# GlaxoSmithKline Capital plc

**(Registered number: 2258699)**

**Annual Report**

**for the year ended 31 December 2021**


**Registered office address:**

980 Great West Road

Brentford

Middlesex

TW8 9GS

# GlaxoSmithKline Capital plc

# (Registered number: 2258699)

# Annual Report

# for the year ended 31 December 2021

**Contents** **Pages**



# GlaxoSmithKline Capital plc

# (Registered number: 2258699)

## Strategic report for the year ended 31 December 2021

The Directors present their Strategic report on GlaxoSmithKline Capital plc (the "Company") for the year ended 31 December 2021.

### Principal activities and future developments

The Company is a member of the GlaxoSmithKline Group (the "Group"). The principal activities of the Company during the financial year were the issuance of notes under the Group's European Medium

Term Note programme and US shelf registration and the provision of financial services to other companies within the Group.

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

**Review of business**

At 31 December 2021, the Company had in issue £10,519,164,000 European Medium Term Notes and £4,994,472,000 US Medium Term Notes (2020: £12,664,804,000 and £5,474,398,622 respectively) which mature at dates between 2022 and 2045. All notes currently in issue pay interest on a fixed rate basis.

On 14th May 2021, the Company repaid the USD 750 million LIBOR + 0.25% US Medium Term Note.

On 23rd September 2021, the Company has repaid the following notes:

- EUR 500 million 0% European Medium Term Note
- EUR 1,500 million EURIBOR + 0.60% European Medium Term Note

As part of a loan novation project resulting from the transfer of shareholding of GSK Holdings (Americas) Inc from GSK Finance plc to GSK Finance (No 2) Limited, on 13th September 2021 the Company settled a USD $1,977,400,000 long-term loan of bond proceeds with GSK Finance plc and entered into a new loan for USD $1,977,400,000 with GSK Finance (No 2) Limited.

The Company made a profit for the financial year of £13,127,000 (2020: £17,623,000), which will be transferred to reserves. The Directors are of the opinion that the current level of activity and the year end financial position are satisfactory and will remain so in the foreseeable future.

**Events after the end of the reporting period**

The Company gave notice on 14 April of its intention to redeem early USD 1.5 billion of notes due to mature on 1 June 2022. These notes will be redeemed on 3 May 2022.

**Principal risks and uncertainties**

The Directors of GlaxoSmithKline plc manage the risks of the Group at a group level, rather than at an individual statutory entity level. For this reason, the Company's Directors believe that a discussion of the Group's risks would not be appropriate for an understanding of the development, performance or

position of the Company's business. The principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's 2021 annual report which does not form part of this report.

**Key performance indicators (KPIs)**

The Directors of the Group manage the Group's operations on an operating segment basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The development, performance and position of the Group are discussed in the Group's 2021 annual report which does not form part of this report.

**Risks associated with COVID-19**

The impact of the COVID-19 pandemic on the Group's performance and its principal risks has been assessed with mitigations plans put in place. Further disclosures detailing how, during the year, the COVID-19 pandemic has impacted the Group can be found on page 54 of the consolidated financial statements of the Group. Copies of the consolidated financial statements can be obtained from the Company Secretary, GlaxoSmithKline plc, 980 Great West Road, Brentford, Middlesex, TW8 9GS

**Section 172 Companies Act 2006 statement**

The Company's governance architecture and processes operated to ensure that all relevant matters are considered by the Board in its principal decision-making, as a means of contributing to the delivery of the Company long-term priorities of Innovation, Performance and Trust.

In the performance of its duty to promote the success of the company and the long-term priorities, the Board has agreed to a number of matters, including listening to and considering the views of shareholders and the company's other stakeholders to build trust and ensure it fully understands the potential impacts of the decisions it makes for our stakeholders, the environment and the communities in which we operate.

Further disclosures detailing how, during the year, the Directors addressed the matters set out in Section 172(1) (a) to (f) of the Companies Act, can be found in the consolidated financial statements of the GlaxoSmithKline Group, of which the Company is a member and no additional considerations are deemed necessary for the Company as the relevant matters are all considered in the GlaxoSmithKline Group accounts. Copies of the consolidated financial statements can be obtained from the Company Secretary, GlaxoSmithKline plc, 980 Great West Road, Brentford, Middlesex, TW8 9GS.

By order of the Board

Mr A Walker

For and on behalf of Glaxo Group Limited

Corporate Director

19 April 2022

# GlaxoSmithKline Capital plc

# (Registered number: 2258699)

## Directors' report for the year ended 31 December 2021

The Directors present their report and the audited financial statements of GlaxoSmithKline Capital plc (the "Company") for the year ended 31 December 2021.

**Results and dividends**

The Company's profit for the financial year is shown in the income statement on page 16.

No dividend is proposed to the holders of ordinary shares in respect of the year ended 31 December 2021 (2020: £nil).

**Internal control framework**

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

To ensure effective governance and promote an ethical culture, the Group has in place the Risk Oversight and Compliance Council. This team of senior leaders is mandated by the Board to assist the Audit and Risk Committee in overseeing risk management and internal control activities. It also provides the business units with a framework for risk management and upward escalation of significant risks, of which the Company operates within. Further information on the Group's Internal Control Framework is discussed in the Group's 2021 Annual Report which does not form part of this report.

**Financial risk management**

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

The Company manages its cash flow interest rate risk on its forecasted Euro and US Dollar denominated notes issued under the Group's European Medium Term Note programme and US shelf registration using treasury gilt locks and interest rate swaps. In addition, the Company carries a balance in reserves that arose from pre-hedging fluctuations in long-term interest rates when pricing bonds issued in prior years. The balance is reclassified to finance costs over the life of these bonds.

