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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and the International Financial Reporting Standards (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 issued by the IASB and in conformity with the requirements of the Companies Act 2006;
- 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 2021, comprising principal statements and supporting notes, are set out in the 'Financial statements' on pages 168 to 251 of this report. The parent company financial statements for the year ended 31 December 2021, comprising the balance sheet and the statement of changes in equity for the year ended 31 December 2021 and supporting notes, are set out on pages 252 to 256.

The responsibilities of the auditor in relation to the financial statements are set out in the Independent Auditor's report on pages 156 to 167.

The financial statements for the year ended 31 December 2021 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 2021 confirms that, to the best of his or her knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS, as issued by the IASB and in conformity with the requirements of Companies Act 2006, 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.

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 56 to 81 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. Further detail on the review of internal controls is set out in the Governance report on page 112.

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 83 to 118. 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 2021, 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

28 February 2022

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 2021 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (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.

We have audited the financial statements which comprise the:

Group

- Consolidated balance sheet as at 31 December 2021;
- 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 47 to the financial statements, which includes the accounting principles and policies.

Parent company

- Balance sheet as at 31 December 2021;
- Statement of changes in equity for the year then ended; and
- Notes A to L 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, United Kingdom adopted international accounting standards and IFRSs 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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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 111.

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, amongst other factors, the impact of the global pandemic and climate change on the account balances, disclosures and company practices. We appointed partners from the Group audit team to lead the global audit of each of the three business units (pharmaceuticals, vaccines and consumer healthcare), in addition to partners responsible for the component and legal entity audits in each country. These global business unit partners met regularly with senior business unit management to understand the strategy, performance and other matters which arose throughout the year that could have impacted the financial reporting. In addition, we held regular meetings with members of the Internal Audit, the internal Legal Counsel and the Global Ethics & Compliance teams 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 is undertaken in shared service centres. Our Group audit team included senior individuals responsible for each of the global processes who 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 processes that supported material account balances, classes of transactions and disclosures within the Group financial statements. 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 effectiveness of internal controls over financial reporting: Australia; Belgium; Canada; China; France; Germany; Italy; Japan; Spain; Switzerland; United Kingdom; and the 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, consistent with the prior year. To satisfy ourselves that our oversight and supervision was appropriate we performed remote reviews of audit working papers using videoconferencing technology, increased the frequency and length of those reviews depending on the significance and risk of the component and continued to attend the planning and clearance meetings of components;
- **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 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 were 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 the effectiveness of 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 73% of the Group's revenue, 76% of the Group's profit before tax and 85% of the Group's total assets.

The impact of climate change on our audit

Climate change has the potential to impact the Group in a number of ways as set out in the strategic report on pages 49 - 52 of the Annual Report and Notes 17, 19 and 20 of the financial statements. The Group has set out their environmental goals under the Paris Climate Accord to have a net zero impact on climate and a net positive impact on nature by 2030.

In the planning of our audit, we have considered the potential impact of climate change on the Group's business and its financial statements.

We have sought to understand the Group's identification and assessment of the potential impacts of climate change, how these risks influence the Group's strategy and their implications on the financial statements.

The Group's assessment focused on the impacts of more frequent extreme weather conditions, water scarcity, changes in the political landscape and media focus which has the propensity to cause changes in consumer and market behaviour; volatility in the costs and availability of materials and resources that could impact future financial performance and asset valuations.

In consultation with our climate change specialists, we:

- Conducted detailed risk assessment procedures across all in-scope balances and transactions to determine any risks of material misstatement in the financial statements by applying the expected impact of climate change to our understanding of the business;
- Challenged the appropriateness of the Group's assessment of the potential impact of climate change and the impact of these on the financial statements, including in the area of intangible assets as described in section 6 to this report; and
- Used our own assessment of the impact of climate change to challenge the Group's assessment of going concern, including considering the potential impact on future performance and availability of financing.

We have not been engaged to provide assurance over the accuracy of climate change disclosures set out on pages 49 to 52 in the Annual Report. As part of our audit procedures, we are required to read and consider these disclosures to consider whether they are materially inconsistent with the financial statements or knowledge obtained in the audit. We did not identify any material inconsistencies as a result of these procedures.

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.

Report on the audit of the financial statements continued

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	£275 million (2020 – £290 million)	£68 million (2020 – £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 £275 million. Metric — % Statutory profit before tax — 5.1% Adjusted profit before tax* — 4.1% Revenue — 0.8% Net cash inflow from operating activities — 3.5% * A reconciliation between the Statutory profit before tax and Adjusted profit before tax is detailed in the Adjusting Items section of the strategic report.	Materiality was determined using the total assets benchmark capped at 25% of Group materiality. Our materiality represents 0.1% of total assets.
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 £83 million and £193 million. The range of materiality allocated across components in the audit of the prior year's Group financial statements was between £87 million and £203 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.

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 2021 audit (2020 – 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 (2020 – £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:

- Enquiries of the Group directors and management regarding the assumptions used in the going concern models, including the potential impact of climate change;
- 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 assumptions used;
- 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.

Report on the audit of the financial statements 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 on the financial statements as a whole, we do not provide a separate opinion on these matters.

Key audit matter description

Valuation of the ViiV Healthcare Shionogi contingent consideration liability

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 2021 the liability was valued at £5,559 million.

We identified the ViiV CCL as a key audit matter because of the significant management estimates and assumptions relating 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 an assessment of the expected launch dates, the ability to shift market practice and prescriber behaviour towards long-acting injectable treatments and 2-drug regimens, the continuing impact of COVID-19 related restrictions on HIV prescriptions 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.

As set out in Note 47 'Post balance sheet events' of the Group financial statements, the agreement reached with Gilead to settle the global patent infringement litigation relating to commercialisation of Gilead's Biktarvy increases the future consideration payable to Shionogi and therefore impacts the fair value of the ViiV CCL. As a result, in our audit we assessed management's estimate of this impact.

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:

- Obtained the Group's assessment of the key inputs and assumptions used in the forecasts and evaluated their appropriateness, including through enquiries of key individuals from the senior leadership team, commercial strategy team and key personnel involved in the budgeting and forecasting process, and inspection of supporting evidence;
- Challenged the US volume assumptions made by the Group to estimate sales forecasts. This involved benchmarking forecast 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;
- Evaluated the reasonableness of US pricing assumptions by the Group, 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;
- Considered the results of clinical studies undertaken in the year by the Group and key competitors in order to assess whether these are corroborative or contradictory to assumptions used in the product portfolio sales forecasts in the US;
- Benchmarked the Group's sales forecasts against those included in reports from 14 analysts and considered sales forecasts on both a total ViiV basis and an individual product basis, assessing against identified contradictory data;
- Inspected the agreement with Gilead and evaluated management's approach to ensure it meets relevant accounting standards requirements and that the inputs used in estimating the impact on the fair value of the ViiV CCL are consistent with the agreement and external data; and
- Tested the controls over the key inputs and assumptions used in the valuation of the contingent consideration liability, including 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 sales forecasts used in the valuation are reasonable and in line with relevant supporting information. We are satisfied that the sales forecasts are reasonable appropriately reflect trends in the overall HIV treatment market including changes in the competitive environment and shifts towards both long-acting injectable treatments and 2-drug regimens.

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

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.

In the US Pharmaceuticals business in 2021 $17,215 million of RAR deductions were made to gross revenue of $33,598 million, resulting in net revenue of $16,383 million. The balance sheet accrual at 31 December 2021 for the combined US Pharmaceuticals and Vaccines businesses amounted to $6,795 million.

The three most significant payer channels (also referred to as buying groups) to which the RAR accrual relates are managed healthcare organisations, Medicaid, Ryan White 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 the Group 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 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 made to the RAR accruals. These adjustments reflected updates made 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).

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.

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 estimates in the RAR accruals:

- Challenged 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 recorded to evaluate the appropriateness of the year ending accrual position;
- Considered the historical accuracy of estimates and evaluated whether forecast assumptions had been appropriately updated 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 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 the estimated liability of the RAR accruals at the year-end is appropriate. We observed a level of prudence in the estimate when assessing against our own independent expectations, which is in accordance with the requirements of IFRS 15 Revenue from contracts with customers to limit the risk of a significant reversal of revenue.

