,050)
Tax on remeasurement gains in defined benefit plans	189	–	–	189
Other comprehensive (expense)/income for the year	(1,766)	274	(75)	(1,567)

Notes to the financial statements continued

37. Movements in equity continued

2018	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	(458)	(22)	–	(480)
Fair value movements on cash flow hedges	–	140	–	140
Reclassification of cash flow hedges to income and expense	–	(175)	–	(175)
Tax on fair value movements on cash flow hedges	–	(22)	–	(22)
Deferred tax reversed on reclassification of cash flow hedges	–	20	–	20
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests	–	–	(1)	(1)
Fair value movements on equity investments	–	180	–	180
Tax on fair value movements on equity investments	–	10	–	10
Remeasurement gains on defined benefit plans	728	–	–	728
Tax on remeasurement gains in defined benefit plans	(146)	–	–	(146)
Other comprehensive income/(expense) for the year	124	131	(1)	254

Information on net investment hedges is provided in part (d) of Note 43 'Financial instruments and related disclosures'.

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 2018	(400)	41	(11)	2,129	1,759
Exchange adjustments	(26)	–	–	–	(26)
Transferred to Retained earnings in the year on disposal of equity investments	–	(94)	–	–	(94)
Net fair value movement in the year	–	193	(36)	–	157
Write-down of shares held by ESOP Trusts	265	–	–	–	265
At 31 December 2018	(161)	140	(47)	2,129	2,061
Exchange adjustments	10	–	–	–	10
Transferred to Retained earnings in the year on disposal of equity investments	–	5	–	–	5
Net fair value movement in the year	–	264	(1)	–	263
Ordinary shares acquired by ESOP Trusts	(328)	–	–	–	(328)
Write-down of shares held by ESOP Trusts	344	–	–	–	344
At 31 December 2019	(135)	409	(48)	2,129	2,355
Exchange adjustments	20	–	–	–	20
Transferred to Retained earnings in the year on disposal of equity investments	–	(207)	–	–	(207)
Net fair value movement in the year	–	1,100	17	–	1,117
Ordinary shares acquired by ESOP Trusts	(609)	–	–	–	(609)
Write-down of shares held by ESOP Trusts	529	–	–	–	529
At 31 December 2020	(195)	1,302	(31)	2,129	3,205

Other reserves include various non-distributable merger and pre-merger reserves amounting to £1,849 million at 31 December 2020 (2019 – £1,849 million; 2018 – £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 2020 (2019 – £280 million; 2018 – £280 million).

38. Non-controlling interests

Total non-controlling interests includes the following individually material non-controlling interests. Other non-controlling interests are individually not material.

ViiV Healthcare

GSK holds 78.3% of the ViiV Healthcare sub-group, giving rise to a material non-controlling interest. Summarised financial information in respect of the ViiV Healthcare sub-group is as follows:

	2020 £m	2019 £m	2018 £m
Turnover	4,848	4,816	4,665
Profit after taxation	762	2,574	560
Other comprehensive income/(expense)	33	(29)	19
Total comprehensive income	795	2,545	579

	2020 £m	2019 £m
Non-current assets	2,564	2,660
Current assets	2,405	2,905
Total assets	4,969	5,565
Current liabilities	(2,748)	(2,742)
Non-current liabilities	(8,343)	(7,811)
Total liabilities	(11,091)	(10,553)
Net liabilities	(6,122)	(4,988)

	2020 £m	2019 £m	2018 £m
Net cash inflow from operating activities	2,249	2,375	2,212
Net cash outflow from investing activities	(294)	(202)	(237)
Net cash outflow from financing activities	(2,483)	(1,947)	(1,982)
(Decrease)/increase in cash and bank overdrafts in the year	(528)	226	(7)

The above financial information relates to the ViiV Healthcare group on a stand-alone basis, before the impact of Group-related adjustments, primarily related to the recognition of preferential dividends. The profit after taxation of £762 million (2019 – £2,574 million; 2018 – £560 million) is stated after charging preferential dividends payable to GSK, Shionogi and Pfizer and after a charge of £1,112 million (2019 – £37 million; 2018 – £1,194 million) for remeasurement of contingent consideration payable. This consideration is expected to be paid over a number of years.

The following amounts attributable to the ViiV Healthcare group are included in GSK's Financial statements:

	2020 £m	2019 £m	2018 £m
Share of profit for the year attributable to non-controlling interest	223	482	254
Dividends paid to non-controlling interest	419	310	332
Non-controlling interest in the Consolidated balance sheet	(539)	(344)	(543)

Notes to the financial statements continued

38. Non-controlling interests continued

Consumer Healthcare Joint Venture

GSK holds 68% of the Consumer Healthcare sub-group, giving rise to a material non-controlling interest. Summarised financial information in respect of the Consumer Healthcare sub-group is as follows:

	2020 £m	2019 £m
Turnover	**9,837**	4,240
Profit after taxation	**1,219**	150
Other comprehensive expenses	**(266)**	(721)
Total comprehensive income/(expenses)	**953**	(571)

	2020 £m	2019 £m
Non-current assets	**29,134**	29,899
Current assets	**4,918**	5,713
Total assets	**34,052**	35,612
Current liabilities	**(4,254)**	(4,219)
Non-current liabilities	**(3,890)**	(4,027)
Total liabilities	**(8,144)**	(8,246)
Net assets	**25,908**	27,366

	2020 £m	2019 £m
Net cash inflow from operating activities	**1,419**	1,014
Net cash inflow/(outflow) from investing activities	**1,018**	(776)
Net cash outflow from financing activities	**(2,437)**	(78)
Increase in cash and bank overdraft in the year/period	**–**	160

The above financial information relates to the Consumer Healthcare Joint Venture on a stand-alone basis for the year ended 31 December 2020 (2019: for the period from its formation on 31 July 2019 to December 2019), before the impact of Group-related adjustments and the classification of cash pooling accounts with Group companies outside the Consumer Healthcare Joint Venture but after Major restructuring charges.

The following amounts attributable to the Consumer Healthcare Joint Venture are included in GSK's Financial statements:

	2020 £m	2019 £m
Share of profit for the year/period attributable to non-controlling interest	**374**	69
Dividends paid to non-controlling interest	**735**	–
Non-controlling interest in the Consolidated balance sheet	**6,538**	6,911

39. Related party transactions

At 31 December 2020, GSK owned 32 million shares or 31.6% of Innoviva Inc. which is a biopharmaceutical company listed on NASDAQ. GSK began recognising Innoviva as an associate on 1 September 2015. The royalties due from GSK to Innoviva in the year were £261 million (2019 – £215 million). At 31 December 2020, the balance payable by GSK to Innoviva was £65 million (2019 – £63 million).

A loan of £3.0 million to Medicxi Ventures I LP remained due to GSK at 31 December 2020. The loan due from Index Ventures Life VI (Jersey) LP was repaid in the year. In 2020, GSK increased the investment in Kurma Biofund II, FCPR by £0.8 million and Apollo Therapeutics LLP by £2.0 million. Further investments were also made in Medicxi Ventures I LP of £1.2 million. As part of the joint venture agreement with Qura Therapeutics LLC, the Group had an obligation to fund the joint venture $1 million per quarter up to April 2020. On 26 June 2019, the agreement was extended for a second five-year period up to April 2025, with both GSK and its joint venture partner committing additional financial support in the amount of $20 million. At December 2020, the outstanding liability due to Qura was $17 million.

Cash distributions were received from our investments in Medicxi Ventures I LP of £14.5 million and in Index Venture VI (Jersey) LP of £10.6 million.

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

40. Acquisitions and disposals

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

2020

Business acquisitions

GSK completed one smaller business acquisition when it acquired 55% of Pfizer Biotech Corporation Taiwan, a part of Pfizer's consumer healthcare business, which was not previously recognised as part of the Consumer Healthcare Joint Venture, on 28 September 2020 for non cash consideration of £129 million. This represented goodwill of £124 million, cash of £21 million and other assets acquired of £18 million less non-controlling interest of £14 million and net liabilities of £20 million.

	Total £m
Net assets acquired:	
Intangible assets	2
Property, plant and equipment	5
Inventory	5
Trade and other receivables	6
Cash and cash equivalents	21
Trade and other payables	(20)
	19
Non-controlling interest	(14)
Goodwill	124
	129
Non-cash consideration (settlement of a promissory note)	129
Total consideration	129

Business disposals

On 1 April 2020, GSK completed its divestment of Horlicks and other Consumer Healthcare nutrition products in India and a number of other countries (excluding Bangladesh) to Unilever and the merger of GSK's Indian listed Consumer Healthcare entity with Hindustan Unilever, an Indian listed public company. GSK received a 5.7% equity stake in Hindustan Unilever and £395 million in cash. GSK disposed of its equity stake in Hindustan Unilever during May 2020.

The divestment in Bangladesh closed on 30 June 2020. Total cash consideration received was £177 million.

The cash divested as part of the disposal of the India and Bangladesh Consumer Healthcare entities was £478 million.

Notes to the financial statements continued

40. Acquisitions and disposals continued

The profit on the disposal of the businesses in the year of £2,795 million was calculated as follows:

	Horlicks divestment £m	Other £m	Total £m
Consideration:			
Cash consideration receivable including currency forwards and purchase adjustments	492	157	649
Equity investment in Hindustan Unilever Limited	3,124	–	3,124
Total	3,616	157	3,773
Net assets disposed:			
Goodwill	142	1	143
Intangible assets	15	103	118
Property, plant and equipment	56	12	68
Inventory	–	6	6
Cash and cash equivalents	478	3	481
Other net (liabilities)/assets	(155)	1	(154)
Total	536	126	662
Costs:			
Transaction costs	12	28	40
Derivative	240	–	240
Reclassification of exchange from other comprehensive income	36	–	36
Total	288	28	316
Gain on disposals	2,792	3	2,795

The exposure to share price movements embedded in the agreement to merge GSK's Indian listed Consumer Healthcare entity with Hindustan Unilever Limited as part of the divestment of Horlicks and other nutrition products in India and a number of other countries was recognised as a derivative between signing of the agreement in 2018 and completion of the transaction in 2020. £240 million is recorded as a cost in the table above for the derecognition of the derivative asset. This largely reflects fair value gains recognised in the Income Statement in prior periods.

Associates and joint ventures

During the year, GSK made investments into associates of £4 million and £4 million was paid in cash.

Cash flows

	Business acquisitions £m	Business disposals £m	Associates and joint ventures investments £m
Cash consideration received/(paid)	–	786	(4)
Net deferred consideration	–	(19)	–
Transaction costs	(6)	(27)	–
Cash and cash equivalents acquired/(divested)	21	(481)	–
Cash inflow/(outflow)	15	259	(4)

40. Acquisitions and disposals continued

2019
Business acquisitions

Pfizer consumer healthcare business
The acquisition of Pfizer's consumer healthcare business completed on 31 July 2019.

GSK and Pfizer have contributed their respective consumer healthcare businesses into a new Consumer Healthcare Joint Venture in a non-cash transaction, whereby GSK has acquired Pfizer's consumer healthcare business in return for shares in the Joint Venture. GSK has an equity interest of 68% and majority control of the Joint Venture and Pfizer has an equity interest of 32%. As the Group has control over the Consumer Healthcare Joint Venture it is consolidated within the Group's financial statements. In a number of territories, legal completion of the acquisition has not occurred because of regulatory constraints. However, the Consumer Healthcare Joint Venture obtained control of the majority of these businesses in these territories from 31 July 2019 and has consolidated the net assets of those businesses from that date, but in all cases is entitled to the benefits of the trading of businesses in the delayed territories.

The non-controlling interest in the Consumer Healthcare Joint Venture, calculated applying the proportionate goodwill method, represents Pfizer's share of the net assets of the Joint Venture, excluding goodwill.

Goodwill of £3.9 billion, which is not expected to be deductible for tax purposes, has been recognised. The goodwill represents the potential for further synergies arising from combining the acquired businesses with GSK's existing business together with the value of the workforce acquired. Total transaction costs recognised in 2018 and 2019 for the acquisition amounted to £77 million.

Since acquisition on 31 July 2019, sales of £1.2 billion arising from the Pfizer consumer healthcare business have been included in Group turnover. If the business had been acquired at the beginning of the year, it is estimated that Group turnover in 2019 would have been approximately £1.5 billion higher. The business has been integrated into the Group's existing activities and it is not practicable to identify the impact on the Group profit in the period.