**Directors and their interests**

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

Mr I Mackay

Edinburgh Pharmaceutical Industries Limited

Glaxo Group Limited

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

**Directors' indemnity**

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

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

**Directors' interests**

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

| | | **Ordinary shares** | | |
|---|---|---|---|---|
| | At 31 Dec 2020 | Granted | Exercised/Lapsed | At 31 Dec 2021 |
| **Performance Share Plans** | | | | |
| Mr I Mackay | 461,587 | 318,195 | - | **779,782** |

| | At 31 Dec 2020 | Granted | Exercised/Lapsed | At 31 Dec 2021 |
|---|---|---|---|---|
| **Deferred Annual Bonus Plan** | | | | |
| Mr I Mackay | 36,655 | 35,317 | - | **71,972** |

All share awards are over ordinary shares of GlaxoSmithKline plc.

Further details of the above-mentioned Plans are disclosed in the 2021 Annual Report of GlaxoSmithKline plc.

**Statement of Directors' responsibilities**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom

Generally Accepted Accounting Practice (United Kingdom Accounting Standards, and applicable law including FRS 101 "Reduced Disclosures Framework". Under company law the Directors must not

approve the financial statements unless they are satisfied that they give a true and fair view of the state

of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

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

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

- principal activities and future developments;
- review of business;
- events after the end of the reporting period;
- principal risks and uncertainties
- key performance indicators;
- risks associated with COVID-19; and
- section 172 Companies Act 2006 Statement.

**Corporate Governance**

As a subsidiary company of the Group which is listed on the New York and London Stock Exchanges, the Company has developed governance practices and processes that are fit for purpose.

The Directors have applied an undocumented system of governance by:

(a) Promoting the purpose of the Group to deliver manufacturing and distribution of medicines through its subsidiaries' operations.

(b) Regularly reviewing its composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and that individual directors have sufficient capacity to make a valuable contribution.

(c) To support effective decision-making Directors take into account the System of Internal Control and the Code of Conduct when acting in their capacity as a Director of the Company.

(d) In accordance with the governance practices and processes that it adopts, the Board is supported by Systems of Internal Control to identify opportunities to create and preserve value.

(e) Having regard to and fostering good stakeholder relationships.

**Stakeholder engagement**

The Company aims to build enduring relationships with all its stakeholders in the countries where it operates. The Company works with its business partners in an honest, respectful and responsible way and seeks to work with others who share the Company’s commitments to safety, ethics and compliance.

On behalf of the Company, the Group participates in industry associations that offer opportunities to share good practices and collaborate on issues of importance. Additionally, the Group works with stakeholders on a range of issues that are relevant to its business and relating to regulatory compliance matters.

**Disclosure of information to auditors**

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

**Going concern basis**

Having assessed the principal risks and other matters, including the potential impact of the COVID-19 pandemic, the Directors are of the opinion that the current level of activity remains sustainable. In relation to the challenges that arise from the COVID-19 pandemic, the considerations have included the potential risks related to services provided by the Company. The Directors have taken into account that as part of the Group, the Company has the ability to request support from the Group where necessary and can take actions to ensure business continuity through operational channels, as well as the ability to manage variable costs. On the basis of those considerations, the Directors believe that it remains appropriate to adopt the going concern basis of accounting in preparing the financial statements.

**Independent auditors**

Deloitte LLP have been appointed to act as the Company's auditors by a resolution of the Board of Directors in accordance with s489(3) Companies Act 2006.

By order of the Board

Mr A Walker

For and on behalf of Glaxo Group Limited

Corporate Director

19 April 2022

## Independent auditors' report to the members of GlaxoSmithKline Capital plc

### Report on the audit of the financial statements

#### 1. Opinion

In our opinion the financial statements of GlaxoSmithKline Capital plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 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 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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

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

#### 3. Summary of our audit approach

*Key audit matters*

The key audit matters that we identified in the current year were:

- Valuation of borrowings; and

- Valuation of intercompany loan receivables.

*Materiality*

The materiality that we used in the current year was £156 million which was determined on a range of measures including total assets and external debt.

*Scoping*

Our audit of the company was scoped by obtaining an understanding of the entity and its environment, including relevant controls, and assessing the risk of material misstatement at the entity level.

*Significant Changes in our approach*

There have been no significant changes in approach since the prior year.

**4. 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 company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the assumptions on which management's assessment is based including the company's access to sources of internal and external financing and the potential impact of the Covid-19 pandemic on those sources of finance;
- Reading analyst reports, industry data and other external information to determine if it provided corroborative or contradictory evidence in relation to management's assumptions; and
- Evaluating the company's appropriateness of the going concern disclosures in line with 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 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.

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

**5. 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.

*Valuation of borrowings*

| | |
|---|---|
| Key audit matter description | The company issues external borrowings under its European Medium Term Note (EMTN) and US Shelf Programme on behalf of other GSK Group entities. This has resulted in the recognition of material borrowing amounts including:<br><br>• Short-term borrowings: £2.6 billion (2020: £2.4 billion); and<br>• Long-term borrowings: £12.9 billion (2020: £15.8 billion). |

| | |
|---|---|
| Key audit matter description (continued) | These external borrowings are recognised as financial liabilities measured at amortised cost at the original effective interest rate, computed based on the bond proceeds, costs of issuance, coupon payments and redemption value. In the current year, the external borrowings decreased by £2.7 billion due to the repayment of bonds during 2021.<br><br>Due to the magnitude of the external debt held by the company, we have identified a key audit matter with respect to the calculation of the effective interest rate and carrying value of the borrowings under IFRS 9.<br><br>Borrowings are disclosed in Note 14 of the financial statements with fair value disclosure in Note 16 of the financial statements. The accounting policy for borrowings is disclosed in Note 2 of the financial statements. |
| How the scope of our audit responded to the key audit matter | We performed the following audit procedures:<br>• Agreed bond proceeds, bond costs, coupon rate and redemption values to underlying agreements and term sheets;<br>• Recalculated the effective interest rate and the carrying value of each bond using the key inputs outlined above per the underlying agreements;<br>• Assessed the appropriateness of the accounting treatment applied for borrowings including the recognition at amortised cost in line with IFRS 9 requirements;<br>• Agreed the inputs used for the fair value disclosures in the notes to the financial statements to an independent source; and<br>• Evaluated the appropriateness of disclosures in respect to these liabilities included in the notes to the financial statements. |
| Key observations | We are satisfied that the calculation of the effective interest rate and carrying value of the external borrowings balance has been correctly calculated and appropriately recorded in accordance with IFRS 9. |