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 2021, the Group held £29,115 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. Key assumptions applied 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 the Group's evidence to support future sales growth rates and profitability assumptions; – Evaluated the Group's risk assessment of the impact of climate change on long term forecasts which focused on the largest products with material carrying values and the least headroom by comparing to external data points. – Evaluated the business assumptions applied in estimating sales and gross profit margin forecasts, including benchmarking of forecasts against external market data and actual trading performance costs. This included independent market research of expected category growth and assessment of any sources of contradictory evidence; – Compared the forecast sales and gross profit margins to the Plan data (asset by asset internal forecasts) approved by the GSK Leadership Team and the Board of Directors; – Assessed the historical accuracy of 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 review controls over the key inputs and assumptions used in the valuation of other intangible assets. The controls encompass review of the valuation models, which contain a number of assumptions such as 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, and we concluded that the assumptions underpinning the impairment review of intangible assets were reasonable and in accordance 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 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 wide range of possible outcomes for provisions and contingencies. Certain judgements in respect of estimates of tax exposures and contingencies are required 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 2021, the Group has recorded provisions of £858 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 through the evaluation of possible outcomes. Our procedures were focused on those jurisdictions where the Group has the greatest potential exposure and where the highest level of judgement is required; – Assessed the assumptions and judgements that are required to determine the range of possible outcomes for recognition and measurement of uncertain tax positions in compliance with the requirements of IFRIC 23; – Involved our transfer pricing specialists to evaluate the transfer pricing methodology of the Group and associated approach to provision recognition and measurement; – Considered evidence such as the actual results from the recent tax authority audits and enquiries, third-party tax advice obtained by the Group 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 the estimates in relation to uncertain tax positions and the related disclosures are in accordance with IFRS. From our work we concluded that a consistent approach has been applied to estimating uncertain tax provisions which, whilst continuing to be prudent as required by IFRIC 23, are appropriate and supportable.

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 application systems relevant to the Group's financial reporting activities; and – The implementation of application systems in key business areas during the year. 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 sufficient audit evidence 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 used 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 technology deemed relevant to the audit included 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 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. Significant progress was made 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 remaining 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 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 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 "Corporate governance statement" section, 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 'Opinions on other matters prescribed by the Companies Act 2006' section, 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 "Opinions on other matters prescribed by the Companies Act 2006" section, 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.

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 its reporting of financial performance. We have reviewed and assessed the 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 October 2021. 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 69.	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.

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;
- results of our enquiries of the senior leadership team, 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; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations; and
- the matters discussed 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.

We obtained an understanding of the legal and regulatory frameworks that the Group 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 provisions of the UK Companies Act, pensions legislation and tax legislation. We have also considered key laws and regulations 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 the senior leadership team, 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;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with regulators; 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 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.

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 154;
- 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 53;
- the directors' statement on fair, balanced and understandable Annual Report set out on page 115;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 46 to 48;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on pages 111 to 112; and
- the section describing the work of the audit and risk committee set out on pages 111 to 115.

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 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 four 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.

In due course, as required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements will form part of the European Single Electronic Format (ESEF)-prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (ESEF RTS). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

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
28 February 2022

Consolidated income statement

for the year ended 31 December 2021

	Notes	2021 £m	2020 £m	2019 £m
Turnover	6	**34,114**	34,099	33,754
Cost of sales		**(11,603)**	(11,704)	(11,863)
Gross profit		**22,511**	22,395	21,891
Selling, general and administration		**(10,975)**	(11,456)	(11,402)
Research and development		**(5,278)**	(5,098)	(4,568)
Royalty income		**419**	318	351
Other operating (expense)/income	7	**(476)**	1,624	689
Operating profit	8	**6,201**	7,783	6,961
Finance income	11	**28**	44	98
Finance expense	12	**(784)**	(892)	(912)
Share of after tax profits of associates and joint ventures	13	**33**	33	74
Loss on disposal of interest in associates		**(36)**	–	–
Profit before taxation		**5,442**	6,968	6,221
Taxation	14	**(346)**	(580)	(953)
Profit after taxation for the year		**5,096**	6,388	5,268
Profit attributable to non-controlling interests		**711**	639	623
Profit attributable to shareholders		**4,385**	5,749	4,645
		5,096	6,388	5,268
Basic earnings per share (pence)	15	**87.6p**	115.5p	93.9p
Diluted earnings per share (pence)	15	**86.6p**	114.1p	92.6p

Consolidated statement of comprehensive income

for the year ended 31 December 2021

	Notes	2021 £m	2020 £m	2019 £m
Profit for the year		**5,096**	6,388	5,268
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	**(239)**	(59)	(832)
Reclassification of exchange movements on liquidation or disposal of overseas subsidiaries and associates	37	**(25)**	36	(75)
Fair value movements on cash flow hedges		**5**	(19)	(20)
Tax on fair value movements on cash flow hedges		**(8)**	(18)	16
Reclassification of cash flow hedges to income statement		**12**	54	3
		(255)	(6)	(908)
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests	37	**(20)**	(34)	(75)
Fair value movements on equity investments		**(911)**	1,348	372
Tax on fair value movements on equity investments		**131**	(220)	(95)
Remeasurement gains/(losses) on defined benefit plans		**941**	(187)	(1,050)
Tax on remeasurement of defined benefit plans		**(223)**	69	189
		(82)	976	(659)
Other comprehensive (expense)/income for the year	37	**(337)**	970	(1,567)
Total comprehensive income for the year		**4,759**	7,358	3,701
Total comprehensive income for the year attributable to:				
Shareholders		**4,068**	6,753	3,153
Non-controlling interests		**691**	605	548
Total comprehensive income for the year		**4,759**	7,358	3,701

Consolidated balance sheet
as at 31 December 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Property, plant and equipment	17	**9,932**	10,176
Right of use assets	18	**740**	830
Goodwill	19	**10,552**	10,597
Other intangible assets	20	**30,079**	29,824
Investments in associates and joint ventures	21	**88**	364
Other investments	22	**2,126**	3,060
Deferred tax assets	14	**5,218**	4,287
Derivative financial instruments	43	**18**	5
Other non-current assets	23	**1,676**	1,041
Total non-current assets		**60,429**	60,184
Current assets			
Inventories	24	**5,783**	5,996
Current tax recoverable	14	**486**	671
Trade and other receivables	25	**7,860**	6,952
Derivative financial instruments	43	**188**	152
Liquid investments	29	**61**	78
Cash and cash equivalents	26	**4,274**	6,292
Assets held for sale	27	**22**	106
Total current assets		**18,674**	20,247
Total assets		**79,103**	80,431
Current liabilities			
Short-term borrowings	29	**(3,601)**	(3,725)
Contingent consideration liabilities	32	**(958)**	(765)
Trade and other payables	28	**(17,554)**	(15,840)
Derivative financial instruments	43	**(227)**	(221)
Current tax payable	14	**(489)**	(545)
Short-term provisions	31	**(841)**	(1,052)
Total current liabilities		**(23,670)**	(22,148)
Non-current liabilities			
Long-term borrowings	29	**(20,572)**	(23,425)
Corporation tax payable	14	**(180)**	(176)
Deferred tax liabilities	14	**(3,556)**	(3,600)
Pensions and other post-employment benefits	30	**(3,113)**	(3,650)
Other provisions	31	**(630)**	(707)
Derivative financial instruments	43	**(1)**	(10)
Contingent consideration liabilities	32	**(5,118)**	(5,104)
Other non-current liabilities	33	**(921)**	(803)
Total non-current liabilities		**(34,091)**	(37,475)
Total liabilities		**(57,761)**	(59,623)
Net assets		**21,342**	20,808
Equity			
Share capital	36	**1,347**	1,346
Share premium account	36	**3,301**	3,281
Retained earnings	37	**7,944**	6,755
Other reserves	37	**2,463**	3,205
Shareholders' equity		**15,055**	14,587
Non-controlling interests		**6,287**	6,221
Total equity		**21,342**	20,808

The financial statements on pages 168 to 251 were approved by the Board on 28 February 2022 and signed on its behalf by