Tesaro Inc.
On 22 January 2019, GSK acquired 100% of Tesaro Inc., an oncology focused biopharmaceutical company, for cash consideration of $5.0 billion (£3.9 billion), in order to strengthen the Group's pharmaceutical pipeline. Transaction costs amounted to £31 million.

Goodwill of £1.2 billion, none of which is expected to be tax-deductible, has been recognised. The goodwill represents the potential for further synergies arising from combining the acquired businesses with GSK's existing business together with the value of the workforce acquired. From acquisition on 22 January 2019 to 31 December 2019, sales of £0.2 billion arising from the Tesaro business have been included in Group turnover. The business has been integrated into the Group's existing activities and it is not practicable to identify the impact on the Group profit in the period.

The fair value of the assets acquired in business combinations, including goodwill, are set out in the table below. Amounts related to the Pfizer consumer healthcare business acquisition are provisional and subject to change.

	Pfizer consumer healthcare business £m	Tesaro £m	Other £m
Net assets acquired:			
Intangible assets	12,357	3,092	–
Property, plant and equipment	354	6	–
Right of use assets	39	40	–
Inventory	986	162	–
Trade and other receivables	546	115	35
Other assets including cash and cash equivalents	302	254	16
Trade and other payables	(779)	(282)	(39)
Net deferred tax liabilities	(2,591)	(252)	–
Other liabilities	(99)	(5)	–
Term loan	–	(445)	–
Non-controlling interest	(3,577)	–	–
Goodwill	3,854	1,169	–
Total	11,392	3,854	12
Consideration settled by shares in GSK Consumer Healthcare Joint Venture	11,392	–	–
Cash consideration paid	–	3,854	6
Fair value of investment in joint venture converted into subsidiary	–	–	6
Total consideration	11,392	3,854	12

Notes to the financial statements continued

40. Acquisitions and disposals continued

The non-controlling interest of £3,577 million represents Pfizer's share of the fair value of the Pfizer consumer healthcare business, excluding goodwill. The total non-controlling interest initially recognised in the Consolidated statement of changes in equity of £6,887 million also includes Pfizer's share of the book value of GSK Consumer Healthcare.

Business disposals

GSK made a number of business disposals for net cash consideration received in the year of £104 million. The profit on the disposal of the businesses in the year of £201 million was calculated as follows:

	£m	Total £m
Cash consideration receivable net of subsidy payable		106
Net assets disposed:		
Goodwill	(4)	
Intangible assets	(1)	
Property, plant and equipment	(44)	
Inventory	(7)	
Cash and cash equivalents	(12)	
Other net assets	(4)	
		(72)
Transaction costs		(27)
Reclassification of exchange from other comprehensive income		75
Non-controlling interest divested		16
		98
Transaction signed but not yet completed - gain on embedded derivative		143
Transaction signed but not yet completed - transaction costs		(40)
Total profit on disposal		201

Transaction signed but not yet completed at 31 December 2019

In December 2018, GSK agreed to divest Horlicks and other Consumer Healthcare nutrition brands to Unilever plc and to form a merger of GlaxoSmithKline Consumer Healthcare Limited with Hindustan Unilever Limited for a total consideration valued at approximately £3.1 billion. GlaxoSmithKline Consumer Healthcare Limited was a public company listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), in which GSK held a 72.5% stake. Following the merger of GlaxoSmithKline Consumer Healthcare Limited with Hindustan Unilever Limited, a public company listed on the NSE and BSE, GSK would own 133.8 million Hindustan Unilever Limited shares.

The Group entered into forward foreign exchange contracts in relation to the transaction. Contracts with a value of £1.7 billion were designated as a cash flow hedge of part of the foreign exposure arising on the transaction. Further contracts with a value of £0.6 billion were designated as net investment hedges against INR and EUR assets. In addition, the exposure to share price movements in the forward purchase of shares in Hindustan Unilever Limited were recognised as an embedded derivative. The embedded derivative was in an asset position and had a fair value of £240 million at 31 December 2019 (2018 – £100 million).

Associates and joint ventures

During the year, GSK made investments of £27 million into associates and joint ventures of which £11 million was paid in cash.

Cash flows

	Business acquisitions £m	Business disposals £m	Associates and joint venture investments £m
Cash consideration (paid)/received	(3,860)	161	(11)
Net deferred consideration received	–	29	–
Transaction costs	(95)	(73)	–
Cash and cash equivalents acquired/divested	384	(13)	–
Cash (outflow)/inflow	(3,571)	104	(11)

2018
Business acquisitions

There were no business acquisitions during 2018.

Business disposals

GSK made a number of small business disposals during the year for a net cash consideration of £2 million.

Cash flows

	Business disposals £m	Associates and joint venture investments £m	Associates and joint venture disposals £m
Cash consideration	2	(10)	3
Net deferred consideration received	24	–	–
Cash inflow/(outflow)	26	(10)	3

41. Adjustments reconciling profit after tax to operating cash flows

	2020 £m	2019 £m	2018 £m
Profit after tax	**6,388**	5,268	4,046
Tax on profits	**580**	953	754
Share of after-tax profits of associates and joint ventures	**(33)**	(74)	(31)
Finance expense net of finance income	**848**	814	717
Depreciation	**1,214**	1,231	954
Amortisation of intangible assets	**1,137**	1,103	902
Impairment and assets written off	**781**	825	350
Profit on sale of businesses	**(2,831)**	(201)	(63)
Profit on sale of intangible assets	**(426)**	(342)	(201)
Profit on sale of investments in associates	**–**	–	(3)
Profit on sale of equity investments	**(69)**	(2)	(4)
Gain on Novartis Consumer Healthcare Joint Venture put option hedging	**–**	–	(513)
Business acquisition costs	**–**	59	47
Changes in working capital:			
Decrease in inventories	**119**	300	51
Increase in trade receivables	**(224)**	(32)	(429)
Increase in trade payables	**225**	263	131
(Increase)/decrease in other receivables	**(159)**	(160)	18
Contingent consideration paid (see Note 32)	**(765)**	(780)	(984)
Other non-cash increase in contingent consideration liabilities	**1,275**	83	1,250
Increase in other payables	**818**	89	2,362
Increase/(decrease) in pension and other provisions	**400**	(188)	102
Share-based incentive plans	**381**	365	360
Fair value adjustments	**464**	19	(7)
Other	**(27)**	(61)	(62)
	3,708	4,264	5,701
Cash generated from operations	**10,096**	9,532	9,747

Notes to the financial statements continued

42. Reconciliation of net cash flow to movement in net debt

	2020 £m	2019 £m	2018 £m
Net debt, as previously reported	(25,215)	(21,621)	(13,178)
Implementation of IFRS 16	–	(1,303)	–
Net debt at beginning of year, as adjusted	(25,215)	(22,924)	(13,178)
Increase in cash and bank overdrafts	470	826	479
Increase/(decrease) in liquid investments	1	(1)	–
Increase in long-term loans	(3,298)	(4,794)	(10,138)
Repayment of short-term Notes	3,738	4,160	2,067
Repayment of/(increase in) other short-term loans	3,567	(3,095)	(81)
Repayment of lease liabilities	227	214	28
Debt of subsidiary undertakings acquired	–	(524)	–
Exchange adjustments	(135)	1,015	(776)
Other non-cash movements	(135)	(92)	(22)
Movement in net debt	4,435	(2,291)	(8,443)
Net debt at end of year	(20,780)	(25,215)	(21,621)

Analysis of changes in net debt	At 1 January 2020 £m	Exchange £m	Other £m	Profit and loss £m	Reclass-ifications £m	Cash flow £m	At 31 December 2020 £m
Liquid investments	79	–	–	–	–	(1)	78
Cash and cash equivalents	4,707	(44)	–	–	–	1,629	6,292
Cash and cash equivalents – AHFS	507	–	–	–	–	(507)	–
Overdrafts	(383)	5	–	–	–	(652)	(1,030)
	4,831	(39)	–	–	–	470	5,262
Debt due within one year:							
Commercial paper	(3,586)	(50)	–	–	–	3,619	(17)
European/US Medium Term Notes and bank facilities	(2,658)	38	–	–	(3,468)	3,738	(2,350)
Lease liabilities	(240)	(4)	16	–	(229)	227	(230)
Other	(51)	12	(7)	–	–	(52)	(98)
	(6,535)	(4)	9	–	(3,697)	7,532	(2,695)
Debt due after one year:							
European/US Medium Term Notes and bank facilities	(22,580)	(104)	(4)	(20)	3,468	(3,298)	(22,538)
Lease liabilities	(1,010)	19	(125)	–	229	–	(887)
	(23,590)	(85)	(129)	(20)	3,697	(3,298)	(23,425)
Net debt	(25,215)	(128)	(120)	(20)	–	4,703	(20,780)
Analysis of changes in liabilities from financing activities							
Debt due within one year	(6,535)	(4)	9	–	(3,697)	7,532	(2,695)
Debt due after one year	(23,590)	(85)	(129)	(20)	3,697	(3,298)	(23,425)
Derivative financial instruments	335	–	(643)	353	–	(119)	(74)
Other financing items	–	–	357	(357)	–	–	–
Interest payable	(244)	1	–	(868)	–	864	(247)
Total liabilities from financing activities	(30,034)	(88)	(406)	(892)	–	4,979	(26,441)

	At 1 January 2019 £m	IFRS 16 Implement-ation £m	Exchange £m	Debt acquired £m	Other £m	Profit and loss £m	Reclass-ifications £m	Cash flow £m	At 31 December 2019 £m
2019 Analysis of changes in liabilities from financing activities									
Debt due within one year	(5,521)	(229)	348	(464)	(1)	–	(1,758)	1,090	(6,535)
Debt due after one year	(20,271)	(1,074)	755	(60)	(104)	(27)	1,758	(4,567)	(23,590)
Derivative financial instruments	129	–	(1)	–	188	21	–	(2)	335
Other financing items	–	–	(189)	–	–	–	–	189	–
Interest payable	(239)	–	1	–	(3)	(898)	–	895	(244)
Total liabilities from financing activities	(25,902)	(1,303)	914	(524)	80	(904)	–	(2,395)	(30,034)

For further information on significant changes in net debt see Note 29, 'Net debt'.

43. Financial instruments and related disclosures

The objective of GSK's Treasury activity is to minimise the post-tax net cost of financial operations and reduce its volatility to benefit earnings and cash flows. GSK uses a variety of financial instruments to finance its operations and derivative financial instruments to manage market risks from these operations. Derivatives principally comprise of foreign exchange forward contracts and swaps which are used to swap borrowings and liquid assets into currencies required for Group purposes as well as interest rate swaps which are used to manage exposure to financial risks from changes in interest rates. These financial instruments reduce the uncertainty of foreign currency transactions and interest payments.

Derivatives are used exclusively for hedging purposes in relation to underlying business activities and not as trading or speculative instruments.

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.

The capital structure of the Group consists of net debt of £20.8 billion (see Note 29, 'Net debt') and total equity, including items related to non-controlling interests, of £20.8 billion (see 'Consolidated statement of changes in equity' on page 156). Total capital, including that provided by non-controlling interests, is £41.6 billion.

The Group continues to manage its financial policies to a credit profile that particularly targets short-term credit ratings of A-1 and P-1 while maintaining single A long-term ratings consistent with those targets. The Group's long-term credit rating with Standard and Poor's is A (stable outlook) and with Moody's Investor Services ('Moody's') it is A2 (negative 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 management

GSK's policy is to borrow centrally in order to meet anticipated funding requirements. The strategy is to diversify liquidity sources using a range of facilities and to maintain broad access to financial markets.

At 31 December 2020, GSK had £3.7 billion of borrowings repayable within one year and held £6.4 billion of cash and cash equivalents and liquid investments of which £5.4 billion was held centrally. GSK has access to short-term finance under a $10 billion (£7.3 billion) US commercial paper programme; $25 million (£17 million) was in issue at 31 December 2020 (2019 – $4.8 billion (£3.6 billion)). GSK has access to short-term finance under a £5 billion Euro commercial paper programme newly established in 2020; £nil was in issue at 31 December 2020. GSK has a £1.9 billion three-year committed facility and a $2.5 billion (£1.8 billion) 364-day committed facility. The three year committed facility was agreed in September 2019 and was extended by one year to 2023 in September 2020. The 364-day committed facility was agreed in September 2020.

These facilities were undrawn at 31 December 2020. GSK considers this level of committed facilities to be adequate, given current liquidity requirements.

Repayment of additional bank facilities agreed in 2018 to support transactions was completed and none remain active at 31 December 2020. In June 2018, £3.5 billion was drawn to support the acquisition from Novartis of the remaining stake in the Consumer Healthcare Joint Venture. £2.5 billion was repaid in November 2019, and £1.0 billion was repaid in May 2020.