*Valuation of intercompany loan receivables*

| | |
|---|---|
| Key audit matter description | The bonds issued by the company are subsequently loaned to GlaxoSmithKline Group companies. This is divided as follows:<br><br>• Short-term intercompany loan receivables: £2.7 billion (2020: £2.4 billion); and<br>• Long-term intercompany loan receivables: £12.9 billion (2020: £15.7 billion).<br><br>These are recognised as financial assets measured at amortised cost at the original effective interest rate, computed based on the loan issued, coupon payments and redemption value. As such, we identified a key audit matter relating to the calculation of the effective interest rate and carrying value of the intercompany loan receivables balance under IFRS 9. |

| | |
|---|---|
| Key audit matter description (continued) | Intercompany loan receivables are disclosed in Note 11 of the financial statements with the accounting policies disclosed in Note 2 of the financial statements. |
| How the scope of our audit responded to the key audit matter | We performed the following audit procedures:<br>• Agreed loan amounts, coupon rate and redemption values to underlying agreements;<br>• Recalculated the effective interest rate and the carrying value of each intercompany loan using the key inputs outlined above per the underlying agreements;<br>• Reviewed board minutes for the completeness of all loans entered into in the period;<br>• Assessed the appropriateness of the accounting treatment applied for intercompany loans including the recognition at amortised cost and provisioning of expected credit losses in line with IFRS 9 requirements; and<br>• Evaluated the appropriateness of disclosures in respect to these assets included in the notes to the financial statements. |
| Key observations | We are satisfied that the calculation of the effective interest rate and carrying value of the intercompany loan receivables has been correctly calculated and appropriately recorded in accordance with IFRS 9. |

## 6. Our application of materiality

*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:

| | |
|---|---|
| Materiality | £156 million (2020: £182 million) |

| | |
|---|---|
| Basis for determining materiality | We have determined materiality to be £156 million. In determining materiality, we applied a range of measures, using 1% of total assets and 1% of total external debt*. This range has remained unchanged from 2020.<br><br>The decrease in materiality from the previous year is due to the decrease in external borrowings of £2.7 billion and associated decrease in intercompany receivables from the lending of the proceeds to other entities within the group.<br><br>*External debt is defined as short-term and long-term borrowings. |
| Rationale for the benchmark applied | The company is the main UK debt issuer of the GlaxoSmithKline Group. As such, total assets and external debt were determined to be the most appropriate benchmarks to apply as they relate to the primary focus of management, shareholders and lenders in assessing the performance on the entity. |

*Performance materiality*

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. Performance materiality was set at 70% of materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the company's overall control environment; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identifiedin prior periods.

*Error reporting threshold*

We agreed with the Board of Directors that we would report to them all audit differences in excess of £7.8 million (2020: £9.1 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

**7. An overview of the scope of our audit**

*Scoping*

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risk of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

*Our consideration of the control environment*

We obtained an understanding of the company's control environment through audit procedures over the in-scope processes for the purpose of the GlaxoSmithKline plc Group audit. Subsequently, as part of our statutory audit process, we have performed additional audit procedures in order to obtain an understanding of all other key company processes. We structured our audit approach to reflect how the company is organised as well as ensuring our audit was both effective and risk focused. Based on our scope and determination of audit approach, the audit engagement team have obtained an understanding of the relevant controls over the financial reporting process and have adopted a fully substantive approach for the audit of the financial statements.

**8. 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 the 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.

**9. 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 company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**10. 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.

**11. 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 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 company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Board of Directors about their own identification and assessment of the risks of irregularities;

- any matters we identified having obtained and reviewed the company's documentation of their 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 of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. o the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

*Audit response to risks identified*

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

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 Board of Directors 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;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports; and
- 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 including internal specialists 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

**12. 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 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.

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

**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; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

We have nothing to report in respect of this matter.

**14. Other matters which we are required to address**

*Auditor tenure*

We were appointed by the Board of Directors on 30 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ending 31 December 2018 to 31 December 2021.

*Consistency of the audit report with the additional report to the Board of Directors*

Our audit opinion is consistent with the additional report to the Board of Directors we are required to provide in accordance with ISAs (UK).

**15. Use of our report**

This report is made solely to the 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 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

The company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the senior statutory auditor's name should not be stated.

Deloitte LLP

Statutory Auditors

London, United Kingdom

19 April 2022

## GlaxoSmithKline Capital plc

### Income statement

### for the year ended 31 December 2021

| | Note | **2021** | 2020 |
|---|---|---|---|
| | | **£'000** | £'000 |
| Other operating loss | 6 | **(1,434)** | (179) |
| Finance income | 8 | **454,369** | 513,431 |
| Finance expense | 9 | **(436,729)** | (491,495) |
| | | **16,206** | 21,757 |
| **Profit before taxation** | | | |
| Tax on profit | 10 | **(3,079)** | (4,134) |
| **Profit for the financial year** | | **13,127** | 17,623 |

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

The notes on pages 21 to 33 are an integral part of these financial statements.

## GlaxoSmithKline Capital plc

### Statement of comprehensive income

### for the year ended 31 December 2021

| | Note | **2021** | 2020 |
|---|---|---|---|
| | | **£'000** | £'000 |
| **Profit for the financial year** | | **13,127** | 17,623 |
| **Items that may be subsequently reclassified to the income statement:** | | | |
| Fair value movements on cash flow hedges | | **-** | (5,480) |
| Reclassification of cash flow hedges to the income statement | | **3,708** | 3,984 |

| | | | |
|---|---|---|---|
| Deferred tax on fair value movements and reclassification on cash flow hedges | 10 | **(704)** | 284 |
| Changes in tax rates | | **1,047** | 394 |
| **Other comprehensive income / (expense) for the financial year** | | **4,051** | (818) |
| **Total comprehensive income for the financial year** | | **13,127** | 17,623 |

The notes on pages 21 to 33 are an integral part of these financial statements.