Sir Jonathan Symonds
Chairman

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Shareholders' equity						
	Share capital £m	Share premium £m	Retained earnings £m	Other reserves* £m	Total £m	Non-controlling interests £m	**Total equity £m**
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 (expense)/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)**
Shares issued	–	29	–	–	29	–	**29**
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 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**
Profit for the year	–	–	4,385	–	4,385	711	**5,096**
Other comprehensive (expense)/income for the year	–	–	454	(771)	(317)	(20)	**(337)**
Total comprehensive income for the year	**–**	**–**	**4,839**	**(771)**	**4,068**	**691**	**4,759**
Distributions to non-controlling interests	–	–	–	–	–	(642)	**(642)**
Contributions from non-controlling interests	–	–	–	–	–	7	**7**
Dividends to shareholders	–	–	(3,999)	–	(3,999)	–	**(3,999)**
Realised profits on disposal of equity investments	–	–	132	(132)	–	–	**–**
Share of associates and joint ventures realised profits on disposal of equity investments	–	–	7	(7)	–	–	**–**
Shares issued	1	20	–	–	21	–	**21**
Write-down of shares held by ESOP Trusts	–	–	(168)	168	–	–	**–**
Share-based incentive plans	–	–	367	–	367	–	**367**
Transactions with non-controlling interests	–	–	–	–	–	10	**10**
Tax on share-based incentive plans	–	–	11	–	11	–	**11**
At 31 December 2021	**1,347**	**3,301**	**7,944**	**2,463**	**15,055**	**6,287**	**21,342**

* 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 2021

	Notes	2021 £m	2020 £m	2019 £m
Cash flow from operating activities				
Profit after taxation for the year		**5,096**	6,388	5,268
Adjustments reconciling profit after tax to operating cash flows	41	**4,147**	3,708	4,264
Cash generated from operations		**9,243**	10,096	9,532
Taxation paid		**(1,291)**	(1,655)	(1,512)
Net cash inflow from operating activities		**7,952**	8,441	8,020
Cash flow from investing activities				
Purchase of property, plant and equipment		**(1,172)**	(1,226)	(1,265)
Proceeds from sale of property, plant and equipment		**143**	68	95
Purchase of intangible assets		**(1,759)**	(1,013)	(898)
Proceeds from sale of intangible assets		**772**	1,255	404
Purchase of equity investments		**(162)**	(411)	(258)
Proceeds from sale of equity investments		**202**	3,269	69
Contingent consideration paid		**(114)**	(120)	(113)
Purchase of businesses, net of cash acquired	40	**–**	15	(3,571)
Disposal of businesses, net of cash disposed	40	**(17)**	259	104
Investments in associates and joint ventures	40	**(1)**	(4)	(11)
(Increase)/decrease in liquid investments		**18**	(1)	1
Interest received		**27**	39	82
Proceeds from disposal of associates and joint ventures		**277**	–	–
Dividends from associates, joint ventures and equity investments		**9**	31	7
Net cash inflow/(outflow) from investing activities		**(1,777)**	2,161	(5,354)
Cash flow from financing activities				
Issue of share capital	36	**21**	29	51
Purchase of non-controlling interests		**–**	–	(7)
Increase in long-term loans		**–**	3,298	4,794
Repayment of short-term Notes		**(2,313)**	(3,738)	(4,160)
(Repayment of)/increase in other short-term loans		**318**	(3,567)	3,095
Repayment of lease liabilities		**(215)**	(227)	(214)
Interest paid		**(786)**	(864)	(895)
Dividends paid to shareholders		**(3,999)**	(3,977)	(3,953)
Distributions to non-controlling interests		**(642)**	(1,208)	(364)
Contributions from non-controlling interests		**7**	3	–
Other financing cash flows		**20**	119	(187)
Net cash outflow from financing activities		**(7,589)**	(10,132)	(1,840)
(Decrease)/increase in cash and bank overdrafts	42	**(1,414)**	470	826
Cash and bank overdrafts at beginning of year		**5,262**	4,831	4,087
Exchange adjustments		**(29)**	(39)	(82)
(Decrease)/increase in cash and bank overdrafts		**(1,414)**	470	826
Cash and bank overdrafts at end of year		**3,819**	5,262	4,831
Cash and bank overdrafts at end of year comprise:				
Cash and cash equivalents		**4,274**	6,292	4,707
Cash and cash equivalents reported in assets held for sale		**–**	–	507
		4,274	6,292	5,214
Overdrafts		**(455)**	(1,030)	(383)
		3,819	5,262	4,831

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 as well as 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 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 2021, with comparative figures for the financial years from 1 January to 31 December 2020 and, where appropriate, from 1 January to 31 December 2019.

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, 'Critical accounting judgements and key sources of estimation uncertainty'.

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 252 and the accounting policies are given on pages 253 to 256.

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.

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 within Retained Earnings.

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. Estimates associated with returns and rebates are revisited at each reporting date or when they are resolved and revenue is adjusted accordingly. Please refer to Note 3 for the details on rebates, discounts and allowances.

The Group has entered into collaborative agreements, typically with other pharmaceuticals or biotechnology companies to develop, produce and market drug candidates and vaccines that do not qualify as joint arrangements. When GSK has control over the commercialisation activities, the Group recognises turnover and cost of sales on a gross basis. Profit sharing amounts and royalties due to the counterparty are recorded within cost of sales. Cost of sales includes profit sharing costs of £640 million (2020 – £4 million; 2019 – £54 million). When the counterparty controls the commercialisation activities and records the sale, the Group is not deemed principal in the customer contract and instead records its share of gross profit as co-promotion income, on a net basis, within turnover. The nature of co-promotion activities is such that the Group records no costs of sales. Pharmaceutical turnover includes co-promotion revenue of £7 million (2020 – £12 million; 2019 – £16 million). Reimbursements to and from the counterparty in our collaborations for 'selling, general and administration' and 'research and development' costs are recorded net in the respective lines in the Consolidated income statement.

2. Accounting principles and policies continued

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.

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 meaningfully assess whether the outcome will result in a probable outflow, or to quantify or reliably estimate the liability. 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.

2. Accounting principles and policies continued

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.

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

The Group recognises right of use assets under lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. 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 of lease obligations 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.

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 30 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 (exclusivity period), where applicable, as well as the value obtained from periods of non-exclusivity. For Pharmaceutical intangible assets, depending on the characteristics, competitive environment and estimated long-term profits of the asset, between 80% to 90% of the book value is amortised over the exclusivity period on a straight-line basis and the remaining book value is amortised over a non-exclusivity period of 5-15 years on a straight-line basis. For Vaccines intangible assets, cost is usually amortised over the exclusivity period plus 10 years, or 30 years if no exclusivity period is granted, on a straight-line basis. 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 using the straight-line basis, 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 using the straight-line basis.

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 and other comprehensive income 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 the majority of its 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: to collect the contractual cash flows where there is no factoring agreement in place (measured at amortised cost), to sell the contractual cash flows where the trade receivables will be sold under a factoring agreement (measured at FVTPL), and both to collect and to sell the contractual cash flows where the trade receivables may be sold under a factoring arrangement (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.

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. Critical accounting judgements and key sources of estimation uncertainty

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 2021 was £34,114 million (2020 – £34,099 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. Critical accounting judgements and key sources of estimation uncertainty continued

The US Pharmaceuticals business has the largest and most complex arrangements for rebates, discounts and allowances. The US Pharmaceuticals turnover for 2021 of £8,442 million (2020 – £7,451 million) was after recording deductions of £11,486 million (2020 – £12,584 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 2021, the total accrual amounted to £5,044 million (2020 – £4,686 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 £346 million (2020 – £580 million). At December 2021, current tax payable was £489 million (2020 – £545 million), non-current corporation tax payable was £180 million (2020 – £176 million) and current tax recoverable was £486 million (2020 – £671 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 2021, the Group had recognised provisions of £858 million in respect of uncertain tax positions (2020 – £856 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. No uncertain tax position is individually significant to the Group.