GSK has a £20.0 billion Euro Medium Term Note programme and at 31 December 2020, £12.7 billion of notes were in issue under this programme. The Group also had $16.7 billion (£12.2 billion) of notes in issue at 31 December 2020 under a US shelf registration. GSK's borrowings mature at dates between 2021 and 2045.

The put option owned by Pfizer in ViiV Healthcare is exercisable. In reviewing liquidity requirements GSK considers that sufficient financing options are available should the put option be exercised.

Market risk

Interest rate risk management

The objective of GSK's Treasury activity is to minimise the effective net interest cost and to balance the mix of debt at fixed and floating rates over time.

The Group's main interest rate risk arises from borrowings and investments with floating rates and refinancing of maturing fixed rate debt where any changes in interest rates will affect future cash flows or the fair values of financial instruments. The policy on interest rate risk management limits the net amount of floating rate debt to a specific cap, reviewed and agreed no less than annually by the Board.

The majority of debt is issued at fixed interest rates and changes in the floating rates of interest do not significantly affect the Group's net interest charge. This includes some borrowings for which interest rate swaps are in place which removes the impact of the associated periodic repricing. Short-term borrowings including bank facilities are exposed to the risk of future changes in market interest rate as are the majority of cash and liquid investments.

Interest rate benchmark reform

'Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7' was issued by the IASB in September 2019. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms.

At 31 December 2020, the Group was not directly exposed to interest rate benchmark reform as it held no interest rate derivatives that referenced LIBOR and matured after the end of 2021 and all floating rate bonds were due to mature before the end of 2021.

Notes to the financial statements continued

43. Financial instruments and related disclosures continued

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators, including the Financial Conduct Authority (FCA) and the US Commodity Futures Trading Commission, regarding the transition away from LIBOR (including GBP LIBOR, USD LIBOR and EURIBOR) to the Sterling Overnight Index Average Rate (SONIA), the Secured Overnight Financing Rate (SOFR), and the Euro Short-Term Rate (€STR) respectively. The FCA has made it clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR. The only exception to this is USD LIBOR, where the Intercontinental Exchange (ICE) Benchmark Administration (IBA), the FCA-regulated and authorised administrator of LIBOR, has announced that it will consult on its intention to cease US$ LIBOR. IBA intends that, subject to confirmation following its consultation, one week and two month US$ LIBOR settings will cease at the end of 2021, and that the US$ LIBOR panel will cease at the end of June 2023.

The Group is undertaking an interest rate benchmark transition programme to identify potential exposures within the business and deliver a smooth transition to appropriate alternative benchmark rates.

Foreign exchange risk management

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. Foreign currency transaction exposures arising on external and internal trade flows are selectively hedged. GSK's internal trading transactions are matched centrally and inter-company payment terms are managed to reduce foreign currency risk. 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 our principal assets and cash flows. These are primarily denominated in US Dollars, Euros and Sterling. Borrowings can be swapped into other currencies as required.

Borrowings denominated in, or swapped into, foreign currencies that match investments in overseas Group 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).

Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and arises on cash and cash equivalents and favourable derivative financial instruments held with banks and financial institutions as well as credit exposures to wholesale and retail customers, including outstanding receivables.

The Group considers its maximum credit risk at 31 December 2020 to be £12,572 million (31 December 2019 – £12,248 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 218 for details on the Group's total financial assets. At 31 December 2020, GSK's greatest concentration of credit risk was £1.4 billion with Legal and General Investment Management Class 4 GBP liquidity fund (AAA/Aaa) (2019 – £0.9 billion with Legal and General Investment Management Class 4 GBP liquidity fund (AAA/Aaa)).

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for financial assets at amortised cost since the adoption of IFRS 9 at the start of the 2018 reporting period.

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. Usage of these limits is actively monitored.

GSK actively manages its exposure to credit risk, reducing surplus cash balances wherever possible. This is part of GSK's strategy to regionalise cash management and to concentrate cash centrally as much as possible. 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 226 sets out the Group's financial assets and liabilities on an offset basis.

At 31 December 2020, £47 million of cash is categorised as held with unrated or sub-investment grade rated counterparties (lower than BBB-/Baa3) of which £1 million is cash in transit. The remaining exposure is concentrated in overseas banks used for local cash management or investment purposes, including: £20 million in Nigeria held with United Bank for Africa, Zenith Bank and Stanbic IBTC Bank; £12 million with Halk Bank in the UK; £1 million with BTV in Austria; £1 million with Banco Itau in Brazil; £1 million with Banco de la Nacion in Panama; £1 million with Hatton National Bank in Sri Lanka; £1 million with Hua Nan Bank in Taiwan and £1 million with Banco Popular in Puerto Rico. Of the £368 million of bank balances and deposits held with BBB/Baa rated counterparties, £34 million was held with BBB-/Baa3 rated counterparties, including balances or deposits of £33 million with HDFC Bank in India and £1 million with State Bank of India. These banks are used for local investment purposes.

GSK measures expected credit losses over cash and cash equivalents as a function of individual counterparty credit ratings and associated 12 month default rates. Expected credit losses over cash and cash equivalents and third-party financial derivatives are deemed to be immaterial and no such loss has been experienced during 2020.

43. Financial instruments and related disclosures continued

Credit ratings are assigned by Standard and Poor's and Moody's respectively. Where the opinions of the two rating agencies differ, GSK assigns the lower rating of the two to the counterparty. Where local rating agency or Fitch data is the only source available, the ratings are converted to global ratings equivalent to those of Standard and Poor's or Moody's using published conversion tables. These credit ratings form the basis of the assessment of the expected credit loss on Treasury-related balances held at amortised cost being bank balances and deposits and Government securities.

2020	AAA/Aaa £m	AA/Aa £m	A/A £m	BBB/Baa £m	BB+/Ba1 and below /unrated £m	**Total £m**
Bank balances and deposits	–	10	2,575	368	47	**3,000**
US Treasury and Treasury repo only money market funds	317	–	–	–	–	**317**
Liquidity funds	2,975	–	–	–	–	**2,975**
Government securities	–	77	–	1	–	**78**
3rd party financial derivatives	–	–	134	12	–	**146**
Total	3,292	87	2,709	381	47	**6,516**

2019	AAA/Aaa £m	AA/Aa £m	A/A £m	BBB/Baa £m	BB+/Ba1 and below /unrated £m	Total £m
Bank balances and deposits	–	538	1,906	605	23	3,072
US Treasury and Treasury repo only money market funds	102	–	–	–	–	102
Liquidity funds	2,040	–	–	–	–	2,040
Government securities	–	78	–	1	–	79
3rd party financial derivatives	–	35	225	10	–	270
Total	2,142	651	2,131	616	23	5,563

GSK's centrally managed cash reserves amounted to £5.4 billion at 31 December 2020, all available within three months. This includes £1.4 billion of cash managed by the Group for ViiV Healthcare, a 78.3% owned subsidiary and £0.8 billion of cash managed by the Group for GSK Consumer Healthcare, a 68% owned subsidiary. The Group has invested centrally managed liquid assets in bank deposits, Aaa/AAA rated US Treasury and Treasury repo only money market funds and Aaa/AAA rated liquidity funds.

Wholesale and retail credit risk

Outside the US, no customer accounts for more than 5% of the Group's trade receivables balance.

In the US, 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 amounted to approximately 79% (2019 – 78%) of the sales of the US Pharmaceuticals and Vaccines businesses in 2020. At 31 December 2020, the Group had trade receivables due from these three wholesalers totalling £2,362 million (2019 – £2,079 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.

All new customers are subject to a credit vetting process and existing customers will be subject to a review at least annually. The vetting process and subsequent reviews involve obtaining information including the customer's status as a government or private sector entity, audited financial statements, credit bureau reports, debt rating agency (e.g. Moody's, Standard & Poor's) reports, payment performance history (from trade references, industry credit groups) and bank references.

Trade receivables consist of amounts due from a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit insurance is purchased or factoring arrangements put in place.

The amount of information obtained is proportional to the level of exposure being considered. The information is evaluated quantitatively (i.e. credit score) and qualitatively (i.e. judgement) in conjunction with the customer's credit requirements to determine a credit limit.

Trade receivables are grouped into customer segments that have similar loss patterns to assess credit risk while other receivables and other financial assets are assessed individually. Historical and forward-looking information is considered to determine the appropriate expected credit loss allowance. The Group believes there is no further credit risk provision required in excess of the allowance for expected credit losses (see Note 25, 'Trade and other receivables').

Notes to the financial statements continued

43. Financial instruments and related disclosures continued

Credit enhancements

The Group uses credit enhancements including factoring and credit insurance to minimise the credit risk of the trade receivables in the Group. At 31 December 2020, £386 million (2019 – £250 million) of trade receivables were insured in order to protect the receivables from loss due to credit risks such as default, insolvency and bankruptcy.

Each Group entity assesses the credit risk of its private customers to determine if credit insurance is required.

Factoring arrangements are managed locally by entities and are used to mitigate risk arising from large credit risk concentrations. All factoring arrangements are non-recourse.

Fair value of financial assets and liabilities excluding lease liabilities

The table on page ▪ presents the carrying amounts and the fair values of the Group's financial assets and liabilities excluding lease liabilities at 31 December 2020 and 31 December 2019.

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 are used to measure the fair values of significant financial instruments carried at fair value on the balance sheet:

- 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, recent financing rounds or the discounted cash flows of the underlying net assets
- Trade receivables carried at fair value – based on invoiced amount
- Interest rate swaps, foreign exchange forward contracts, swaps 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
- Cash and cash equivalents carried at fair value – based on net asset value of the funds
- Contingent consideration for business acquisitions and divestments – based on present values of expected future cash flows.

The following methods and assumptions are used to estimate the fair values of significant financial instruments which are not measured at fair value on the balance sheet:

- Company-owned life insurance policies – based on cash surrender value
- Receivables and payables, including put options, carried at amortised cost – approximates to the carrying amount
- Liquid investments – approximates to the carrying amount
- Cash and cash equivalents carried at amortised cost – approximates to the carrying amount
- Long-term loans – based on quoted market prices (a level 1 fair value measurement) in the case of European and US Medium Term Notes; approximates to the carrying amount in the case of other fixed rate borrowings and floating rate bank loans
- Short-term loans, overdrafts and commercial paper – approximates to the carrying amount because of the short maturity of these instruments.

43. Financial instruments and related disclosures continued

	Notes	2020 Carrying value £m	2020 Fair value £m	2019 Carrying value £m	2019 Fair value £m
Financial assets measured at amortised cost:					
Other non-current assets	b	**37**	**37**	76	76
Trade and other receivables	b	**3,990**	**3,990**	4,533	4,533
Liquid investments		**78**	**78**	79	79
Cash and cash equivalents		**3,000**	**3,000**	3,072	3,072
Other items in Assets held for sale	b	**–**	**–**	69	69
Financial assets measured at fair value through other comprehensive income (FVTOCI):					
Other investments designated at FVTOCI	a	**2,939**	**2,939**	1,781	1,781
Trade and other receivables	a,b	**1,942**	**1,942**	1,665	1,665
Financial assets mandatorily measured at fair value through profit or loss (FVTPL):					
Other investments	a	**121**	**121**	56	56
Other non-current assets	a,b	**30**	**30**	44	44
Trade and other receivables	a,b	**46**	**46**	44	44
Held for trading derivatives that are not in a designated and effective hedging relationship	a,d,e	**68**	**68**	357	357
Cash and cash equivalents	a	**3,292**	**3,292**	2,142	2,142
Derivatives designated and effective as hedging instruments (fair value movements through Other comprehensive income)	a,d,e	**89**	**89**	167	167
Total financial assets		**15,632**	**15,632**	14,085	14,085
Financial liabilities measured at amortised cost:					
Borrowings excluding obligations under lease liabilities:					
– bonds in a designated hedging relationship	d	**(7,681)**	**(8,171)**	(8,636)	(9,085)
– other bonds		**(17,205)**	**(21,966)**	(15,582)	(19,048)
– bank loans and overdrafts		**(1,110)**	**(1,110)**	(416)	(416)
– commercial paper		**(17)**	**(17)**	(3,586)	(3,586)
– other borrowings		**(20)**	**(20)**	(1,038)	(1,038)
Total borrowings excluding lease liabilities	f	**(26,033)**	**(31,284)**	(29,258)	(33,173)
Trade and other payables	c	**(14,977)**	**(14,977)**	(14,177)	(14,177)
Other provisions	c	**(232)**	**(232)**	(94)	(94)
Other non-current liabilities	c	**(72)**	**(72)**	(84)	(84)
Other items in Assets held for sale	c	**–**	**–**	(126)	(126)
Financial liabilities mandatorily measured at fair value through profit or loss (FVTPL):					
Contingent consideration liabilities	a,c	**(5,869)**	**(5,869)**	(5,479)	(5,479)
Held for trading derivatives that are not in a designated and effective hedging relationship	a,d,e	**(200)**	**(200)**	(141)	(141)
Derivatives designated and effective as hedging instruments (fair value movements through Other comprehensive income)	a,d,e	**(31)**	**(31)**	(48)	(48)
Total financial liabilities excluding lease liabilities		**(47,414)**	**(52,665)**	(49,407)	(53,322)
Net financial assets and financial liabilities excluding lease liabilities		**(31,782)**	**(37,033)**	(35,322)	(39,237)

The valuation methodology used to measure fair value in the above table is described and categorised on page 217.