## GlaxoSmithKline Capital plc

### Balance sheet

### as at 31 December 2021

| | Note | **2021 £'000** | 2020 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Deferred tax assets | 10 | **4,364** | 4,021 |
| Trade and other receivables | 11 | **12,931,472** | 15,776,159 |
| Total non-current assets | | **12,935,836** | 15,780,180 |
| **Current assets** | | | |
| Trade and other receivables | 11 | **2,682,990** | 2,447,426 |
| Prepayments and accrued income | 12 | **142,579** | 145,580 |
| Cash and cash equivalents | | **4** | 4 |
| Total current assets | | **2,825,573** | 2,593,010 |
| **Total assets** | | **15,761,409** | 18,373,190 |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 13 | **(4,196)** | (4,024) |
| Short-term borrowings | 14 | **(2,595,811)** | (2,350,809) |
| Accruals and deferred income | 15 | **(134,512)** | (137,021) |
| Corporation tax | | **(3,079)** | (4,134) |
| Total current liabilities | | **(2,737,598)** | (2,495,988) |
| | | | |
| **Net current assets** | | **87,975** | 97,022 |
| | | | |
| **Total assets less current liabilities** | | **13,023,811** | 15,877,202 |
| | | | |
| **Non-current liabilities** | | | |
| Long-term borrowings | 14 | **(12,917,825)** | (15,788,394) |
| Total non-current liabilities | | **(12,917,825)** | (15,788,394) |
| | | | |
| **Total liabilities** | | **(15,655,423)** | (18,284,382) |
| | | | |
| **Net assets** | | **105,986** | 88,808 |
| | | | |
| **Equity** | | | |
| Called up share capital | 20 | **100** | 100 |
| Other reserves | 21 | **(13,090)** | (17,141) |

| | | |
|---|---|---|
| Retained earnings | **118,976** | 105,849 |
| **Total equity** | **105,986** | 88,808 |

The notes on pages 21 to 33 are an integral part of these financial statements.

The financial statements on pages 16 to 33 were approved by the Board of Directors on 19 April 2022 and signed on its behalf by:

Mr A Walker

For and on behalf of Glaxo Group Limited

Corporate Director

## GlaxoSmithKline Capital plc

### Statement of changes in equity

### for the year ended 31 December 2021

| | Called up share capital £'000 | Other reserves £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|
| At 1 January 2020 | 100 | (16,323) | 88,226 | 72,003 |
| Profit for the year | - | - | 17,623 | 17,623 |
| Other comprehensive income/(expense) for the financial year | - | (818) | - | (818) |
| At 31 December 2020 | 100 | (17,141) | 105,849 | 88,808 |
| Profit for the year | - | - | 13,127 | 13,127 |
| Other comprehensive income/(expense) for the financial year | - | 4,051 | - | 4,051 |
| **At 31 December 2021** | **100** | **(13,090)** | **118,976** | **105,986** |

The notes on pages 21 to 33 are an integral part of these financial statements.

## GlaxoSmithKline Capital plc

### Cash flow statement

### for the year ended 31 December 2021

| | Note | **2021 £'000** | 2020 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating profit | | **16,206** | 21,757 |
| Adjustments reconciling operating profit to operating cash flows | | **17,690** | 7,001 |
| Taxation paid | | **(4,134)** | (3,421) |
| **Net cash inflow from operating activities** | 18 | **29,762** | 25,337 |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **-** | 3,111,197 |
| Repayment of borrowings | | **(2,245,148)** | (2,737,670) |
| Loans provided to Group undertakings | | **(1,430,056)** | (3,106,262) |
| Loan repayments received from Group undertakings | | **3,681,300** | 2,730,143 |
| (Increase) / decrease in other receivables with Group undertakings | | **(35,858)** | (22,745) |
| **Net cash outflow from financing activities** | | **(29,762)** | (25,337) |
| **Net movement in cash in the year** | | **-** | **-** |
| Cash at beginning of year | | **4** | 4 |
| Movement in cash | | **-** | - |
| Cash at end of year | | **4** | 4 |

The notes on pages 21 to 33 are an integral part of these financial statements.

## GlaxoSmithKline Capital plc

### Notes to the financial statements for the year ended 31 December 2021

1. **Presentation of the financial statements**

*General information*

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

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

## 2. Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101") to requirements set by the International Financial Reporting Standards (IFRS).

*Going concern*

Having assessed the principal risks and other matters, including the potential impact of the COVID-19 pandemic, the Directors are of the opinion that the current level of activity remains sustainable. In relation to the challenges that arise from the COVID-19 pandemic, the considerations have included the potential risks related to services provided by the Company. The Directors have taken into account that as part of the Group, the Company has the ability to request support from the Group where necessary and can take actions to ensure business continuity through operational channels, as well as the ability to manage variable costs. On the basis of those considerations, the Directors believe that it remains appropriate to adopt the going concern basis of accounting in preparing the financial statements.

These financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

*Disclosure exemptions adopted*

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

- Paragraph 38 of IAS 1 "Presentation of financial statements" comparative information requirements in respect of:
- paragraph 79(a) (iv) of IAS 1;
- 16 (statement of compliance with all IFRS); and
- 38B-D (additional comparative information);
- Paragraph 30 and 31 of IAS 8 "Accounting policies, changes in accounting estimates and errors" (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24 "Related party disclosures" (key management compensation); and
- The requirements in IAS 24 "Related party disclosures" to disclose related party transactions entered into between two or more wholly owned members of a group.

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

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

**(b) Ultimate and immediate parent undertaking**

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

**(c) Foreign currency transactions**

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

**(d) Other operating income**

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

**(e) Finance income and expense**

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

**(f) Financial assets**

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.

**(g) Impairment of financial assets**

Expected credit losses are recognised in the income statement on financial assets measured at amortised cost.