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 £52 million (2020 – £231 million). At 31 December 2021 provisions for legal and other disputes amounted to £196 million (2020 – £320 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. Critical accounting judgements and key sources of estimation uncertainty continued

The Group may become involved in legal proceedings, in respect of which it is not possible to meaningfully assess whether the outcome will result in a probable outflow, or to quantify or reliably estimate the liability. 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 2021 income statement charge for contingent consideration was £1,063 million (2020 – £1,275 million).

At 31 December 2021, the liability for contingent consideration amounted to £6,076 million (2020 – £5,869 million). Of this amount, £5,559 million (2020 – £5,359 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 £606 million at 31 December 2021 (2020 – £77 million). There are further recognised pension surpluses totalling £135 million spread across 6 countries (2020 – £106 million across 6 countries). 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 0.25% reduction in the discount rate would lead to an increase in the net pension deficit of approximately £772 million and an increase in the annual pension cost of approximately £17 million. Similarly, a 0.25% increase in the discount rate would lead to a decrease in the net pension deficit of approximately £729 million and a decrease in the annual pension cost of approximately £19 million. The selection of different assumptions could affect the future results of the Group.

4. New accounting requirements

The Group previously accounted for SaaS (software as a service) configuration and customisation costs as intangible assets. Following the IFRS IC (Interpretation Committee) agenda decision on SaaS in April 2021, the Group has adopted the treatment set out in the IFRS IC agenda decision and expensed configuration and customisation costs where the entity does not control the software being configured. The impacts of the change were an impairment of £68 million from previously capitalised intangible assets and an increase in 2021 expenses of £40 million presented in Selling, general and administration and Research and development.

Where the retirement benefit to which an employee is entitled is capped at a specified number of consecutive years, the Group previously accounted for these employee benefits from the employment commencement date. Following the IFRS IC agenda decision on Attributing Benefit to Periods of Service in May 2021, the Group has adopted the treatment set out in the IFRS IC agenda decision to account for the employee benefits during the last specified number of years where the employee earn the benefit. The impact of the change was a reduction of expenses of £42 million presented in Cost of sales, Selling, general and administration and Research and development.

During the year, the Group implemented 'Interest Rate Benchmark Reform Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' which was issued in August 2020 and adopted by the UK Endorsement Board on 5 January 2021. The 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. Further information is provided in Note 43.

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods.

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:

	2021	2020	2019
Average rates:			
US$/£	**1.38**	1.29	1.28
Euro/£	**1.16**	1.13	1.14
Yen/£	**151**	137	139

	2021	2020	2019
Period end rates:			
US$/£	**1.35**	1.36	1.32
Euro/£	**1.19**	1.11	1.18
Yen/£	**155**	141	143

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 GSK Leadership Team (GLT). GSK reports results under four segments: Pharmaceuticals; Pharmaceuticals R&D; Vaccines and Consumer Healthcare, and individual members of the GLT 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 £1,558 million (2020 – £1,207 million) and included £1,069 million (2020 – £649 million) impacting turnover arising from changes to prior year estimates of RAR (returns and rebates) accruals, £61 million (2020 – £238 million) of milestone income and £428 million (2020 – £320 million) of royalty income recognised in the current year.

Turnover by segment	2021 £m	2020 £m	2019 £m
Pharmaceuticals	**17,729**	17,056	17,554
Vaccines	**6,778**	6,982	7,157
Consumer Healthcare	**9,607**	10,033	8,995
Segment turnover	**34,114**	34,071	33,706
Corporate and other unallocated turnover	**–**	28	48
	34,114	34,099	33,754

GSK has reviewed the presentation of its pharmaceuticals products and from 1 January 2021 has moved sales of *Arnuity Ellipta*, *Incruse Ellipta* and *Relvar/Breo Ellipta* from the Respiratory therapeutic area to the Established Pharmaceuticals therapeutic area. Comparative information has been revised on to a consistent basis.

Pharmaceuticals turnover by therapeutic area	2021 £m	2020 (revised) £m	2019 (revised) £m
Respiratory	**2,863**	2,360	1,800
HIV	**4,777**	4,876	4,854
Immuno-inflammation	**885**	727	613
Oncology	**489**	372	230
Pandemic	**958**	–	–
New and Specialty	**9,972**	8,335	7,497
Established Pharmaceuticals	**7,757**	8,721	10,057
	17,729	17,056	17,554

Vaccines turnover by category	2021 £m	2020 £m	2019 £m
Meningitis	**961**	1,029	1,018
Influenza	**679**	733	541
Shingles	**1,721**	1,989	1,810
Established Vaccines	**2,970**	3,231	3,788
	6,331	6,982	7,157
Pandemic Vaccines	**447**	–	–
	6,778	6,982	7,157

6. Turnover and segment information continued

During 2021, the US operations of the Pharmaceuticals and Vaccines businesses made sales to three wholesalers of £3,159 million (2020 – £2,928 million, 2019 – £2,835 million), £3,081 million (2020 – £3,085 million, 2019 – £3,146 million) and £2,670 million (2020 – £2,795 million, 2019 – £2,820 million) respectively, after allocating final-customer discounts to the wholesalers.

Consumer Healthcare turnover by category	2021 £m	2020 £m	2019 £m
Oral health	2,732	2,753	2,673
Pain relief	2,276	2,219	1,781
Vitamins, minerals and supplements	1,512	1,506	611
Respiratory health	1,133	1,209	1,186
Digestive health and other	1,803	1,824	1,646
	9,456	9,511	7,897
Brands divested/under review	151	522	1,098
	9,607	10,033	8,995

Segment profit	2021 £m	2020 £m	2019 £m
Pharmaceuticals	8,170	7,723	7,964
Pharmaceuticals R&D	(3,489)	(3,538)	(3,369)
Pharmaceuticals, including R&D	4,681	4,185	4,595
Vaccines	2,256	2,713	2,966
Consumer Healthcare	2,239	2,213	1,874
Segment profit	9,176	9,111	9,435
Corporate and other unallocated costs	(370)	(205)	(463)
Other reconciling items between segment profit and operating profit	(2,605)	(1,123)	(2,011)
Operating profit	6,201	7,783	6,961
Finance income	28	44	98
Finance costs	(784)	(892)	(912)
Loss on disposal of interest in associates	(36)	–	–
Share of after-tax profits of associates and joint ventures	33	33	74
Profit before taxation	5,442	6,968	6,221
Taxation	(346)	(580)	(953)
Profit after taxation for the year	5,096	6,388	5,268

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. Please refer to the detail of "Other reconciling items between segment profit and operating profit" in the analysis of adjusting items (Group financial review).

Depreciation and amortisation by segment	2021 £m	2020 £m	2019 £m
Pharmaceuticals	553	557	606
Pharmaceuticals R&D	325	298	230
Pharmaceuticals, including R&D	878	855	836
Vaccines	416	404	418
Consumer Healthcare	226	235	224
Segment depreciation and amortisation	1,520	1,494	1,478
Corporate and other unallocated depreciation and amortisation	54	82	79
Other reconciling items between segment depreciation and amortisation and total depreciation and amortisation	802	775	777
Total depreciation and amortisation	2,376	2,351	2,334

6. Turnover and segment information continued

PP&E, intangible asset and goodwill impairment by segment	2021 £m	2020 £m	2019 £m
Pharmaceuticals	11	38	137
Pharmaceuticals R&D	54	37	16
Pharmaceuticals, including R&D	65	75	153
Vaccines	20	49	33
Consumer Healthcare	12	5	–
Segment impairment	97	129	186
Corporate and other unallocated impairment	63	5	19
Other reconciling items between segment impairment and total impairment	416	680	621
Total impairment	576	814	826

PP&E and intangible asset impairment reversals by segment	2021 £m	2020 £m	2019 £m
Pharmaceuticals	(5)	(12)	(6)
Pharmaceuticals R&D	(2)	(4)	–
Pharmaceuticals, including R&D	(7)	(16)	(6)
Vaccines	(3)	(2)	(1)
Consumer Healthcare	–	–	–
Segment impairment reversals	(10)	(18)	(7)
Corporate and other unallocated impairment reversals	–	(1)	(3)
Other reconciling items between segment impairment reversals and total impairment reversals	(38)	(53)	(15)
Total impairment reversals	(48)	(72)	(25)

Net operating assets by segment	2021 £m	2020 £m
Pharmaceuticals	(149)	789
Pharmaceuticals R&D	3,795	3,345
Pharmaceuticals, including R&D	3,646	4,134
Vaccines	8,429	8,995
Consumer Healthcare	25,185	25,176
Segment net operating assets	37,260	38,305
Corporate and other unallocated net operating assets	2,353	2,250
Net operating assets	39,613	40,555
Net debt	(19,838)	(20,780)
Investments in associates and joint ventures	88	364
Derivative financial instruments	(22)	(74)
Current and deferred taxation	1,479	637
Assets held for sale (excluding cash and cash equivalents)	22	106
Net assets	21,342	20,808

The Pharmaceuticals segment includes the Shionogi-ViiV Healthcare contingent consideration liability of £5,559 million (2020 – £5,359 million) and the Pfizer put option of £1,008 million (2020 – £960 million).