Trade and other receivables, Other non-current assets, Trade and other payables, Other provisions, Other non-current liabilities, Contingent consideration liabilities and Other items in Assets held for sale are reconciled to the relevant Notes on pages 220 and 221.

At 31 December 2019, Cash and cash equivalents in the table above included £507 million reported in Assets held for sale (see Note 27, 'Assets held for sale').

Notes to the financial statements continued

43. Financial instruments and related disclosures continued

Fair value of investments in GSK shares

At 31 December 2020, the Employee Share Ownership Plan (ESOP) Trusts held GSK shares with a carrying value of £195 million (2019 – £135 million) and a market value of £657 million (2019 – £647 million) based on quoted market price. The shares are held by the ESOP Trusts to satisfy future exercises of options and awards under employee incentive schemes. In 2020, 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 2020, GSK held Treasury shares at a cost of £4,969 million (2019 – £5,505 million) which has been deducted from retained earnings.

(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.

At 31 December 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value				
Financial assets measured at fair value through other comprehensive income (FVTOCI):				
Other investments designated at FVTOCI	2,281	–	658	**2,939**
Trade and other receivables	–	1,942	–	**1,942**
Financial assets mandatorily measured at fair value through profit or loss (FVTPL):				
Other investments	–	–	121	**121**
Other non-current assets	–	–	30	**30**
Trade and other receivables	–	46	–	**46**
Held for trading derivatives that are not in a designated and effective hedging relationship	–	63	5	**68**
Cash and cash equivalents	3,292	–	–	**3,292**
Derivatives designated and effective as hedging instruments (fair value movements through OCI)	–	89	–	**89**
	5,573	2,140	814	**8,527**
Financial liabilities at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss (FVTPL):				
Contingent consideration liabilities	–	–	(5,869)	**(5,869)**
Held for trading derivatives that are not in a designated and effective hedging relationship	–	(191)	(9)	**(200)**
Derivatives designated and effective as hedging instruments (fair value movements through OCI)	–	(31)	–	**(31)**
	–	(222)	(5,878)	**(6,100)**

At 31 December 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value				
Financial assets measured at fair value through other comprehensive income (FVTOCI):				
Other investments designated at FVTOCI	1,128	–	653	**1,781**
Trade and other receivables	–	1,665	–	**1,665**
Financial assets mandatorily measured at fair value through profit or loss (FVTPL):				
Other investments	–	–	56	**56**
Other non-current assets	–	–	44	**44**
Trade and other receivables	–	44	–	**44**
Held for trading derivatives that are not in a designated and effective hedging relationship	–	353	4	**357**
Cash and cash equivalents	2,142	–	–	**2,142**
Derivatives designated and effective as hedging instruments (fair value movements through OCI)	–	167	–	**167**
	3,270	2,229	757	**6,256**
Financial liabilities at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss (FVTPL):				
Contingent consideration liabilities	–	–	(5,479)	**(5,479)**
Held for trading derivatives that are not in a designated and effective hedging relationship	–	(141)	–	**(141)**
Derivatives designated and effective as hedging instruments (fair value movements through OCI)	–	(48)	–	**(48)**
	–	(189)	(5,479)	**(5,668)**

43. Financial instruments and related disclosures continued

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

	2020 £m	2019 £m
At 1 January	(4,722)	(5,532)
Net losses recognised in the income statement	(1,269)	(103)
Net gains recognised in other comprehensive income	160	31
Settlement of contingent consideration liabilities	885	893
Settlement of contingent consideration receivables	–	(42)
Additions	126	241
Disposals and settlements	(172)	(33)
Transfers from Level 3	(72)	(174)
Other movements	–	(3)
At 31 December	(5,064)	(4,722)

Net losses of £1,269 million (2019 – £103 million) attributable to Level 3 financial instruments which were recognised in the income statement included net losses of £1,269 million (2019 – £97 million) in respect of financial instruments which were held at the end of the year. Losses of £1,269 million (2019 – £105 million) were reported in Other operating income and gains of £nil (2019 – £2 million) were reported in Finance income. Charges of £1,114 million (2019 – £31 million) arose from remeasurement of the contingent consideration payable for the acquisition of the former Shionogi-ViiV Healthcare joint venture and £161 million (2019 – £67 million) arose from remeasurement of the contingent consideration payable for the acquisition of the Novartis Vaccines business. Net gains of £160 million (2019 – £31 million) attributable to Level 3 financial instruments reported in Other comprehensive income as Fair value movements on equity investments included net gains of £144 million (2019 – net gains of £38 million) in respect of financial instruments held at the end of the year, of which net gains of £39 million (2019 – net gains of £174 million) arose prior to transfer from Level 3 on equity investments which transferred to a Level 1 valuation methodology as a result of listing on a recognised stock exchange during the year. Net gains and losses include the impact of exchange movements.

Financial liabilities measured using Level 3 valuation methods at 31 December included £5,359 million (2019 – £5,103 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 the future performance of specified products and movements in certain foreign currencies. They also included £477 million (2019 – £339 million) in respect of contingent consideration for the acquisition in 2015 of the Novartis Vaccines business. This consideration is expected to be paid over a number of years and will vary in line with the future performance of specified products, the achievement of certain milestone targets and movements in certain foreign currencies. Sensitivity analysis on these balances is provided in Note 32, 'Contingent consideration liabilities'.

(b) Trade and other receivables, Other non-current assets and other items in Assets held for sale in scope of IFRS 9

The following table reconciles financial instruments within Trade and other receivables, Other non-current assets and other items in Assets held for sale which fall within the scope of IFRS 9 to the relevant balance sheet amounts. The financial assets are predominantly non-interest earning. Non-financial instruments include tax receivables, pension surplus balances and prepayments, which are outside the scope of IFRS 9.

	2020						2019					
	At FVTPL £m	At FVTOCI £m	Amortised cost £m	Financial instruments £m	Non-financial instruments £m	Total £m	At FVTPL £m	At FVTOCI £m	Amortised cost £m	Financial instruments £m	Non-financial instruments £m	Total £m
Trade and other receivables (Note 25)	46	1,942	3,990	5,978	974	6,952	44	1,665	4,533	6,242	960	7,202
Other non-current assets (Note 23)	30	–	37	67	974	1,041	44	–	76	120	900	1,020
Other items in Assets held for sale (Note 27)	–	–	–	–	–	–	–	–	69	69	22	91
	76	1,942	4,027	6,045	1,948	7,993	88	1,665	4,678	6,431	1,882	8,313

Trade and other receivables include trade receivables of £5,549 million (2019 – £5,487 million). The Group has portfolios in each of the three business models under IFRS 9 due to factoring arrangements in place: £46 million (2019 – £44 million) is held to sell the contractual cash flows and is measured at FVTPL, £1,942 million (2019 – £1,665 million) is held to either collect or sell the contractual cash flows and is measured at FVTOCI and £3,561 million (2019 – £3,778 million) is held to collect the contractual cash flows and is measured at amortised cost. At 31 December 2019, Other items in Assets held for sale included £44 million of trade receivables measured at amortised cost.

Notes to the financial statements continued

43. Financial instruments and related disclosures continued

(c) Trade and other payables, Other provisions, Other non-current liabilities, Contingent consideration liabilities and other items in Assets held for sale in scope of IFRS 9

The following table reconciles financial instruments within Trade and other payables, Other provisions, Other non-current liabilities, Contingent consideration liabilities and other items in Assets held for sale which fall within the scope of IFRS 9 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 include 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 IFRS 9.

					2020					2019
	At FVTPL £m	Amortised cost £m	Financial instruments £m	Non-financial instruments £m	Total £m	At FVTPL £m	Amortised cost £m	Financial instruments £m	Non-financial instruments £m	Total £m
Trade and other payables (Note 28)	–	(14,977)	(14,977)	(863)	(15,840)	–	(14,177)	(14,177)	(762)	(14,939)
Other provisions (Note 31)	–	(232)	(232)	(1,527)	(1,759)	–	(94)	(94)	(1,197)	(1,291)
Other non-current liabilities (Note 33)	–	(72)	(72)	(731)	(803)	–	(84)	(84)	(760)	(844)
Contingent consideration liabilities (Note 32)	(5,869)	–	(5,869)	–	(5,869)	(5,479)	–	(5,479)	–	(5,479)
Other items in Assets held for sale (Note 27)	–	–	–	–	–	–	(126)	(126)	(87)	(213)
	(5,869)	(15,281)	(21,150)	(3,121)	(24,271)	(5,479)	(14,481)	(19,960)	(2,806)	(22,766)

(d) Derivative financial instruments and hedging programmes

Derivatives are only used for economic hedging purposes and not as speculative investments and are classified as 'held for trading', other than designated and effective hedging instruments, and are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period, otherwise they are classified as non-current. The Group has the following derivative financial instruments:

	2020 Fair value		2019 Fair value	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Non-current				
Cash flow hedges – Interest rate swap contracts (principal amount – £nil (2019 – £850 million))	–	–	1	–
Net investment hedges – Cross currency swaps (principal amount – £nil (2019 – £1,514 million))	–	–	98	–
Current				
Cash flow hedges – Interest rate swap contracts (principal amount – £899 million (2019 – £637 million))	–	(1)	–	(1)
Net investment hedges – Cross currency swaps (principal amount – £549 million (2019 – £nil))	–	(18)	–	–
Cash flow hedges – Foreign exchange contracts (principal amount – £24 million (2019 – £1,746 million))	–	–	24	(17)
Net investment hedges – Foreign exchange contracts (principal amount – £11,193 million (2019 – £9,376 million))	89	(12)	44	(30)
Derivatives designated and effective as hedging instruments	89	(31)	167	(48)
Non-current				
Embedded and other derivatives	5	(10)	4	(1)
Current				
Foreign exchange contracts (principal amount – £13,563 million (2019 – £18,856 million))	57	(190)	103	(140)
Embedded and other derivatives	6	–	250	–
Derivatives classified as held for trading	68	(200)	357	(141)
Total derivative instruments	157	(231)	524	(189)

Fair value hedges

At 31 December 2020 and 31 December 2019, the Group had no designated fair value hedges.

43. Financial instruments and related disclosures continued

Net investment hedges

At 31 December 2020, 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), Singaporean (SGD) and Japanese (JPY) foreign operations as shown in the table above.

The carrying value of bonds on page 218 included £7,681 million (2019 – £8,636 million) that were designated as hedging instruments in net investment hedges.

Cash flow hedges

During 2018, 2019 and 2020, the Group entered into forward foreign exchange contracts which have been designated as cash flow hedges. These were entered into to hedge the foreign exchange exposure arising on cash flows from Euro denominated coupon payments relating to notes issued under the Group's European Medium Term Note programme, on the buyout of Novartis' non-controlling interest in the Consumer Healthcare Joint Venture in 2018, on the divestment of Horlicks and other nutrition brands which took place in 2020 and on refinancing existing debt maturities.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. In addition, the Group carries a balance in reserves that arose from pre-hedging fluctuations in long-term interest rates when pricing bonds issued in prior years and in the current year. The balance is reclassified to finance costs over the life of these bonds.

Foreign exchange risk

In the current year, the Group has designated certain foreign exchange forward contracts and swaps as cash flow and net investment hedges. Foreign exchange derivative financial assets and liabilities are presented in the line 'Derivative financial instruments' (either as assets or liabilities) on the Consolidated balance sheet. The following tables detail the foreign exchange forward contracts and swaps outstanding at the end of the reporting period, as well as information on the related hedged items. The notional value of foreign exchange forward contracts and swaps is the absolute total of outstanding positions at the balance sheet date.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

The main source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the foreign exchange forward contracts and swaps, which is not reflected in the fair value of the hedged item attributable to changes in foreign exchange rates and ineffectiveness on rolling the cash flow hedges of the divestments mentioned above. No other sources of ineffectiveness emerged from these hedging relationships. Ineffectiveness to be recorded from cash flow hedges amounted to a gain of £7 million in 2020 (2019 – loss of £7 million). No ineffectiveness was recorded from net investment hedges (2019 – £nil).