For financial assets a 12-month expected credit loss ("ECL") allowance is recorded on initial recognition. If there is 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.

**(h) Cash and cash equivalents**

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

**(i) Other payables**

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

**(j) Borrowings**

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

**(k) Interest rate benchmark reform**

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Company had exposure to IBORs on certain financial instruments. These have been reformed as part of these market-wide initiatives. Where loans to or from Group undertakings are at floating rates of interest, these are referencing the new Risk Free Rates from 1 November 2021. Prior year comparatives have not been restated to reflect this.

**(l) Taxation**

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

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

**(m) Derivative financial instruments and hedging**

Derivative financial instruments can be used by the Company to manage exposure to market risks. The Company does not hold or issue derivative financial instruments for trading or speculative purposes and does not currently hold any derivative financial instruments.

Derivative financial assets and liabilities 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.

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

## 3. Critical accounting judgements and key sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported in the financial statements. Actual amounts and results could differ from those estimates. There are no required estimates or assumptions made in the valuation of intercompany loans and borrowings.

## 4. Financial risk management

Risk management is carried out by the Group's Corporate Treasury under policies and procedures approved annually by the Group's Board of Directors, most recently on 14 October 2021. The role of Corporate Treasury is to monitor and manage the Group's external and internal funding requirements and financial risks, covering foreign exchange, interest rate, liquidity, and credit risks in support of the

Group's strategic objectives. A Treasury Management Group meeting, chaired by the Group's Chief Financial Officer, also takes place on a monthly basis to review treasury activities.

As part of the Group's risk assessment, we continue to believe that Brexit will not have a material impact on our business.

**(a) Market risk**

*(i) Foreign exchange risk*

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

The net proceeds of bond issuances received are subsequently advanced as loans to other Group undertakings in the same currency which minimises the foreign translation exposure within the

Company. On this basis, foreign exchange risk is not considered material and the Company has not prepared a sensitivity analysis.

*(ii) Interest rate risk*

The Group's objective is to minimise the effective net interest cost and to balance the mix of debt at fixed and floating interest rates over time. The policy on interest rate risk management limits the net amount of floating rate debt to a specific cap, reviewed and agreed no less than annually by the GlaxoSmithKline Board.

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

The table below hypothetically shows the Company's sensitivity to changes in interest rates in relation to Euro, Sterling and US dollar floating rate financial assets. If interest rates applicable to floating rate financial assets were to have increased by 1% (100 basis points), and assuming all other variables had remained constant, it is estimated that the Company's finance income for 2021 would have increased by approximately £2,052,000 (2020: £1,755,000 increase in finance income).

| | **2021**<br>**Increase in income**<br>**£'000** | 2020<br>Increase in income<br>£'000 |
|---|---|---|
| 1% (100 basis points) increase in Euro interest rates (2020: 1%) | **560** | 536 |
| 1% (100 basis points) increase in Sterling interest rates (2020: 1%) | **953** | 802 |
| 1% (100 basis points) increase in US dollar interest rates (2020: 1%) | **539** | 417 |

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

**Currency and interest rate risk profile of borrowings**

| **At 31 December 2021** | **Fixed rate** | | | | |
|---|---|---|---|---|---|
| **Currency** | **Weighted average interest rate %** | **Average years for which rate is fixed** | **Fixed rate £'000** | **Floating rate £'000** | **Total £'000** |
| US dollars | **2.7** | **2** | **(4,994,473)** | **-** | **(4,994,473)** |
| Sterling | **4.1** | **14** | **(5,537,025)** | **-** | **(5,537,025)** |
| Euro | **1.5** | **4** | **(4,982,138)** | **-** | **(4,982,138)** |
| Total borrowings | **2.8** | **7** | **(15,513,636)** | **-** | **(15,513,636)** |

| At 31 December 2020 | Fixed rate | | | | |
|---|---|---|---|---|---|
| Currency | Weighted average interest rate % | Average years for which rate is fixed | Fixed rate £'000 | Floating rate £'000 | Total £'000 |
| US dollars | 3.2 | 3 | (4,925,014) | (549,319) | (5,474,333) |
| Sterling | 4.4 | 15 | (5,533,227) | - | (5,533,227) |
| Euro | 1.5 | 5 | (5,330,086) | (1,801,557) | (7,131,643) |

| | | | | | |
|---|---|---|---|---|---|
| Total borrowings | 3.0 | 8 | (15,788,327) | (2,350,876) | (18,139,203) |

**Currency and interest rate risk profile of loans and receivables**

| **At 31 December 2021**<br>**Currency** | **Fixed rate**<br>**£'000** | **Floating rate**<br>**£'000** | **Total**<br>**£'000** |
|---|---|---|---|
| US dollars | **5,010,066** | **-** | **5,010,066** |
| Sterling | **5,598,345** | **-** | **5,598,345** |
| Euro | **5,005,875** | **-** | **5,005,875** |
| Total loans and receivables | **15,614,286** | **-** | **15,614,286** |

| At 31 December 2020<br>Currency | Fixed rate<br>£'000 | Floating rate<br>£'000 | Total<br>£'000 |
|---|---|---|---|
| US dollars | 4,893,727 | 591,055 | 5,484,782 |
| Sterling | 5,503,315 | 80,172 | 5,583,487 |
| Euro | 5,299,807 | 1,855,509 | 7,155,316 |
| Total loans and receivables | 15,696,849 | 2,526,736 | 18,223,585 |

| **Net currency exposure** | **2021**<br>**£'000** | 2020<br>£'000 |
|---|---|---|
| US dollars | **15,593** | 10,449 |
| Euro | **23,738** | 23,673 |
| | **39,331** | 34,122 |

**(b) Credit risk**

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

There are no financial assets that are past due or impaired as at 31 December 2021 (2020: £nil).

The Company did not hold any collateral as security or obtained other credit enhancements as at 31 December 2021 (2020: £nil).