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	2021 £m	2020 £m	2019 £m
UK	**975**	980	942
US	**15,093**	14,556	13,890
Rest of World	**18,046**	18,563	18,922
External turnover	**34,114**	34,099	33,754

Non-current assets by location of subsidiary	2021 £m	2020 (revised) £m
UK	**6,618**	6,279
US	**17,852**	17,899
Belgium	**5,065**	5,437
Switzerland	**6,552**	6,133
Rest of World	**15,390**	16,142
Non-current assets	**51,477**	51,890

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. There are no other countries with individually material external revenue or non-current assets.

GSK has revised the presentation of its non-current assets by location to include Belgium and Switzerland independently from the rest of the world.

7. Other operating income/(expense)

	2021 £m	2020 £m	2019 £m
Fair value remeasurements of equity investments	**37**	(6)	(14)
Disposal of businesses and assets	**591**	2,779	541
Fair value remeasurements on contingent consideration recognised in business combinations	**(1,058)**	(1,286)	(92)
Remeasurement of ViiV Healthcare put option liabilities and preferential dividends	**(48)**	52	234
Fair value adjustments on derivative financial instruments	**(4)**	20	–
Other income	**6**	65	20
	(476)	1,624	689

Disposal of businesses and assets in 2021 included a net gain on disposal of the rights to the royalty stream for cabozantinib and a net gain on disposal of the cephalosporin antibiotic brands to Sandoz.

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.

Fair value remeasurements on contingent consideration recognised as business combinations included £1,026 million related to the acquisition of the former Shionogi-ViiV Healthcare joint venture and £27 million payable to Novartis related to the Vaccines acquisition, together with fair value movements on related hedging contracts.

8. Operating profit

The following items have been included in operating profit:	2021 £m	2020 £m	2019 £m
Employee costs (Note 9)	9,003	10,249	9,855
Advertising	1,806	1,777	1,567
Distribution costs	379	408	393
Depreciation of property, plant and equipment	982	989	1,017
Impairment of property, plant and equipment, net of reversals	103	443	669
Depreciation of right of use assets	213	225	214
Impairment of right of use assets	7	3	2
Amortisation of intangible assets	1,181	1,137	1,103
Impairment of intangible assets, net of reversals	416	257	126
Impairment of property, plant and equipment held for sale, net of reversals	1	3	–
Impairment of intangible assets held for sale, net of reversals	1	20	1
Impairment of goodwill allocated to a disposal group, net of reversals	–	16	4
Net foreign exchange (gains)/losses	(2)	110	(37)
Inventories:			
Cost of inventories included in cost of sales	9,192	9,480	9,482
Write-down of inventories	946	699	578
Reversal of prior year write-down of inventories	(384)	(274)	(230)
Short-term lease charge	7	11	12
Low-value lease charge	3	5	4
Variable lease payments	10	11	13
Fees payable to the company's auditor and its associates in relation to the Group (see below)	31.7	29.9	30.4

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)/losses include a net gain of £35 million (2020 – £36 million loss; 2019 – £75 million gain) arising from the recycling of exchange on liquidation or disposal of overseas subsidiaries. The recycling of exchange on disposal of overseas associates of a loss of £10 million (2020 – £nil) is reported through loss on disposal of interest in associates.

Included within operating profit are Major restructuring charges of £626 million (2020 – £1,532 million; 2019 – £1,105 million), see Note 10, 'Major restructuring costs'.

Fees payable to the company's auditor and its associates:	2021 £m	2020 £m	2019 £m
Audit of parent company and consolidated financial statements including attestation under s.404 of Sarbanes-Oxley Act 2002	13.2	13.8	15.6
Audit of the company's subsidiaries	14.5	14.5	13.5
Total audit services	27.7	28.3	29.1
Audit related and other assurance services	4.0	1.6	1.2
All other services	–	–	0.1
Total audit-related and non-audit services	4.0	1.6	1.3
	31.7	29.9	30.4

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:

	2021 £m	2020 £m	2019 £m
Audit	0.2	0.2	0.2
Other services	–	–	–

There was no material fee paid in 2021 to other auditors in respect of audits of certain of the company's subsidiaries acquired during the year (2020 – £0.2 million, 2019 – £0.8 million).

Audit fees include £0.9 million in relation to incremental audit work performed in 2021 for audit opinions issued compliant with PCAOB auditing standards in preparation for the Consumer Healthcare demerger.

Audit related and other assurance services include £2.4 million due to reporting accountant work performed in preparation for the Consumer Healthcare demerger.

9. Employee costs

	2021 £m	2020 £m	2019 £m
Wages and salaries	**6,941**	7,802	7,583
Social security costs	**856**	917	852
Pension and other post-employment costs, including augmentations (Note 30)	**463**	519	560
Cost of share-based incentive plans	**404**	393	432
Severance and other costs from integration and restructuring activities	**339**	618	428
	9,003	10,249	9,855

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:

	2021 £m	2020 £m	2019 £m
Share Value Plan	**303**	313	302
Performance Share Plan	**59**	64	58
Share option plans	**5**	4	4
Cash settled and other plans	**37**	12	68
	404	393	432

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

	2021 Number	2020 Number	2019 Number
Manufacturing	**33,303**	34,898	36,653
Selling, general and administration	**46,782**	49,162	48,535
Research and development	**11,876**	11,824	12,026
	91,961	95,884	97,214

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 265.

The compensation of the Directors and senior management (members of the GLT) in aggregate, was as follows:

	2021 £m	2020 £m	2019 £m
Wages and salaries	**29**	23	28
Social security costs	**3**	4	4
Pension and other post-employment costs	**3**	3	3
Cost of share-based incentive plans	**30**	25	27
	65	55	62

Further information on the remuneration of the Directors is given in the sections of the annual report on remuneration labelled as audited within pages 120 to 152.

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. This programme is now substantially complete. 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 £626 million in 2021 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:

	2021 £m	2020 £m	2019 £m
Increase in provision for Major restructuring programmes (see Note 31)	**383**	746	345
Amount of provision reversed unused (see Note 31)	**(151)**	(96)	(148)
Impairment losses recognised	**27**	361	521
Other non-cash charges	**29**	104	99
Other cash costs	**338**	417	288
	626	1,532	1,105

Provision reversals of £151 million (2020 – £96 million, 2019 – £148 million) reflected provision releases mainly for the Separation Preparation programme and 2018 Major restructuring programme. Asset impairments of £27 million and other non-cash charges of £29 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:

			2021
	Cash £m	Non-cash £m	Total £m
Separation Preparation programme	371	59	**430**
Consumer Healthcare Joint Venture integration programme	173	11	**184**
2018 Major restructuring programme (including Tesaro)	18	9	**27**
Combined restructuring and integration programme	8	(23)	**(15)**
	570	56	**626**

			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

10. Major restructuring costs continued

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

	2021 £m	2020 £m	2019 £m
Cost of sales	154	667	658
Selling, general and administration	426	659	332
Research and development	46	206	114
Other operating expense	–	–	1
	626	1,532	1,105

11. Finance income

	2021 £m	2020 £m	2019 £m
Finance income arising from:			
Financial assets measured at amortised cost	26	29	69
Financial assets measured at fair value through profit or loss	–	10	10
Net gains arising from the forward element of forward contracts in net investment hedge relationships	–	5	19
Other finance income	2	–	–
	28	44	98

12. Finance expense

	2021 £m	2020 £m	2019 £m
Finance expense arising on:			
Financial liabilities at amortised cost	(744)	(813)	(832)
Derivatives at fair value through profit or loss	–	(7)	(6)
Net losses arising from:			
Financial instruments mandatorily measured at fair value through profit or loss	(599)	353	(425)
Retranslation of loans	599	(357)	424
Reclassification of hedges from other comprehensive income	(2)	(2)	(2)
Unwinding of discounts on provisions	(2)	(3)	(8)
Finance expense arising on lease liabilities	(31)	(40)	(39)
Other finance expense	(5)	(23)	(24)
	(784)	(892)	(912)

Finance expense arising on derivatives at fair value through profit or loss relates to swap interest expense.