Included in the table below under 'Borrowings' are bonds with notional value of US$750 million that have been swapped to fixed interest rate EUR debt with a cross currency interest rate swap.

				2020
Hedging instruments	Average exchange rate	Foreign currency	Notional value £m	Carrying value £m
Cash flow hedges				
Foreign exchange contracts				
Buy foreign currency:				
3 to 6 months	1.12	EUR	24	0.1
			24	0.1

Notes to the financial statements continued

43. Financial instruments and related disclosures continued

Hedging instruments	Average exchange rate	Foreign currency	2020 Notional value £m	2020 Carrying value £m
Net investment hedges				
Foreign exchange contracts				
Sell foreign currency:				
Less than 3 months	1.10	EUR	9,663	60
Less than 3 months	1.79	SGD	1,387	13
Less than 3 months	139.41	JPY	143	4
Borrowings (including cross currency interest rate swaps):				
3 to 6 months		EUR	549	(550)
Over 6 months		EUR	7,117	(7,131)
			18,859	(7,604)

Hedged items	2020 Periodic change in value for calculating hedge ineffectiveness £m	2020 Cumulative balance in cash flow hedge reserve/foreign currency translation reserve for continuing hedges £m
Cash flow hedges		
Variability in cash flows from a highly probable forecast transaction	–	–
Variability in cash flows from foreign exchange exposure arising on Euro denominated coupon payments relating to debt issued	–	–
Net investment hedges		
Net investment in foreign operations	903	(1,983)

There are no balances in the cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied.

Hedging instruments	Average exchange rate	Foreign currency	2019 Notional value £m	2019 Carrying value £m
Cash flow hedges				
Foreign exchange contracts				
Buy foreign currency:				
3 to 6 months	1.14	EUR	47	(1)
Over 6 months	1.15	EUR	23	–
Sell foreign currency:				
Less than 3 months	93.85	INR/GBP	999	5
Less than 3 months	52.82	INR/SGD	677	3
			1,746	7
Net investment hedges				
Foreign exchange contracts				
Sell foreign currency:				
Less than 3 months	1.18	EUR	8,250	2
Less than 3 months	1.77	SGD	471	3
Less than 3 months	92.23	INR	239	6
Less than 3 months	142.26	JPY	416	3
Borrowings (including cross currency interest rate swaps):				
3 to 6 months		EUR	638	(638)
Over 6 months		EUR	7,914	(7,998)
			17,928	(8,622)

43. Financial instruments and related disclosures continued

Hedged items	Periodic change in value for calculating hedge ineffectiveness £m	Cumulative balance in cash flow hedge reserve/foreign currency translation reserve for continuing hedges £m
	2019	
Cash flow hedges		
Variability in cash flows from a highly probable forecast transaction	(7)	(42)
Variability in cash flows from foreign exchange exposure arising on Euro denominated coupon payments relating to debt issued	(1)	1
Net investment hedges		
Net investment in European foreign operations	(987)	(1,080)

There are no balances in the cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied.

The following table details the effectiveness of the hedging relationships and the amounts reclassified from the hedging reserve to profit or loss:

	2020					
				Amount reclassified to profit or loss		
	Hedging gains/(losses) recognised in reserves £m	Amount of hedge ineffectiveness gains/(losses) recognised in profit or loss £m	Line item in profit or loss in which hedge ineffectiveness is included	Hedged future cash flows no longer expected to occur £m	As hedged item affects profit or loss £m	Line item in which reclassification adjustment is included
Cash flow hedges						
Variability in cash flows from a highly probable forecast transaction	(15)	7	Other operating income/ (expense)	–	51	Other operating income/ (expense)
Variability in cash flows from foreign exchange exposure arising on Euro denominated coupon payments relating to debt issued	–	–	Finance income/ (expense)	–	–	Finance income/ (expense)
Net investment hedges						
Net investment in foreign operations	(903)	–	Finance income/ (expense)	–	–	Finance income/ (expense)

The following table details the effectiveness of the hedging relationships and the amounts reclassified from the hedging reserve to profit or loss:

	2019					
				Amount reclassified to profit or loss		
	Hedging gains/(losses) recognised in reserves £m	Amount of hedge ineffectiveness gains/(losses) recognised in profit or loss £m	Line item in profit or loss in which hedge ineffectiveness is included	Hedged future cash flows no longer expected to occur £m	As hedged item affects profit or loss £m	Line item in which reclassification adjustment is included
Cash flow hedges						
Variability in cash flows from a highly probable forecast transaction	–	(7)	Other operating income/ (expense)	–	–	Other operating income/ (expense)
Variability in cash flows from foreign exchange exposure arising on Euro denominated coupon payments relating to debt issued	1	–	Finance income/ (expense)	–	–	Finance income/ (expense)
Net investment hedges						
Net investment in foreign operations	987	–	Finance income/ (expense)	–	–	Finance income/ (expense)

Notes to the financial statements continued

43. Financial instruments and related disclosures continued

Interest rate risk

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps, where at quarterly intervals the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts are exchanged.

The interest rate swap contracts, exchanging floating rate interest for fixed interest, have been designated as cash flow hedges to hedge the variability of the interest cash flows associated with floating rate debt relating to notes issued under the Group's European Medium Term Note programme. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments affect profit or loss.

The critical terms of the interest rate swap contracts and their corresponding hedged items are the same. A qualitative assessment of effectiveness is performed and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying interest rates. The main sources of ineffectiveness in these hedge relationships are the effects of the Group's own credit risk on the fair value of the interest rate swap contracts, which are not reflected in the fair value of the hedged item attributable to the change in interest rates. No other sources of ineffectiveness emerged from these hedging relationships.

The following tables provide information regarding interest rate swap contracts outstanding and the related hedged items at 31 December 2020 and 31 December 2019. Interest rate swap contract assets and liabilities are presented in the line 'Derivative financial instruments' (either as assets or liabilities) on the Consolidated balance sheet.

	2020			
Hedging instruments	Average contracted fixed rate %	Notional principal value £m	Change in fair value for recognising hedge ineffectiveness £m	Fair value assets/ (liabilities) £m
Less than 1 year	0.17	1,449	3	(19)
1 to 2 years	–	–	–	–

	2020	
Hedged items	Change in value used for calculating hedge ineffectiveness £m	Balance in cash flow hedge reserve for continuing hedges £m
Variable rate borrowings	(3)	1

	2019			
Hedging instruments	Average contracted fixed rate %	Notional principal value £m	Change in fair value for recognising hedge ineffectiveness £m	Fair value assets/ (liabilities) £m
Less than 1 year	0.11	637	–	(1)
1 to 2 years	0.13	1,418	(6)	33

	2019	
Hedged items	Change in value used for calculating hedge ineffectiveness £m	Balance in cash flow hedge reserve for continuing hedges £m
Variable rate borrowings	6	4

43. Financial instruments and related disclosures continued

The following table details the effectiveness of the hedging relationships and the amounts reclassified from the hedging reserve to profit or loss:

2020				Amount reclassified to profit or loss		
	Hedging gains/(losses) recognised in reserves £m	Amount of hedge ineffectiveness recognised in profit or loss £m	Line item in profit or loss in which hedge ineffectiveness is included	Hedged future cash flows no longer expected to occur £m	As hedged item affects profit or loss £m	Line item in which reclassification adjustment is included
Cash flow hedges						
Variability in cash flows	3	–	Finance income/ (expense)	–	–	Finance income/ (expense)
Pre-hedging of long-term interest rates	(7)	–	Finance income/ (expense)	–	3	Finance income/ (expense)

2019				Amount reclassified to profit or loss		
	Hedging gains/(losses) recognised in reserves £m	Amount of hedge ineffectiveness recognised in profit or loss £m	Line item in profit or loss in which hedge ineffectiveness is included	Hedged future cash flows no longer expected to occur £m	As hedged item affects profit or loss £m	Line item in which reclassification adjustment is included
Cash flow hedges						
Variability in cash flows	(7)	–	Finance income/ (expense)	–	(2)	Finance income/ (expense)
Pre-hedging of long-term interest rates	(12)	–	Finance income/ (expense)	–	3	Finance income/ (expense)

(e) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet where there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. There are also arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or the termination of a contract.

The following tables set out the financial assets and liabilities that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2020 and 31 December 2019. The column 'Net amount' shows the impact on the Group's balance sheet if all offset rights were exercised.

At 31 December 2020	Gross financial assets/ (liabilities) £m	Financial (liabilities)/ assets offset £m	**Net financial assets/ (liabilities) £m**	Related amounts not offset £m	Net amount £m
Financial assets					
Trade and other receivables	5,997	(19)	**5,978**	(28)	5,950
Derivative financial instruments	157	–	**157**	(142)	15
Financial liabilities					
Trade and other payables	(14,996)	19	**(14,977)**	28	(14,949)
Derivative financial instruments	(231)	–	**(231)**	142	(89)

Notes to the financial statements continued

43. Financial instruments and related disclosures continued

At 31 December 2019	Gross financial assets/ (liabilities) £m	Financial (liabilities)/ assets offset £m	Net financial assets/ (liabilities) £m	Related amounts not offset £m	Net balance £m
Financial assets					
Trade and other receivables	6,246	(4)	6,242	(62)	6,180
Derivative financial instruments	524	–	524	(131)	393
Financial liabilities					
Trade and other payables	(14,181)	4	(14,177)	62	(14,115)
Derivative financial instruments	(189)	–	(189)	131	(58)

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. As there is presently not a legally enforceable right of offset, these amounts have not been offset in the balance sheet, but have been presented separately in the table above.

(f) Debt interest rate repricing table

The following table sets out the exposure of the Group to interest rates on debt, including commercial paper. 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 lease liabilities.

	2020	2019
	Total debt £m	Total £m
Floating and fixed rate debt less than one year	**(3,495)**	(6,678)
Between one and two years	**(2,561)**	(3,235)
Between two and three years	**(4,061)**	(2,643)
Between three and four years	**(1,622)**	(2,308)
Between four and five years	**(1,398)**	(1,595)
Between five and ten years	**(5,981)**	(5,904)
Greater than ten years	**(6,915)**	(6,895)
Total	**(26,033)**	(29,258)
Original issuance profile:		
Fixed rate interest	**(23,002)**	(21,763)
Floating rate interest	**(3,031)**	(7,495)
	(26,033)	(29,258)

43. Financial instruments and related disclosures continued

(g) Sensitivity analysis

The tables below illustrate the estimated impact on the income statement and equity as a result of hypothetical market movements in foreign exchange and interest rates in relation to the Group's financial instruments. The range of variables chosen for the sensitivity analysis reflects management's view of changes which are reasonably possible over a one-year period.

Foreign exchange sensitivity

The Group operates internationally and is primarily exposed to foreign exchange risk in relation to Sterling against movements in US Dollar, Euro and Japanese Yen. Foreign exchange risk arises from the translation of financial assets and liabilities which are not in the functional currency of the entity that holds them. Based on the Group's net financial assets and liabilities as at 31 December, a weakening and strengthening of Sterling against these currencies, with all other variables held constant, is illustrated in the tables below. The tables exclude financial instruments that expose the Group to foreign exchange risk where this risk is fully hedged with another financial instrument.

Income statement impact of non-functional currency foreign exchange exposures	2020 Increase/(decrease) in income £m	2019 Increase/(decrease) in income £m
10 cent appreciation of the US Dollar	20	3
10 cent appreciation of the Euro	(25)	(29)
10 yen appreciation of the Yen	(1)	–

Income statement impact of non-functional currency foreign exchange exposures	2020 Increase/(decrease) in income £m	2019 Increase/(decrease) in income £m
10 cent depreciation of the US Dollar	(17)	(3)
10 cent depreciation of the Euro	21	25
10 yen depreciation of the Yen	1	–

The equity impact, shown below, for foreign exchange sensitivity relates to derivative and non-derivative financial instruments hedging the Group's net investments in its European (Euro) foreign operations and cash flow hedges of its foreign exchange exposure arising on Euro denominated coupon payments relating to notes issued under the Group's European Medium Term Note programme.