The Company considers its maximum exposure to credit risk at 31 December 2021, without taking into account any collateral held or other credit enhancements, to be £15,757,047,000 (2020: £18,369,169,000) being the total of the Company's financial assets of which the balances are all held within the GlaxoSmithKline Group.

**(c) Liquidity risk**

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

## 5. Capital management

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

The capital structure of the Company consists of net debt of £15,513,632,000 (2020: £18,139,200,000) and shareholders' funds of £105,986,000 (2020: £88,808,000) (see Statement of changes in equity).

## 6. Operating profit

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| **The following items have been credited / (charged) in operating profit:** | | |
| Exchange gains / (losses) on foreign currency transactions | **(1,372)** | (79) |
| Management fee | **(62)** | (60) |

GlaxoSmithKline Services Unlimited provides various services and facilities to the Company including finance and administrative services for which a management fee was charged. Included in the management fee is a charge for auditors' remuneration of £37,900 (2020: £36,100).

The disclosure of fees payable to the auditor and its associates for other (non-audit) services has not been made and has been disclosed in the Group's 2021 Annual Report which does not form part of this report.

## 7. Employees

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

## 8. Finance income

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Interest income arising from financial assets at amortised cost | **454,369** | 513,431 |

## 9. Finance expense

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Interest expense arising on financial liabilities at amortised cost | **(433,021)** | (487,511) |
| Reclassification of cash flow hedge from other comprehensive income | **(3,708)** | (3,984) |
| Total finance expense | **(436,729)** | (491,495) |

## 10. Taxation

| Income tax charge on profit | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Current tax: | | |
| UK corporation tax at 19.00% (2020: 19.00%) | **(3,079)** | (4,134) |
| Total current tax | **(3,079)** | (4,134) |

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. There is no impact of this change on the tax charge as there are no instances of deferred taxation recognised in the statement of comprehensive income or directly in equity in either the current or prior year.

| Reconciliation of total tax charge | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Profit on ordinary activities before taxation | **16,206** | 21,757 |
| Tax on ordinary activities at the UK standard rate 19.00% (2020: 19.00%) | **(3,079)** | (4,134) |
| Effects of: | | |
| Permanent disallowables - interest treated as paid by ultimate parent | **82,444** | 92,943 |
| Permanent deductions - Group relief received for no payment | **(82,444)** | (92,943) |
| Total tax charge for the year | **(3,079)** | (4,134) |

Factors that may affect future tax charges:

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. The deferred tax asset at 31 December 2021 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences (2020: 19%).

| Total tax (expense) / credit included in other comprehensive income | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Deferred tax: | | |
| Fair value movements and reclassification on cash flow hedges | **(704)** | 284 |
| Change in tax rates | **1,047** | 394 |
| Total tax (expense) / credit included in other comprehensive income | **343** | 678 |

| Movement in deferred tax assets and liabilities | Other net temporary differences £'000 | **Total £'000** |
|---|---|---|
| At 1 January 2021 | 4,021 | **4,021** |
| Credit to comprehensive income | 343 | **343** |
| At 31 December 2021 | 4,364 | **4,364** |

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

| | 2021 | 2020 |
|---|---|---|
| | £'000 | £'000 |
| Deferred tax assets classified as non-current assets | **4,364** | 4,021 |
| | **4,364** | 4,021 |

## 10. Trade and other receivables

| | 2021 | 2020 |
|---|---|---|
| | £'000 | £'000 |
| **Amounts due within one year** | | |
| Amounts owed by Group undertakings | **2,682,990** | 2,447,426 |
| **Amounts due after more than one year** | | |
| Long term deposits | **176** | 320 |
| Amounts owed by Group undertakings | **12,931,296** | 15,775,839 |
| | **15,614,462** | 18,223,585 |

Amounts due within one year include deposits with Group undertakings of £109,859,000 (2020: £92,781,000) which are unsecured, repayable within one year and earn a market rate of interest (based on benchmark risk-free rate applicable to each currency minus 0.025%) that is consistent with the Group's policy.

Amounts due within one year also include the net proceeds of bond issuances that have been advanced as loans to Group undertakings of £2,573,131,000 (2020: £2,354,645,000) which are unsecured with interest charged between 3.09% and 3.20% per annum (2020: between 0.05% and 2.9% per annum).

Amounts due after more than one year include the net proceeds of bond issuances that have been advanced as loans to Group undertakings totalling £12,835,947,000 (2020: £15,696,529,000), which are unsecured with interest charged at between 0.10% and 6.50% per annum and repayable at maturity dates between 2023 and 2045 and also include a call account with GlaxoSmithKline Finance plc of £95,349,000 (2020: £79,310,000) which is unsecured, repayable on demand and earns a market rate of interest (based on benchmark risk-free rate applicable to each currency minus 0.05%) which is consistent with the Group's policy. The call account balance is classified as a non-current asset as the amounts are not expected to be settled within the year.

## 11. Prepayments and accrued income

| | 2021 | 2020 |
|---|---|---|
| | £'000 | £'000 |
| Amounts due within one year | **142,579** | 145,580 |

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

## 12. Trade and other payables

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Amounts owed to Group undertakings | **(4,196)** | (4,024) |
| | **(4,196)** | (4,024) |