13. Associates and joint ventures

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

	2021 £m	2020 £m	2019 £m
Share of after-tax profits of associates	36	33	85
Share of after-tax losses of joint ventures	(3)	–	(11)
	33	33	74

Following the disposal of Innoviva, Inc in May 2021 (see details in Note 21), at 31 December 2021, the Group held no significant individual associates. At 31 December 2020, the Group held one significant associate, Innoviva, Inc.

Summarised income statement information in respect of Innoviva until May 2021 is set out below. The Group's 2021 share of after-tax profits of associates and other comprehensive income includes a profit of £33 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. 2021 figures include share of Innoviva's turnover, profit and total comprehensive income until the date of the disposal.

	2021 £m	2020 £m	2019 £m
Turnover	108	253	193
Profit after taxation	106	174	116
Total comprehensive income	106	174	116

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

	2021 £m	2020 £m	2019 £m
Share of turnover	–	–	32
Share of after-tax losses	–	(8)	(5)
Share of other comprehensive income	28	53	1
Share of total comprehensive income/(expense)	28	45	(5)

The Group's sales to associates and joint ventures were £nil in 2021 (2020 – £nil; 2019 – £11 million).

Please refer to the Balance sheet information on associates and joint ventures in Note 21.

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	2021 £m	2020 £m	2019 £m
UK current year charge	132	30	149
Rest of World current year charge	1,044	1,177	1,407
Charge/(credit) in respect of prior periods	172	66	(420)
Current taxation	1,348	1,273	1,136
Deferred taxation	(1,002)	(693)	(183)
	346	580	953

In 2021, GSK made payments of £114 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 credits in each period reflect 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. The deferred tax credit in 2021 also reflected the impact of the revaluation of deferred tax assets and liabilities following enactment of the increase in the headline rate of UK corporation tax from 19% to 25%.

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

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	2021 £m	2021 %	2020 £m	2020 %	2019 £m	2019 %
Profit before tax	5,442		6,968		6,221	
UK statutory rate of taxation	1,034	19.0	1,324	19.0	1,182	19.0
Differences in overseas taxation rates	419	7.7	552	7.9	667	10.7
Benefit of intellectual property incentives	(400)	(7.3)	(586)	(8.4)	(691)	(11.1)
R&D credits	(102)	(1.9)	(105)	(1.5)	(119)	(1.9)
Fair value remeasurement of non-taxable put options	15	0.3	(3)	(0.0)	(45)	(0.7)
Tax losses where no benefit is recognised	5	0.1	18	0.3	15	0.2
Permanent differences on disposals, acquisitions and transfers	(163)	(3.0)	(338)	(4.9)	68	1.1
Other permanent differences	74	1.4	98	1.4	119	1.9
Reassessments of prior year estimates	(172)	(3.2)	(228)	(3.3)	(364)	(5.9)
Changes in tax rates	(364)	(6.7)	(152)	(2.2)	121	2.0
Tax charge/tax rate	346	6.4	580	8.3	953	15.3

As a global healthcare company, we have a substantial business and employment presence in many countries around the world. 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 2021 were the US, Belgium, Germany, Italy 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 2021, 'Changes in tax rates' included credits in relation to the enactment of the increase in the headline rate of UK corporation tax from 19% to 25% (effective 2023). In 2020, 'Changes in tax rates' included credits in relation to the UK, where a previously proposed 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, acquisitions and transfers in 2021 reflects tax credits arising on the transfer of intellectual property within the Group and in 2020 reflected the tax impact of the disposal of Horlicks and other Consumer Healthcare brands to, and subsequent disposal of shares received in, Hindustan Unilever.

The Group's 2021 tax rate has also been influenced by the closure 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 research and development activity, tax regime reforms and resolution of open matters as we continue to bring our tax affairs up to date around the world.

Continued focus on tax reform is expected in 2022 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.

14. Taxation continued

Tax on items charged to equity and statement of comprehensive income	2021 £m	2020 £m	2019 £m
Current taxation			
Share-based payments	–	(14)	1
Defined benefit plans	–	(18)	16
Fair value movements on cash flow hedges	5	12	–
Fair value movements on equity investments	36	89	–
	41	69	17
Deferred taxation			
Share-based payments	(11)	18	18
Defined benefit plans	223	(51)	173
Fair value movements on cash flow hedges	3	6	16
Fair value movements on equity investments	(167)	131	(95)
	48	104	112
Total credit to equity and statement of comprehensive income	89	173	129

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 and support our transfer prices with economic analysis and reports. 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 2021 the Group had recognised provisions of £858 million in respect of such uncertain tax positions (2020 – £856 million) presented as current tax payables or as reductions in current tax recoverable assets. The net increase in recognised provisions during 2021 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 consider 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 £204 million as at 31 December 2021 (2020 – £150 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 £15 billion (2020 – £17 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 £831 million (2020 – £974 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.

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 2020	(242)	(4,192)	757	1,120	864	942	81	956	286
Exchange adjustments	(9)	41	–	(29)	4	(2)	(3)	(57)	(55)
Credit/(charge) to income statement	(45)	194	86	(67)	(44)	120	(5)	454	693
Credit/(charge) to statement of comprehensive income	–	–	–	–	50	–	(13)	(141)	(104)
Acquisitions / 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
Exchange adjustments	17	(41)	–	6	(17)	(1)	–	–	(36)
Credit/(charge) to income statement	65	312	7	(31)	6	391	20	232	1,002
Credit/(charge) to statement of comprehensive income	–	–	–	–	(223)	–	11	164	(48)
Acquisitions / Disposals	3	–	–	–	–	–	–	(4)	(1)
R&D credits utilisation	–	–	–	–	–	–	–	58	58
At 31 December 2021	(211)	(3,711)	850	999	640	1,450	91	1,554	1,662

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.

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 recognised on tax losses of £1,450 million (2020 – £1,060 million) 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 assets and liabilities are recognised on the balance sheet as follows:

	2021 £m	2020 £m
Deferred tax assets	**5,218**	4,287
Deferred tax liabilities	**(3,556)**	(3,600)
	1,662	687

Unrecognised tax losses	**2021 Tax losses £m**	**2021 Unrecognised deferred tax asset £m**	2020 Tax losses £m	2020 Unrecognised deferred tax asset £m
Trading losses expiring:				
Within 10 years	**1,068**	**198**	962	181
More than 10 years	**390**	**62**	414	51
Available indefinitely	**200**	**43**	265	47
At 31 December	**1,658**	**303**	1,641	279
Capital losses expiring:				
Available indefinitely	**2,356**	**557**	2,287	419
At 31 December	**2,356**	**557**	2,287	419

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

15. Earnings per share

	2021 pence	2020 pence	2019 pence
Basic earnings per share	**87.6**	115.5	93.9
Diluted earnings per share	**86.6**	114.1	92.6

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	2021 millions	2020 millions	2019 millions
Basic	**5,003**	4,976	4,947
Dilution for share options and awards	**62**	62	69
Diluted	**5,065**	5,038	5,016

16. Dividends

	2021			2020			2019		
	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	**8 July 2021**	**19**	**951**	9 July 2020	19	946	11 July 2019	19	940
Second interim	**7 October 2021**	**19**	**951**	8 October 2020	19	946	10 October 2019	19	941
Third interim	**13 January 2022**	**19**	**952**	14 January 2021	19	946	9 January 2020	19	941
Fourth interim	**7 April 2022**	**23**	**1,152**	8 April 2021	23	1,151*	9 April 2020	23	1,144
Total		**80**	**4,006**		80	3,989		80	3,966

* The estimate for the fourth interim dividend for 2020 disclosed in the 2020 annual report and accounts was £1,146 million, £5 million less than the dividend that was ultimately paid.