Equity impact of non-functional currency foreign exchange exposures	2020 Increase/(decrease) in equity £m	2019 Increase/(decrease) in equity £m
10 cent appreciation of the Euro	(1,711)	(1,561)

Equity impact of non-functional currency foreign exchange exposures	2020 Increase/(decrease) in equity £m	2019 Increase/(decrease) in equity £m
10 cent depreciation of the Euro	1,429	1,316

Notes to the financial statements continued

43. Financial instruments and related disclosures continued

The tables below present the Group's sensitivity to a weakening and strengthening of Sterling against the relevant currency based on the composition of net debt as shown in Note 29 adjusted 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	2020 (Increase)/decrease in net debt £m	2019 (Increase)/decrease in net debt £m
10 cent appreciation of the US Dollar	(782)	(1,051)
10 cent appreciation of the Euro	286	74
10 yen appreciation of the Yen	23	(5)

Impact of foreign exchange movements on net debt	2020 (Increase)/decrease in net debt £m	2019 (Increase)/decrease in net debt £m
10 cent depreciation of the US Dollar	675	903
10 cent depreciation of the Euro	(239)	(63)
10 yen depreciation of the Yen	(20)	5

Interest rate sensitivity

The Group is exposed to interest rate risk on its outstanding borrowings and investments where any changes in interest rates will affect future cash flows or the fair values of financial instruments.

The majority of debt is issued at fixed interest rates and changes in the floating rates of interest do not significantly affect the Group's net interest charge, although the majority of cash and liquid investments earn floating rates of interest.

The table below hypothetically shows the Group's sensitivity to changes in interest rates in relation to Sterling, US Dollar and Euro floating rate financial assets and liabilities. If the interest rates applicable to floating rate financial assets and liabilities were to have increased by 1% (100 basis points), and assuming other variables had remained constant, it is estimated that the Group's finance income for 2020 would have increased by approximately £14 million (2019 – £9 million decrease). 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	2020 Increase/(decrease) in income £m	2019 Increase/(decrease) in income £m
1% (100 basis points) increase in Sterling interest rates	8	14
1% (100 basis points) increase in US Dollar interest rates	28	(4)
1% (100 basis points) increase in Euro interest rates	(22)	(19)

43. Financial instruments and related disclosures continued

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

The following tables provide an analysis of the anticipated contractual cash flows including interest payable for the Group's non-derivative financial liabilities on an undiscounted basis. For the purpose of this table, debt is defined as all classes of borrowings except for lease liabilities. 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.

At 31 December 2020	Debt £m	Interest on debt £m	Lease liabilities £m	Finance charge on lease liabilities £m	Trade payables and other liabilities not in net debt £m	**Total £m**
Due in less than one year	(3,493)	(725)	(230)	(34)	(15,783)	**(20,265)**
Between one and two years	(2,566)	(686)	(207)	(28)	(995)	**(4,482)**
Between two and three years	(4,078)	(621)	(126)	(22)	(897)	**(5,744)**
Between three and four years	(1,632)	(576)	(96)	(18)	(867)	**(3,189)**
Between four and five years	(1,407)	(539)	(86)	(15)	(883)	**(2,930)**
Between five and ten years	(6,018)	(2,177)	(239)	(47)	(3,169)	**(11,650)**
Greater than ten years	(6,997)	(2,985)	(133)	(16)	(1,529)	**(11,660)**
Gross contractual cash flows	(26,191)	(8,309)	(1,117)	(180)	(24,123)	**(59,920)**

At 31 December 2019	Debt £m	Interest on debt £m	Lease liabilities £m	Finance charge on lease liabilities £m	Trade payables and other liabilities not in net debt £m	Total £m
Due in less than one year	(6,678)	(780)	(240)	(41)	(14,952)	(22,691)
Between one and two years	(3,232)	(742)	(227)	(36)	(912)	(5,149)
Between two and three years	(2,651)	(667)	(119)	(30)	(806)	(4,273)
Between three and four years	(2,318)	(600)	(105)	(23)	(835)	(3,881)
Between four and five years	(1,607)	(559)	(93)	(19)	(799)	(3,077)
Between five and ten years	(5,946)	(2,276)	(296)	(52)	(3,131)	(11,701)
Greater than ten years	(6,976)	(3,328)	(170)	(22)	(984)	(11,480)
Gross contractual cash flows	(29,408)	(8,952)	(1,250)	(223)	(22,419)	(62,252)

The table below provides an analysis of the anticipated contractual cash flows for the Group's derivative instruments excluding equity options which do not give rise to cash flows, and other embedded derivatives, 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 purpose of this table although, in practice, the Group uses standard settlement arrangements to reduce its liquidity requirements on these instruments.

Cash flows on interest rate swaps are not shown in the table below as they are not significant.

	2020				2019			
	Gross cash inflows		**Gross cash ouflows**		Gross cash inflows		Gross cash outflows	
	Cross currency interest rate swaps £m	**Foreign exchange forward contracts and swaps £m**	**Cross currency interest rate swaps £m**	**Foreign exchange forward contracts and swaps £m**	Cross currency interest rate swaps £m	Foreign exchange forward contracts and swaps £m	Cross currency interest rate swaps £m	Foreign exchange forward contracts and swaps £m
Due in less than one year	**551**	**32,451**	**(569)**	**(32,508)**	33	33,273	(2)	(33,290)
Between one and two years	**–**	**–**	**–**	**–**	1,529	–	(1,430)	–
Gross contractual cash flows	**551**	**32,451**	**(569)**	**(32,508)**	1,562	33,273	(1,432)	(33,290)

44. Employee share schemes

GSK operates several employee share schemes, including 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 and 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. The granting of these restricted share awards has replaced the granting of options to employees as the cost of the schemes more readily equates to the potential gain to be made by the employee. The Group also operates savings related share option schemes, whereby options are granted to employees to acquire shares in GlaxoSmithKline plc at a discounted price.

Grants of restricted share awards are normally exercisable at the end of the three-year vesting or performance period. Awards are normally granted to employees to acquire shares or ADS in GlaxoSmithKline plc but in some circumstances may be settled in cash. Grants under savings-related share option schemes are normally exercisable after three years' saving. 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. Options under historical share option schemes were granted at the market price ruling at the date of grant.

The total charge for share-based incentive plans in 2020 was £393 million (2019 – £432 million; 2018 – £393 million). Of this amount, £313 million (2019 – £302 million; 2018 – £304 million) arose from the Share Value Plan. See Note 9, 'Employee Costs' for further details.

GlaxoSmithKline share award schemes

Share Value Plan

Under the Share Value Plan, share awards are granted 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 of 5.0% (2019 – 4.2%; 2018 – 4.8%) 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 2018	33,925		17,392	
Awards granted	12,751	£13.74	6,503	$35.28
Awards exercised	(11,089)		(5,583)	
Awards cancelled	(1,519)		(925)	
At 31 December 2018	34,068		17,387	
Awards granted	12,814	£15.85	7,008	$37.90
Awards exercised	(11,709)		(6,079)	
Awards cancelled	(1,704)		(976)	
At 31 December 2019	33,469		17,340	
Awards granted	13,223	£13.60	7,411	$34.42
Awards exercised	(11,402)		(5,746)	
Awards cancelled	(1,418)		(1,015)	
At 31 December 2020	33,872		17,990	

Performance Share Plan

Under the Performance Share Plan, share 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 from 2015 to 2019, the performance conditions are based on three equally weighted measures over a three-year performance period. These were adjusted free cash flow, TSR and R&D new product performance. For awards granted from 2020, the performance conditions are based on four measures over a three-year performance period. These are adjusted free cash flow (30%), TSR (30%), R&D new product performance (20%) and pipeline progress (20%).

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.

During 2020, awards were made of 4.2 million shares at a weighted fair value of £13.92 and 1.4 million ADS at a weighted fair value of $35.85. At 31 December 2020, there were outstanding awards over 12.4 million shares and 3.8 million ADS.

44. Employee share schemes continued

Share options and savings-related options

For the purposes of valuing savings-related options to arrive at the share-based payment charge, a Black-Scholes option pricing model has been used. The assumptions used in the model are as follows:

	2020 Grant	2019 Grant	2018 Grant
Risk-free interest rate	(0.07)%	0.44%	0.76%
Dividend yield	6.2%	4.5%	5.3%
Volatility	27%	22%	21%
Expected life	3 years	3 years	3 years
Savings-related options grant price (including 20% discount)	£10.34	£14.15	£12.09

Options outstanding	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 2020	–	n/a	–	n/a	7,332	£11.32
Range of exercise prices on options outstanding at year end	n/a		n/a		£10.34	– £14.15
Weighted average market price on exercise during year		£16.52		$42.41		£16.29
Weighted average remaining contractual life		n/a		n/a		2.1 years

Options over 3.1 million shares were granted during the year under the savings-related share option scheme at a weighted average fair value of £2.12. At 31 December 2020, 5.9 million of the savings-related share options were not exercisable. All of the other share options and ADS options were exercisable or expired if not exercised on or before 22 July 2020.

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

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. The costs of running the ESOP Trusts are charged to the income statement. Shares held by the ESOP Trusts are deducted from other reserves and amortised down to the value of proceeds, if any, receivable from employees on exercise by a transfer to retained earnings. The trustees have waived their rights to dividends on the shares held by the ESOP Trusts.

Shares held for share award schemes	2020	2019
Number of shares (000)	48,835	36,225

	£m	£m
Nominal value	12	9
Carrying value	194	134
Market value	655	645

Shares held for share option schemes	2020	2019
Number of shares (000)	139	139

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

45. Principal Group companies

The following represent the principal subsidiaries and their countries of incorporation of the Group at 31 December 2020. 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.

England

Glaxo Group Limited
Glaxo Operations UK Limited
GlaxoSmithKline Capital plc
GlaxoSmithKline Consumer Healthcare Holdings Limited*
GlaxoSmithKline Consumer Healthcare (UK) Trading Limited (68%)
GlaxoSmithKline Consumer Trading Services Limited (68%)
GlaxoSmithKline Export Limited
GlaxoSmithKline Finance plc
GlaxoSmithKline Holdings Limited*
GlaxoSmithKline Research & Development Limited
GlaxoSmithKline Services Unlimited*
GlaxoSmithKline UK Limited
Setfirst Limited
SmithKline Beecham Limited
ViiV Healthcare Finance Limited (78.3%)
ViiV Healthcare Limited (78.3%)
ViiV Healthcare UK Limited (78.3%)

US

Block Drug Company, Inc. (68%)
Corixa Corporation
GlaxoSmithKline Capital Inc.
GlaxoSmithKline Consumer Healthcare Holdings (US) LLC (68%)
GlaxoSmithKline Consumer Healthcare, L.P. (59.84%)
GlaxoSmithKline Holdings (Americas) Inc.
GlaxoSmithKline LLC
Human Genome Sciences, Inc.
GSK Consumer Health, Inc. (68%)
PF Consumer Healthcare 1 LLC (68%)
GSK Equity Investments, Limited
Stiefel Laboratories, Inc.
Tesaro, Inc.
ViiV Healthcare Company (78.3%)

Europe

GlaxoSmithKline Biologicals SA (Belgium)
GlaxoSmithKline Sante Grand Public SAS (France) (68%)
Laboratoire GlaxoSmithKline (France)
ViiV Healthcare SAS (France) (78.3%)
GlaxoSmithKline Consumer Healthcare GmbH & Co. KG (Germany) (68%)
GlaxoSmithKline GmbH & Co. KG (Germany)
GSK Vaccines GmbH (Germany)
GlaxoSmithKline Consumer Healthcare S.r.l (Italy) (68%)
GlaxoSmithKline S.p.A. (Italy)
GSK Vaccines S.r.l. (Italy)
ViiV Healthcare S.r.l. (Italy) (78.3%)
Pfizer Consumer Manufacturing Italy S.r.l. (Italy) (68%)
GSK Services Sp z o.o. (Poland)
GlaxoSmithKline Trading Services Limited (Republic of Ireland)
GlaxoSmithKline Healthcare AO (Russia) (68%)
GlaxoSmithKline S.A. (Spain)
Laboratorios ViiV Healthcare, S.L. (Spain) (78.3%)
GSK Consumer Healthcare S.A. (Switzerland) (68%)

Others

GlaxoSmithKline Australia Pty Ltd (Australia)
GlaxoSmithKline Consumer Healthcare Australia Pty Ltd (Australia) (68%)
GlaxoSmithKline Brasil Limitada (Brazil)
GlaxoSmithKline Consumer Healthcare ULC/GlaxoSmithKline Soins De Sante Aux Consommateurs SRI (Canada) (68%)
GlaxoSmithKline Inc. (Canada)
ID Biomedical Corporation of Quebec (Canada)
PF Consumer Healthcare Canada ULC/PF Soins De Sante SRI (Canada) (68%)
GlaxoSmithKline Limited (China (Hong Kong))
Sino-American Tianjin Smith Kline & French Laboratories Ltd (China) (37.4%)
Wyeth Pharmaceutical Co. Ltd (China) (68%)
GlaxoSmithKline Asia Pvt. Limited (India)
GlaxoSmithKline Pharmaceuticals Limited (India) (75%)
GlaxoSmithKline Consumer Healthcare Japan K.K. (Japan) (68%)
GlaxoSmithKline K.K. (Japan)
GlaxoSmithKline Pakistan Limited (Pakistan) (82.6%)
Glaxo Wellcome Manufacturing Pte Ltd. (Singapore)
GlaxoSmithKline Korea Limited (Republic of Korea)
GlaxoSmithKline llaclari Sanayi ve Ticaret A.S. (Turkey)

* Directly held wholly-owned subsidiary of GlaxoSmithKline plc.