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

## 13. Borrowings

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Loans payable: | | |
| € European Medium Term Notes | **-** | (1,801,490) |
| US$ US Medium Term Notes | **(2,595,811)** | (549,319) |
| | **(2,595,811)** | (2,350,809) |
| **Amounts falling due after more than one year** | | |
| Loans payable: | | |
| € European Medium Term Notes | **(4,982,138)** | (5,330,086) |
| £ European Medium Term Notes | **(5,537,026)** | (5,533,228) |
| US$ US Medium Term Notes | **(2,398,661)** | (4,925,080) |
| | **(12,917,825)** | (15,788,394) |
| Total borrowings | **(15,513,636)** | (18,139,203) |

| **Maturity of borrowings** | 2021 £'000 | 2020 £'000 |
|---|---|---|
| **In one year or less, or on demand** | | |
| 2.850% US$ US Medium Term Note 2022 | **(1,483,307)** | - |
| 2.875% US$ US Medium Term Note 2022 | **(1,112,506)** | - |
| LIBOR+0.35% US$ US Medium Term Note 2021 | **-** | (549,319) |
| LIBOR+0.30% € European Medium Term Note 2021 | **-** | (1,351,541) |
| 0% € European Medium Term Note 2021 | **-** | (449,949) |
| | **(2,595,813)** | (2,350,809) |
| **In more than one year, but not more than two years** | | |
| 0% € European Medium Term Note 2023 | **(419,963)** | - |
| 0.125% € European Medium Term Note 2023 | **(629,193)** | - |
| 0.534% US$ US Medium Term Note 2023 | **(926,473)** | - |
| 2.850% US$ US Medium Term Note 2022 | **-** | (1,462,747) |

| | 2021 | 2020 |
|---|---|---|
| 2.875% US$ US Medium Term Note 2022 | **-** | (1,097,314) |
| | **(1,975,629)** | (2,560,061) |
| **In more than two years, but not more than five years** | | |
| 1.000% € European Medium Term Note 2026 | **(586,784)** | - |
| 1.250% € European Medium Term Note 2026 | **(837,538)** | - |
| 0% € European Medium Term Note 2023 | **-** | (449,632) |
| 0.125% € European Medium Term Note 2023 | **-** | (673,048) |
| 0.534% US$ US Medium Term Note 2023 | **-** | (913,467) |
| 1.375% € European Medium Term Note 2024 | **(836,250)** | (894,036) |
| 3.000% US$ US Medium Term Note 2024 | **(738,765)** | (728,293) |
| 4.000% € European Medium Term Note 2025 | **(626,915)** | (670,363) |
| | **(3,626,252)** | (4,328,839) |

| **In more than five years** | **2021**<br>**£'000** | 2020<br>£'000 |
|---|---|---|
| 1.000% € European Medium Term Note 2026 | **-** | (627,997) |
| 1.250% € European Medium Term Note 2026 | **-** | (896,167) |
| 3.375% £ European Medium Term Note 2027 | **(595,392)** | (594,710) |
| 1.25% £ European Medium Term Note 2028 | **(742,631)** | (741,602) |
| 1.375% € European Medium Term Note 2029 | **(417,642)** | (446,859) |
| 3.375% US$ US Medium Term Note 2029 | **(733,423)** | (723,260) |
| 1.750% € European Medium Term Note 2030 | **(627,853)** | (671,985) |
| 5.250% £ European Medium Term Note 2033 | **(984,305)** | (983,392) |
| 1.625% £ European Medium Term Note 2035 | **(743,701)** | (743,284) |
| 6.375% £ European Medium Term Note 2039 | **(694,705)** | (694,542) |
| 5.250% £ European Medium Term Note 2042 | **(987,136)** | (986,794) |
| 4.250% £ European Medium Term Note 2045 | **(789,156)** | (788,902) |
| | **(7,315,944)** | (8,899,494) |
| Total borrowings | **(15,513,638)** | (18,139,203) |

## 14. Accruals and deferred income

| | **2021**<br>**£'000** | 2020<br>£'000 |
|---|---|---|
| Amounts falling due within one year | **(134,512)** | (137,021) |

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

## 15. Fair value of financial assets and liabilities

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

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

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

The carrying amounts and the fair values of the Company's financial assets and liabilities at 31 December 2021 and 31 December 2020 are illustrated below.

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Carrying value £'000** | **Fair value £'000** | Carrying value £'000 | Fair value £'000 |
| Cash and cash equivalents | **4** | **4** | 4 | 4 |
| Trade and other receivables: | | | | |
| Other receivables | **142,579** | **142,579** | 145,580 | 145,580 |
| Amounts owed by Group undertakings | **15,614,286** | **17,514,138** | 18,223,265 | 21,184,077 |
| Total financial assets | **15,756,869** | **17,656,721** | 18,368,849 | 21,329,661 |
| Financial liabilities measured at amortised cost: | | | | |
| £ European Medium Term Notes | **(4,982,138)** | **(7,310,534)** | (5,533,228) | (8,044,821) |
| € European Medium Term Notes | **(5,537,026)** | **(5,310,940)** | (7,131,576) | (7,621,068) |
| US$ US Medium Term Notes | **(4,994,472)** | **(5,127,133)** | (5,474,399) | (5,765,875) |
| | **(15,513,636)** | **(17,748,607)** | (18,139,203) | (21,431,764) |
| Other payables | **(138,708)** | **(138,708)** | (141,045) | (141,045) |
| Total financial liabilities | **(15,652,344)** | **(17,887,315)** | (18,280,248) | (21,572,809) |
| Net financial assets and liabilities | **104,525** | **(230,594)** | 88,601 | (243,148) |

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

Financial liabilities measured at amortised cost for which the fair value of £17,748,607,000 (2020: £21,431,764,000) is disclosed in the table above are categorised as Level 1, where quoted prices in active markets are used. Similarly, amounts owed by Group undertakings, which include the net proceeds of bond issuances advanced as loans, also approximate to the fair value of these financial liabilities. All other assets and liabilities approximate to the carrying amount.