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 2021 financial statements recognise those dividends paid in 2021, namely the third and fourth interim dividends for 2020, and the first and second interim dividends for 2021.

The amounts recognised in each year were as follows:

	2021 £m	2020 £m	2019 £m
Dividends to shareholders	**3,999**	3,977	3,953

17. Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Assets in construction £m	Total £m
Cost at 1 January 2020	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**
Exchange adjustments	(214)	(315)	(47)	**(576)**
Other additions	16	98	1,091	**1,205**
Capitalised borrowing costs	–	–	16	**16**
Disposals and write-offs	(217)	(940)	(17)	**(1,174)**
Reclassifications	202	906	(1,182)	**(74)**
Transfer to assets held for sale	(63)	(38)	(1)	**(102)**
Cost at 31 December 2021	7,212	11,816	1,750	**20,778**
Depreciation at 1 January 2020	(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)**
Exchange adjustments	100	191	–	**291**
Charge for the year	(267)	(715)	–	**(982)**
Disposals and write-offs	169	893	–	**1,062**
Transfer to assets held for sale	27	27	–	**54**
Depreciation at 31 December 2021	(3,281)	(6,744)	–	**(10,025)**
Impairment at 1 January 2020	(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)**
Exchange adjustments	7	10	3	**20**
Disposals and write-offs	30	76	13	**119**
Impairment losses	(21)	(54)	(37)	**(112)**
Reversal of impairments	–	5	4	**9**
Impairment at 31 December 2021	(264)	(514)	(43)	**(821)**
Total depreciation and impairment at 31 December 2020	(3,590)	(7,691)	(26)	**(11,307)**
Total depreciation and impairment at 31 December 2021	(3,545)	(7,258)	(43)	**(10,846)**
Net book value at 1 January 2020	4,037	4,425	1,886	**10,348**
Net book value at 31 December 2020	3,898	4,414	1,864	**10,176**
Net book value at 31 December 2021	3,667	4,558	1,707	**9,932**

17. Property, plant and equipment continued

The weighted average interest rate for capitalised borrowing costs in the year was 3% (2020 – 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 6.5%, 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 8%.

The net impairment losses have been charged to cost of sales: £46 million (2020 – £398 million), R&D: £3 million (2020 – £3 million) and SG&A: £54 million (2020 – £42 million), and included £20 million (2020 – £343 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 2021, £74 million (2020 – £29 million) of computer software was reclassified from assets in construction to intangible assets on becoming ready for use.

We have assessed the qualitative and quantitative impact of climate related risks on asset recoverable amounts and concluded that their impact does not cause material impairments.

18. Right of use assets

	Land and buildings £m	Plant and equipment £m	Vehicles £m	**Total £m**
Net book value at 1 January 2020	821	22	123	**966**
Exchange adjustments	(11)	1	1	**(9)**
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**
Exchange adjustments	(9)	(1)	(5)	**(15)**
Additions	152	1	62	**215**
Depreciation	(149)	(5)	(59)	**(213)**
Disposals	(53)	(4)	(13)	**(70)**
Impairments	(7)	–	–	**(7)**
Net book value at 31 December 2021	633	9	98	**740**

The total cash outflow for leases amounted to £215 million. The Group has entered into lease contracts that have not yet commenced. The nominal value of estimated future lease payments under these lease contracts approximates £60 million as of 31 December 2021. These contracts mainly concern the relocation of the US Corporate headquarters, with a lease period between 2022 and 2029.

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

19. Goodwill

	2021 £m	2020 £m
Cost at 1 January	10,597	10,562
Exchange adjustments	(55)	(54)
Additions through business combinations (Note 40)	–	124
Other movements	10	–
Transfer to assets held for sale	–	(35)
Cost at 31 December	10,552	10,597
Net book value at 1 January	10,597	10,562
Net book value at 31 December	10,552	10,597

The £10 million increase in goodwill corresponds to an immaterial payment of pension liabilities to the Consumer Healthcare sub-group as required in the sale and purchase agreement and the increase in the non-controlling interest in the sub-group as result of the transaction.

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

	2021 £m	2020 £m
Pharmaceuticals	4,228	4,245
Vaccines	1,264	1,295
Consumer Healthcare	5,060	5,057
Net book value at 31 December	10,552	10,597

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 6.5% (2020 – 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 jurisdiction.		
Period of specific projected cash flows	Five years		
Terminal growth rate and discount rate		Terminal growth rate	Discount rate
	Pharmaceuticals	0% p.a. (2020 – 1% p.a)	7% (2020 – 7.5% p.a)
	Vaccines	0% p.a. (2020 – 1% p.a)	7% (2020 – 7.5% p.a)
	Consumer Healthcare	2.5% p.a. (2020 – 2% p.a)	6% (2020 – 6% p.a)

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 (2020 – £18.4 billion). Details of indefinite life brands are given in Note 20, 'Other intangible assets'.

We have assessed the qualitative and quantitative impact of climate related risks on asset recoverable amounts and concluded that their impact does not cause material impairments.

20. Other intangible assets

	Computer software £m	Licences, patents, amortised brands etc. £m	Indefinite life brands £m	Total £m
Cost at 1 January 2020	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**
Exchange adjustments	(15)	(207)	65	**(157)**
Capitalised development costs	–	346	–	**346**
Other additions	184	1,410	–	**1,594**
Disposals and asset write-offs	(221)	(935)	–	**(1,156)**
Transfer to assets held for sale	(1)	(6)	(43)	**(50)**
Reclassifications	74	9	(9)	**74**
Cost at 31 December 2021	2,424	21,439	18,626	**42,489**
Amortisation at 1 January 2020	(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)**
Exchange adjustments	13	52	–	**65**
Charge for the year	(225)	(956)	–	**(1,181)**
Disposals and asset write-offs	165	572	–	**737**
Transfer to assets held for sale	–	2	–	**2**
Amortisation at 31 December 2021	(1,369)	(8,262)	–	**(9,631)**
Impairment at 1 January 2020	(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)**
Exchange adjustments	–	5	–	**5**
Impairment losses	(93)	(362)	–	**(455)**
Reversal of impairments	–	2	37	**39**
Disposals and asset write-offs	30	362	–	**392**
Impairment at 31 December 2021	(91)	(2,480)	(208)	**(2,779)**
Total amortisation and impairment at 31 December 2020	(1,350)	(10,419)	(245)	**(12,014)**
Total amortisation and impairment at 31 December 2021	(1,460)	(10,742)	(208)	**(12,410)**
Net book value at 1 January 2020	1,058	10,277	19,620	**30,955**
Net book value at 31 December 2020	1,053	10,403	18,368	**29,824**
Net book value at 31 December 2021	964	10,697	18,418	**30,079**

The weighted average interest rate for capitalised borrowing costs in the year was 3% (2020 – 3%).

The net book value of computer software included £526 million (2020 – £612 million) of internally generated costs.

The carrying value at 31 December 2021 of intangible assets, for which impairments have been charged in the year following those impairments, was £694 million (2020 – £67 million). The carrying value at 31 December 2021 of intangible assets, for which impairment reversals have been charged in the year following those impairment reversals, was £104 million (2020 – £205 million).

The patent expiry dates of the Group's most significant assets, where relevant, are set out on pages 272 and 273. Please refer to Note 2 to the Group's accounting policy and estimate of the useful life for intangible assets over the exclusivity and non-exclusivity periods.