The subsidiaries and associates listed above principally affect the figures in the Group's financial statements. Each of GlaxoSmithKline Capital Inc., GlaxoSmithKline Capital plc and GlaxoSmithKline LLC, 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., GlaxoSmithKline Capital plc and GlaxoSmithKline LLC.

See pages 287 to 298 for a complete list of subsidiary undertakings, associates and joint ventures, which form part of these financial statements.

46. Legal proceedings

The Group is involved in significant legal and administrative proceedings, principally product liability, intellectual property, tax, anti-trust, consumer fraud and governmental investigations. The most significant of these matters, other than tax matters, are described below. The Group makes provision for these proceedings on a regular basis as summarised in Note 2, 'Accounting principles and policies' and Note 31, 'Other provisions'. Note 2 also describes when disclosure is made of proceedings for which there is no provision. Legal expenses incurred and provisions related to legal claims are charged to selling, general and administration costs. The Group does not believe that information about the amount sought by 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.

At 31 December 2020, the Group's aggregate provision for legal and other disputes (not including tax matters described in Note 14, 'Taxation') was £320 million. 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 judgements are incurred or the settlements entered into.

Intellectual property

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.

Coreg

In 2014, GSK initiated suit against Teva for inducing infringement of its patent relating to the use of carvedilol (*Coreg*) in decreasing mortality caused by congestive heart failure. In June 2017, the case proceeded to a jury trial in the US District Court for the District of Delaware. The jury returned a verdict in GSK's favour, awarding GSK lost profits and reasonable royalties for a total award of $235.51 million. On 29 March 2018, the trial judge ruled on post-trial motions filed by Teva and found that substantial evidence at trial did not support the jury's finding of induced infringement, overturning the jury award. GSK appealed, and on 2 October 2020, a divided panel of the Court of Appeals for the Federal Circuit reversed the district court's ruling and reinstated the jury award in GSK's favour. On 2 December 2020, Teva filed a petition for rehearing en banc. The court granted Teva's petition, but only for a rehearing by the three-member panel that issued the original decision. The oral argument took place on 23 February 2021, and we await the court's ruling.

Dolutegravir/*Tivicay/Triumeq/Dovato/Juluca*

In 2017, ViiV Healthcare received patent challenge letters under the Hatch-Waxman Act from Cipla, Dr. Reddy's Labs and Apotex for *Triumeq* and *Tivicay*; letters from Lupin and Mylan for *Triumeq*; and a letter from Sandoz for *Tivicay*. ViiV Healthcare lists two patents in the FDA Orange Book for *Tivicay* and *Triumeq*. One patent covers the molecule dolutegravir and expires on 5 October 2027. The second patent claims a crystal form of dolutegravir and expires on 8 December 2029. All the letters challenged only the later-expiring crystal form patent. Several of the generic companies allege only that the crystal form patent is invalid, while others claim the crystal form patent is both invalid and not infringed by their proposed products. In 2017, ViiV Healthcare filed patent infringement suits against all six generic companies.

The matters against Mylan and Laurus (as a successor to Dr. Reddy's Labs) have been resolved. The cases against the other defendants have been consolidated into a single case in the US District Court for the District of Delaware. No trial date has yet been set.

In September 2019, ViiV Healthcare received a paragraph IV letter from Cipla relating to *Dovato* and challenging only the crystal form patent. On 4 November 2019, ViiV Healthcare filed suit against Cipla in the US District Court for the District of Delaware. No trial date has yet been set.

In January 2020, ViiV Healthcare received a paragraph IV letter from Lupin relating to *Juluca* and challenging the crystal form patent as well as a patent relating to the combination of dolutegravir and rilpivirine that expires on 24 January 2031. On 28 February 2020, ViiV Healthcare filed suit against Lupin on both patents. Additionally, on 12 June 2020, Cipla sent ViiV Healthcare a paragraph IV letter related to *Juluca*, and on 22 July 2020, ViiV Healthcare filed suit against Cipla in federal court in Delaware. The court has yet to set a trial date.

On 7 February 2018, ViiV Healthcare filed patent infringement litigation regarding bictegravir against Gilead Sciences, Inc. (Gilead) in the US District Court for the District of Delaware and Canadian federal court. ViiV Healthcare alleges that Gilead's triple combination HIV drug containing the HIV integrase inhibitor bictegravir infringes ViiV Healthcare's patent covering dolutegravir and other compounds that include dolutegravir's unique chemical scaffold. In both the US and Canada, ViiV Healthcare is seeking financial redress rather than injunctive relief. A jury trial in the US case is set for 10 January 2022.

In the Canadian matter, a four-day summary trial on the issue of infringement was held in January 2020. On 6 April 2020, the court ruled that Gilead's bictegravir compound did not infringe ViiV Healthcare's Canadian patent. ViiV Healthcare has appealed.

ViiV Healthcare also has commenced actions in the UK, France, Germany, Japan, South Korea and Australia against Gilead, alleging that Gilead's Biktarvy infringes certain of ViiV Healthcare's HIV integrase inhibitor patents. The infringement trial in the German action is set for 22 April 2021.

Notes to the financial statements continued

46. Legal proceedings continued

Kivexa

In June 2017, Biogaran commenced proceedings in France seeking revocation of the French supplementary protection certificate (SPC) covering *Kivexa*. No trial date has been set for this action.

Product liability

The Group is currently a defendant in a number of product liability lawsuits.

Avandia

As of January 2021, all *Avandia* product liability cases have settled, but there are two remaining US class actions brought by third-party payers. These actions assert claims under the Racketeer Influenced and Corrupt Organizations Act (RICO) and state consumer protection laws. In December 2019, the Third Circuit Court of Appeals reversed the summary judgements granted in favour of the Group and remanded the third-party payer cases back to district court. No trial dates have yet been set.

Seroxat/Paxil* and *Paxil CR

The *Seroxat/Paxil* (paroxetine) product liability matters involve three general types of allegations: (i) that use of *Paxil* during pregnancy caused congenital malformations, persistent pulmonary hypertension or autism; (ii) that *Paxil* treatment caused patients to commit suicidal or violent acts; and (iii) that the Group failed to warn that patients could experience certain symptoms on discontinuing *Seroxat/Paxil* treatment.

The Group has reached agreements to settle the majority of the US claims relating to the use of *Paxil* during pregnancy as of January 2021, but four lawsuits remain pending in the US. Two additional actions are pending in Canada.

At the beginning of 2020, there were six pending claims or cases (five in the US and one case in Canada) concerning allegations that patients who took paroxetine or *Paxil* committed or attempted to commit suicide or acts of violence. The Dolin case, involving the suicide of a man who allegedly took generic paroxetine manufactured by Mylan, concluded in 2020 in favour of the Group, leaving five pending matters (four in the US and one in Canada). The remaining US cases are largely dormant. In the one pending Canadian action, Carmichael, the Group filed a motion for summary judgement based on the statute of limitations, which was denied. The Group appealed that ruling, and oral argument took place on 16 December 2019. On 8 July 2020, the appellate court reversed the lower court's decision and granted summary judgement in the Group's favour. Plaintiff filed an application for leave to appeal to the Supreme Court of Canada. Briefing on the application is complete as of January 2021, and the parties await a ruling.

In the UK, a long-pending group action alleging that *Seroxat* caused severe discontinuation symptoms concluded on 3 July 2020, with the trial court entering judgement in the Group's favour, along with an award of costs. A US case involving discontinuation-type claims also resolved in 2020.

PPI litigation

The Group is a defendant in the ongoing proton pump inhibitor (PPI) litigation, in which plaintiffs allege that their use of PPIs caused serious bodily injuries, including acute kidney injury, chronic kidney disease and end-stage renal failure. As of January 2021, there are approximately 1,650 *Prevacid24HR* personal injury lawsuits and approximately 2,700 *Nexium24HR* cases pending against the Company, nearly all of which are pending in a Multidistrict Litigation (MDL) proceeding in the District of New Jersey. Manufacturers of other PPIs also are named as co-defendants in the MDL. The Group has filed motions to dismiss several hundred cases, but the MDL court has not yet ruled on those motions. The first PPI bellwether trial is set for November 2021. In addition to the MDL cases, a small number of cases are pending in state courts.

Zantac

In 2019, the Group was contacted by several regulatory authorities regarding the detection of N-Nitroso-dimethylamine (NDMA) in *Zantac* (ranitidine) products. Based on information available at the time and correspondence with regulators, the Group made the decision to suspend the release, distribution and supply of all dose forms of *Zantac* to all markets pending the outcome of the ongoing tests and investigations. Also, as a precautionary action, the Group made the decision to initiate a voluntary pharmacy/retail level recall of *Zantac* products globally.

On 30 April 2020, the European Medicines Agency (EMA) recommended the suspension of ranitidine medicines. Following the publication of the EMA's recommendation, the Company communicated a decision not to re-enter the market. In the US, FDA requested that all manufacturers withdraw ranitidine products from the market.

The Group has been named as a defendant in approximately 1,200 US personal injury claims involving *Zantac*. Class actions alleging economic injury and a third-party payer class action also have been filed in federal court. Outside the US, there are three class actions pending against the Group in Canada, along with a class action in Israel.

46. Legal proceedings continued

On 6 February 2020, the US product liability litigation was assigned Multidistrict Litigation (MDL) status in the Southern District of Florida. On 24 August 2020, the Group filed motions to dismiss the MDL claims based on innovator liability, preemption and deficiencies in the pleadings. On 31 December 2020, the court granted the Group's motion on innovator liability, the generic defendants' motion on preemption and the motion of all defendants on deficiencies in the pleadings. Additionally, on 8 January 2021, the court granted the brand defendants' partial motion on preemption, dismissing plaintiffs' claims seeking refunds for the OTC *Zantac* product. The court allowed plaintiffs to replead their master complaints in an attempt to cure the deficiencies in their pleadings. The plaintiffs have filed notices of appeal related to the decisions on innovator liability and generic preemption.

In addition to the class action litigation, on 20 March 2020, the Department of Justice (DOJ) sent the Group notice of a civil investigation it had opened into allegations of False Claims Act violations by the Group related to *Zantac*. On 18 June 2020, the DOJ served a Civil Investigative Demand on the Group, formalizing its request for documents. On the same day, the New Mexico Attorney General filed a lawsuit against multiple defendants, including the Group, alleging violations of state consumer protection and false advertising statutes, among other claims.

Zofran

As of January 2021, the Group is a defendant in 432 product liability cases involving Zofran. Two cases are pending in state courts, and the rest are either pending in or being transferred to the Multidistrict Litigation (MDL) proceeding in the District of Massachusetts. The cases allege that children suffered birth defects due to their mothers' ingestion of Zofran and/or generic ondansetron for pregnancy-related nausea and vomiting. Plaintiffs assert that the Group sold Zofran knowing it was unsafe for pregnant women, failed to warn of the risks and illegally marketed Zofran "off-label" for use by pregnant women.

The first Zofran bellwether trial has been set for 18 October 2021. The parties continue to await rulings from the court on motions to exclude general causation experts as well as on the Group's motion for summary judgement in the first case set for trial and on its preemption motion.

The Group is also a defendant in four proposed class actions in Canada.

Sales and marketing and regulation

The Group's marketing and promotion of its Pharmaceutical and Vaccine products are the subject of certain governmental investigations and private lawsuits brought by litigants under various theories of law.