## 16. Contractual cash flows for non-derivative financial liabilities

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

| | **2021** | | 2020 |
|---|---|---|---|
| **Debt** | **Interest on debt** | Debt | Interest on debt |

| | £'000 | £'000 | £'000 | £'000 |
|---|---|---|---|---|
| Due in less than one year | **(2,597,017)** | **(385,556)** | (2,348,214) | (428,382) |
| Between one and two years | **(1,977,485)** | **(348,409)** | (2,564,290) | (389,428) |
| Between two and three years | **(1,581,988)** | **(331,539)** | (2,040,020) | (352,750) |
| Between three and four years | **(629,987)** | **(308,859)** | (1,632,016) | (336,026) |
| Between four and five years | **(1,427,971)** | **(283,660)** | (674,521) | (312,670) |
| Between five and ten years | **(3,141,984)** | **(1,337,905)** | (4,735,771) | (1,431,335) |
| Greater than 10 years | **(4,250,000)** | **(1,368,438)** | (4,250,000) | (1,564,250) |
| Gross contractual cash flows | **(15,606,432)** | **(4,364,366)** | (18,244,832) | (4,814,841) |

## 17. Adjustments reconciling operating profit to operating cash flows

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Operating profit for the year | **16,206** | 21,757 |
| (Increase) / decrease in other receivables | **3,144** | (10,788) |
| Increase / (decrease) in other payables | **(2,336)** | 7,160 |
| Taxation paid | **(4,134)** | (3,421) |
| Exchange adjustments | **1,267** | 79 |
| Amortisation of bond costs | **11,907** | 12,046 |
| Fair value movements on cash flow hedges | **-** | (5,480) |
| Reclassification of cash flow hedges to the income statement | **3,708** | 3,984 |
| **Net cash inflow from operating activities** | **29,762** | 25,337 |

## 18. Reconciliation of net cash flow to movement in net (debt) / surplus

| | Other assets | Liabilities from financing activities | | | |
|---|---|---|---|---|---|
| | **Cash and cash equivalents** | **Amounts owed by Group undertakings** | **Borrowings - due within one year** | **Borrowings - due after 1 year** | **Total** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Net surplus as at 1 January 2020 | 4 | 17,528,948 | (1,657,233) | (15,800,866) | 70,853 |
| Cash flows | - | 398,864 | 2,737,670 | (3,111,197) | 25,337 |
| Foreign exchange adjustments | - | 295,453 | 37,714 | (333,245) | (78) |
| Other non-cash adjustments: | | | | | |
| Re-classification (long-term to short-term) | - | - | (3,467,565) | 3,467,565 | - |
| Amortisation | - | - | (1,395) | (10,651) | (12,046) |
| Net surplus as at 31 December 2020 | 4 | 18,223,265 | (2,350,809) | (15,788,394) | 84,066 |
| **Net surplus as at 1 January 2021** | **4** | **18,223,265** | **(2,350,809)** | **(15,788,394)** | **84,066** |

| | | | | | |
|---|---|---|---|---|---|
| Cash flows | **-** | **35,859** | **2,245,148** | **-** | **2,281,007** |
| Foreign exchange adjustments | **-** | **(393,593)** | **2,284** | **390,042** | **(1,267)** |
| Other non-cash adjustments: | | | | | |
| Re-classification (long-term to short-term) | **-** | **-** | **(2,492,923)** | **2,492,923** | **-** |
| Amortisation | **-** | **-** | **489** | **(12,396)** | **(11,907)** |
| **Net surplus as at 31 December 2021** | **4** | **17,865,531** | **(2,595,811)** | **(12,917,825)** | **2,351,899** |

## 19. Called up share capital

| | **2021** | 2020 | **2021** | 2020 |
|---|---|---|---|---|
| | **Number of shares** | Number of shares | **£'000** | £'000 |
| **Authorised** | | | | |
| Ordinary shares of £1 each (2020: £1 each) | **100,000** | 100,000 | **100** | 100 |
| **Issued and fully paid** | | | | |
| Ordinary shares of £1 each (2020: £1 each) | **100,000** | 100,000 | **100** | 100 |

## 20. Other reserves

| | Other reserves £'000 | Retained earnings £'000 | **Total reserves £'000** |
|---|---|---|---|
| At 1 January 2021 | (17,141) | 105,849 | **88,708** |
| Transferred from income and expense in the year | - | 13,127 | **13,127** |
| Fair value movements on cash flow hedges | - | - | **-** |
| Reclassification of cash flow hedges to the income statement | 3,708 | - | **3,708** |
| Deferred tax effect of cash flow hedges | (704) | - | **(704)** |
| At 31 December 2021 | (14,137) | 118,976 | **104,839** |

The cash flow hedge reserve relates to the cumulative fair value changes of derivatives that arose from pre-hedging fluctuations in long-term interest rates when pricing bonds issued in prior and current years. The balance is reclassified to finance costs over the life of the subsequently issued bonds.

| | | **Amount reclassified to profit or loss** | | |
|---|---|---|---|---|
| **2021** | **Hedging gains / (losses) recognised in reserves £'000** | **Hedged future cash flows no longer expected to occur £'000** | **As hedged item affects profit or loss £'000** | **Line item in which reclassification adjustment is included £'000** |
| Pre-hedging of long-term interest rates | (14,137) | - | 3,708 | Finance income / (expense) |

**2020**

| | | | | |
|---|---|---|---|---|
| Pre-hedging of long-term interest rates | (17,141) | - | 3,984 | Finance income / (expense) |

## 21. Contingent liabilities/assets

*Group banking arrangement*

The Company, together with fellow Group undertakings, has entered into a Group banking arrangement with the Company's principal bank. The bank holds the right to pay and apply funds from any account of the Company to settle any indebtedness to the bank of any other party to this agreement. The Company's maximum potential liability as at 31 December 2021 is limited to the amount held on its accounts with the bank. No loss is expected to accrue to the Company from the agreement.

## 22. Directors' remuneration

During the year, the Directors of the Company, with the exception of the Corporate Directors, were remunerated as executives of the Group and received no remuneration in respect of their services to the Company (2020: £nil). Corporate Directors received no remuneration during the year, either as executives of the Group or in respect of their services to the Company (2020: £nil).

## 23. Related party transactions

As a wholly owned subsidiary of the ultimate parent company, GlaxoSmithKline plc, advantage has been taken of the exemption afforded by FRS 101 "Reduced disclosure framework" not to disclose any related party transactions with other wholly owned members of the Group, or information around remuneration of key management personnel compensation.

## 24. Events after the end of the reporting period

The Company gave notice on 14 April of its intention to redeem early USD 1.5 billion of notes due to mature on 1 June 2022. These notes will be redeemed on 3 May 2022.