GSK Korea – Proceedings under Fair Trade Laws

In August 2020, GSK Korea was indicted under Korea's Monopoly Regulation and Fair Trade laws in relation to government tenders of HPV (*Cervarix*) and PCV (*Synflorix*) vaccines in 2018 and 2019. The prosecutor has alleged that GSK Korea, through the actions of at least one of its employees, interfered with the tender process under the National Immunisation Programme by using "straw bidders."

One employee also has been charged in his individual capacity by the prosecutor in relation to the same matter. Further, a number of wholesalers are co-defendants in the proceedings. The Korea Fair Trade Commission also has commenced an investigation of GSK Korea regarding the same matter. GSK Korea is cooperating with the authorities on these matters. Proceedings are ongoing.

SFO and SEC/DOJ Anti-corruption enquiries

As previously reported, following the resolution of investigations by the UK Serious Fraud Office (SFO), the US Securities and Exchange Commission (SEC) and the US Department of Justice (DOJ) into the Group's commercial operations in a number of countries, including China, the SFO had requested additional information from the Group regarding third-party advisers engaged by the company in the course of investigations initiated by China's Ministry of Public Security in 2013. The SEC and DOJ also were investigating these matters. On 22 February 2019, the SFO announced that it had closed its investigation and confirmed that it would be taking no further action against the Group. The SEC notified the Group on 8 March 2020 that it was terminating its investigation into these matters, and on 4 May 2020, the DOJ likewise informed the Group that it would be closing its investigation without a recommendation of further action. Accordingly, this matter is now concluded.

Notes to the financial statements continued

46. Legal proceedings continued

Anti-trust/competition

Certain governmental actions and private lawsuits have been brought against the Group alleging violation of competition or anti-trust laws.

UK Competition and Markets Authority investigation

On 12 February 2016, the UK Competition and Markets Authority (CMA) issued a decision fining the Group £37.6 million for infringement of the Competition Act, in connection with agreements to settle patent disputes the Group entered into in 2001 and 2002 with potential suppliers of generic paroxetine formulations.

The Group appealed to the Competition Appeal Tribunal (CAT), which delivered its initial judgement upholding the fine on 8 March 2018 but referred certain questions of law to the European Union Court of Justice (ECJ). On 30 January 2020, the ECJ issued its judgement endorsing the criteria used by the CMA in levying the fine, and the matter now has returned to the CAT for entry of a final judgement.

Lamictal

Purported classes of purchasers filed suit in the US 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 overcharges to the purchasers, by entering into an allegedly anti-competitive reverse payment settlement to resolve patent infringement litigation. A separate count accuses the Group of monopolising the market.

On 13 December 2018, the trial judge granted plaintiffs' class certification motion, certifying a class of direct purchasers. The Group filed a Rule 23(f) motion in the Court of Appeals for the Third Circuit, challenging the class certification decision. On 22 April 2020, the Court of Appeals vacated the lower court's grant of class certification and remanded the issue back to the lower court for further analysis.

On 9 October 2020, the district court heard argument on plaintiffs' renewed motion for class certification after remand. We await the court's decision.

Commercial and corporate

The Group historically has been named as a defendant in certain cases that allege violations of US securities laws and the Employee Retirement Income Security Act (ERISA).

Securities/ERISA class actions – Stiefel

In February 2020, the Group reached a settlement in principle with respect to the claims brought by the US Securities and Exchange Commission (SEC) against the Group, relating to the Group's acquisition of Stiefel Laboratories, Inc., in 2009. The SEC filed a motion for entry of final judgements on 23 April 2020, effectively dismissing the case, and this matter has now concluded. One claim brought by a private litigant, Martinolich, remains pending in federal court in Florida. In that matter, plaintiff, a former Stiefel employee, alleges that Stiefel and its officers and directors violated 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.

47. Post balance sheet events

An intention to increase the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was announced in the UK Budget on 3 March 2021. Deferred taxes have been measured using appropriate rates substantively enacted at the balance sheet date. The overall effect of the proposed change to the UK corporation tax rate from 19% to 25%, if applied to the deferred tax balance at 31 December 2020, would be an increase in deferred tax assets by approximately £350 million.

Company balance sheet – UK GAAP

(including FRS 101 'Reduced Disclosure Framework') as at 31 December 2020

	Notes	2020 £m	2020 £m	2019 £m	2019 £m
Fixed assets – investments	E		54,992		54,854
Current assets:					
Trade and other receivables	F		1,689		2,210
Cash at bank			14		12
Total current assets			1,703		2,222
Short term borrowings	G		–		(1,000)
Trade and other payables	H		(531)		(609)
Total current liabilities			(531)		(1,609)
Net current assets			1,172		613
Total assets less current liabilities			56,164		55,467
Provisions for liabilities	I		(7)		(4)
Other non-current liabilities	J		(457)		(317)
Net assets			55,700		55,146
Capital and reserves					
Share capital	K		1,346		1,346
Share premium account	K		3,281		3,174
Other reserves	L		1,420		1,420
Retained earnings:					
At 1 January		49,206		18,117	
Profit/(loss) for the year		3,893		(53)	
Other changes in retained earnings		(3,446)		31,142	
	L		49,653		49,206
Equity shareholders' funds			55,700		55,146

The financial statements on pages 238 to 242 were approved by the Board on 8 March 2021 and signed on its behalf by

Sir Jonathan Symonds
Chairman
GlaxoSmithKline plc
Registered number: 3888792

Company statement of changes in equity

for the year ended 31 December 2020

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 January 2019	1,345	3,091	1,420	18,117	23,973
Loss and Total comprehensive expense attributable to shareholders	–	–	–	(53)	(53)
Distribution received of GlaxoSmithKline Consumer Healthcare Holdings Limited	–	–	–	34,800	34,800
Total comprehensive income for the year	1,345	3,091	1,420	34,747	34,747
Dividends to shareholders	–	–	–	(3,953)	(3,953)
Shares issued under employee share schemes	1	50	–	–	51
Treasury shares transferred to the ESOP Trusts	–	33	–	295	328
At 31 December 2019	1,346	3,174	1,420	49,206	55,146
Profit and Total comprehensive income attributable to shareholders	–	–	–	3,893	3,893
Dividends to shareholders	–	–	–	(3,977)	(3,977)
Shares issued under employee share schemes	–	29	–	–	29
Treasury shares transferred to the ESOP Trusts	–	78	–	531	609
At 31 December 2020	1,346	3,281	1,420	49,653	55,700

Notes to the company balance sheet – UK GAAP (including FRS 101 'Reduced Disclosure Framework')

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 using the historical cost convention (as modified to include the revaluation of certain financial instruments) and on a going concern basis, are prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and with UK accounting presentation and the Companies Act 2006 as at 31 December 2020, with comparative figures as at 31 December 2019.

As permitted by section 408 of the Companies Act 2006, the income statement 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.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment'
- IFRS 7, 'Financial Instruments – Disclosures'
- Paragraphs 91-99 of IFRS 13, 'Fair value measurement'
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of paragraph 79(a) (iv) of IAS 1
- Paragraphs 10(d), 10(f), 16, 38(A), 38 (B to D), 40 (A to D), 111 and 134 to 136 of IAS 1, 'Presentation of financial statements'
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party disclosures' and the further requirement in IAS 24 to disclose related party transactions entered into between two or more members of a 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. These policies have been consistently applied, unless otherwise stated.

Key accounting judgements and estimates

No key accounting judgements or estimates were required in the current year.

B) Accounting policies

Foreign currency transactions

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

Dividends paid and received

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

Expenditure

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

Investments in subsidiary companies

Investments in subsidiary companies are held at cost less any provision for impairment and also includes a capital contribution in relation to movements in contingent consideration.

Impairment of investments

The carrying value of investments are reviewed for impairment when there is an indication that the investment might be impaired. One of the assessment methods used is to compare the carrying value of each investment against its share of the Group's valuation on the basis of overall market capitalisation. Any impairment charge is recognised in 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.

Notes to the company balance sheet – UK GAAP
(including FRS 101 'Reduced Disclosure Framework') 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, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are 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 temporary differences are expected to be realised or settled. 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.

C) Operating profit

A fee of £12,600 (2019 – £12,000) 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, in line with the dividend for 2019. For further details, see Note 16 to the Group financial statements, 'Dividends'.

E) Fixed assets – investments

	2020 £m	2019 £m
Shares in GlaxoSmithKline Services Unlimited	637	637
Shares in GlaxoSmithKline Holdings (One) Limited	18	18
Shares in GlaxoSmithKline Holdings Limited	17,888	17,888
Shares in GlaxoSmithKline Consumer Healthcare Holdings Limited	34,800	34,800
Shares in GlaxoSmithKline Mercury Limited	33	33
	53,376	53,376
Capital contribution relating to share-based payments	1,139	1,139
Contribution relating to contingent consideration	477	339
	54,992	54,854

The shares in GlaxoSmithKline Consumer Healthcare Holdings Limited were received during 2019 as a dividend in specie as part of a Group reorganisation prior to the acquisition of the Pfizer consumer healthcare business.

F) Trade and other receivables

	2020 £m	2019 £m
Amounts due within one year:		
UK Corporation tax recoverable	10	14
Amounts owed by Group undertakings	1,231	1,645
	1,241	1,659
Amounts due after more than one year:		
Amounts owed by Group undertakings	448	551
	1,689	2,210

Notes to the company balance sheet – UK GAAP
(including FRS 101 'Reduced Disclosure Framework') continued

G) Short-term borrowings

The £1 billion borrowing at 31 December 2019 related to the balance of a facility taken out in June 2018 as part of the financing of the buyout of the non-controlling interest in the Consumer Healthcare Joint Venture held by Novartis. This loan was repaid on 18 May 2020.

H) Trade and other payables

	2020 £m	2019 £m
Amounts due within one year:		
Other creditors	511	564
Contingent consideration payable	20	22
Amounts owed to Group undertakings	–	23
	531	609

The company has guaranteed debt issued by its subsidiary companies from two of which it receives fees. In aggregate, the company has outstanding guarantees over £24.9 billion of debt instruments (2019 – £27.8 billion). The amounts due from the subsidiary company in relation to these guarantee fees will be recovered over the life of the bonds and are disclosed within 'Trade and other receivables' (see Note F).

I) Provisions for liabilities

	2020 £m	2019 £m
At 1 January	4	16
Charge for the year	15	5
Utilised	(12)	(17)
At 31 December	7	4

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

J) Other non-current liabilities

	2020 £m	2019 £m
Contingent consideration payable	457	317
	457	317

The contingent consideration relates to the amount payable for the acquisition in 2015 of the Novartis Vaccines portfolio. The current year liability is included within 'Trade and other payables'. For further details, see Note 32 to the Group financial statements, 'Contingent consideration liabilities'.

Notes to the company balance sheet – UK GAAP

(including FRS 101 'Reduced Disclosure Framework') continued

K) Share capital and share premium account

	Ordinary Shares of 25p each		Share premium account
	Number	£m	£m
Share capital issued and fully paid			
At 1 January 2019	5,379,067,624	1,345	3,091
Issued under employee share schemes	4,034,607	1	50
Ordinary shares acquired by ESOP trusts	–	–	33
At 31 December 2019	5,383,102,231	1,346	3,174
Issued under employee share schemes	2,087,386	–	29
Ordinary shares acquired by ESOP trusts	–	–	78
At 31 December 2020	5,385,189,617	1,346	3,281

	31 December 2020 000	31 December 2019 000
Number of shares issuable under employee share schemes	**48,205**	57,871
Number of unissued shares not under option	**4,566,605**	4,559,027

At 31 December 2020, of the issued share capital, 48,975,304 shares were held in the ESOP Trusts, 355,205,950 shares were held as Treasury shares and 4,981,008,363 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 44, 'Employee share schemes'.

L) Retained earnings and other reserves

The profit of GlaxoSmithKline plc for the year was £3,893 million (2019 – £53 million loss). After dividends paid of £3,977 million (2019 – £3,953 million), the effect of £531 million Treasury shares transferred to a subsidiary company (2019 – £295 million) and no distribution received of the shares in a subsidiary company (2019 – £34,800) million, retained earnings at 31 December 2020 stood at £49,653 million (2019 – £49,206 million), of which £38,896 million was unrealised (2019 – £38,896 million). Dividends to shareholders are paid out of the realised profits of the company, which at 31 December 2020 amounted to £10,757 million (2019 – £10,310 million).

Other reserves includes a capital redemption reserve and a reserve reflecting historical contributions of shares in the company which were issued to satisfy share option awards granted to employees of subsidiary companies.

M) Group companies

See pages 287 to 298 for a complete list of subsidiaries, associates, joint ventures and other significant shareholdings, which forms part of these financial statements.