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	
	2021 £m	2020 £m	2021 £m	2020 £m
Cost of sales	**807**	779	**(32)**	21
Selling, general and administration	**163**	167	**65**	17
Research and development	**212**	191	**382**	219
	1,182	1,137	**415**	257

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:

	2021 £m	2020 £m
Tesaro Assets	**2,677**	2,669
Meningitis portfolio	**1,889**	2,114
Dolutegravir	**1,093**	1,177
Benlysta	**644**	745
Alector Assets	**509**	–
iTeos Assets	**444**	–
Lamisil	**259**	275
Merck Assets	**–**	264
Vir Assets	**212**	49
BMS Assets	**219**	239
Fluarix/FluLaval	**180**	219
Okairos	**191**	205
CureVac Assets	**164**	108
Stiefel trade name	**151**	180
Others	**2,065**	2,159
	10,697	10,403

On 2 July 2021 GSK signed an agreement for a global co-development and co-commercialisation collaboration in immuno-neurology with Alector for two clinical stage first-in-class monoclonal antibodies for neurodegenerative diseases. From the total upfront payment recognised as an intangible asset of £509 million, a total of £363 million was paid in 2021 and a total of £146 million will be paid in 2022.

On 14 June 2021 GSK signed a co-development and co-commercialisation collaboration with iTeos Therapeutics for EOS-448, an anti-TIGIT monoclonal antibody, recognising an intangible asset of £444 million.

Tesaro assets comprise *Zejula* and *Jemperli*, 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 divested the Breathe Right brand in 2020.

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, 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:

	2021 £m	2020 £m
Advil	**3,362**	3,349
Voltaren	**2,725**	2,725
Centrum	**1,828**	1,824
Caltrate	**1,731**	1,678
Otrivin	**1,385**	1,385
Preparation H	**1,152**	1,139
Robitussin	**1,126**	1,111
Nexium	**670**	668
Fenistil	**598**	598
Chapstick	**521**	512
Emergen-C	**439**	433
Theraflu	**436**	433
Panadol	**395**	396
Sensodyne	**270**	270
Others	**1,780**	1,847
	18,418	18,368

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 10-year post-tax cash flow forecasts with a terminal value calculation and a discount rate equal to the Group post-tax WACC of 6.5% (2020 – 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.

During the year ended 31 December 2021, Robitussin and Preparation H were affected by lower cold and flu incidence resulting from the COVID-19 social distancing measures and by supply chain issues respectively which has resulted in a reduced level of headroom. The Group has performed a sensitivity analysis based on changes in key assumptions considered to be reasonably possible by management leaving all other assumptions unchanged. Sensitivity analysis for the year ended 31 December 2021 has identified these two brands as being sensitive to reasonably possible changes in key assumptions. In order for the recoverable amount to be equal to the carrying values of Robitussin and Preparation H, either the discount rate would have to be increased by 0.5% and 0.1%, or the operating margin decreased by 4.1% and 1.5%, or the long term growth rate decreased by 0.7% and 0.2% respectively. The group consider that changes in key assumptions of this magnitude are reasonably possible in the current environment.

Other than as described above, the group do not consider that any reasonably possible changes in the key assumptions would cause the fair value less cost of sale of the brands disclosed in page 197 above to fall below their carrying values.

We have assessed the qualitative and quantitative impact of climate related risks on asset recoverable amounts and concluded that their impact does not cause material impairments.

21. Investments in associates and joint ventures

	Joint ventures £m	Associates £m	**2021 Total £m**	Joint ventures £m	Associates £m	2020 Total £m
At 1 January	15	349	**364**	15	299	314
Exchange adjustments	–	(15)	**(15)**	–	(9)	(9)
Additions	–	1	**1**	–	4	4
Disposals	–	(278)	**(278)**	–	–	–
Distributions received	–	(9)	**(9)**	–	(31)	(31)
Net fair value movements through Other comprehensive income	–	28	**28**	–	53	53
Impairment of interest in associates	–	(36)	**(36)**	–	–	–
Profit/(loss) after tax recognised in the consolidated income statement	(3)	36	**33**	–	33	33
At 31 December	12	76	**88**	15	349	364

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 an investment (see Note 22).

On 20 May 2021, the Group agreed with Innoviva Inc to sell all of its shares in Innoviva back to Innoviva for £277 million. Following settlement of the transaction, GSK no longer held any Innoviva stock. A loss of £46 million (including £10 million of recycling of exchange differences in Innoviva) is presented in "Loss on disposal of interest in associates" in the Consolidated income statement. The transaction did not include any changes in Innoviva's commercial interest in royalties paid by GSK. "Loss on disposal of interest in associates" also includes a £10 million gain from a disposal of another immaterial associate. Please refer to the Income statement information on associates and joint ventures in Note 13.

21. Investments in associates and joint ventures continued

Disposals include the book values of Innoviva at £277 million, and £1 million of another investment for which GSK received non-cash consideration.

Summarised balance sheet information at 31 December 2020, in respect of Innoviva is set out below:

	At 31 December 2020 £m
Non-current assets	482
Current assets	251
Current liabilities	(4)
Non-current liabilities	(283)
Net assets	446

The carrying value of the Group's investment in Innoviva in 2020 is analysed as follows:

	2020 £m
Interest in net assets of associate	141
Goodwill	85
Fair value and other adjustments	65
Carrying value at 31 December	291

The investment in Innoviva had a market value of £291 million at 31 December 2020.

22. Other investments

	Investments designated as measured at FVTOCI £m	Investments measured at FVTPL £m	2021 £m	Investments designated as measured at FVTOCI £m	Investments measured at FVTPL £m	2020 £m
At 1 January	2,939	121	**3,060**	1,781	56	1,837
Additions	125	52	**177**	409	3,205	3,614
Net fair value movements through Other comprehensive income	(897)	–	**(897)**	1,318	–	1,318
Net fair value movements through profit or loss	–	37	**37**	–	(438)	(438)
Disposals and settlements	(240)	(11)	**(251)**	(569)	(2,702)	(3,271)
At 31 December	1,927	199	**2,126**	2,939	121	3,060

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 (gains of £20 million through Other comprehensive income and £2 million through profit or loss) (2020 – losses of £91 million and £nil respectively). Other investments include listed investments of £1,736 million (2020 – £2,281 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 2021 were in CureVac AG in which the Group held 8% and Vir Biotechnology in which the Group held 6.5%. These investments had a fair value at 31 December 2021 of £380 million (2020 - £887 million) and £266 million (2020 – £130 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. If the notes are exchanged, 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 2021 of £79 million (2020 – £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 £240 million (2020 – £569 million) were disposed of during the year. The cumulative gain on these investments after tax was £132 million (2020 – £163 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 included 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

	2021 £m	2020 £m
Amounts receivable under insurance contracts	849	756
Pension schemes in surplus	741	183
Other receivables	86	102
	1,676	1,041

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

Within the other receivables of £86 million (2020 – £102 million), £44 million (2020 – £67 million) is classified as financial assets of which £23 million (2020 – £30 million) is classified as fair value through profit or loss. On the remaining balance of £21 million (2020 – £37 million), the expected credit loss allowance was immaterial at 31 December 2021 and 2020.

24. Inventories

	2021 £m	2020 £m
Raw materials and consumables	1,772	1,170
Work in progress	1,889	2,395
Finished goods	2,122	2,431
	5,783	5,996

25. Trade and other receivables

	2021 £m	2020 £m
Trade receivables, net of loss allowance	6,246	5,549
Accrued income	12	13
Prepayments	315	359
Interest receivable	3	3
Employee loans and advances	18	11
Other receivables	1,266	1,017
	7,860	6,952

Trade receivables included £nil (2020 – £nil) due from associates and joint ventures. Other receivables included £nil (2020 – £nil) due from associates and joint ventures.

Loss allowance - trade receivables	2021 £m	2020 £m
At 1 January	151	130
Exchange adjustments	(3)	(4)
Charge for the year	52	41
Subsequent recoveries of amounts provided for	(39)	(8)
Utilised	(11)	(8)
At 31 December	150	151

Of the total trade receivables balance, £86 million (2020 – £50 million) was considered credit impaired, against which a £4 million (2020 – £20 million) expected credit loss allowance has been applied. No amount was purchased or originated credit impaired.

Within the other receivables of £1,266 million (2020 – £1,017 million), £553 million (2020 – £402 million) was classified as financial assets of which £nil (2020 – £nil) was classified as fair value through profit and loss. On the remaining balance of £553 million (2020 – £402 million), an expected credit loss allowance of £5 million (2020 – £6 million) was recognised at 31 December 2021 with no charge reported in profit or loss during the year.

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

26. Cash and cash equivalents

	2021 £m	2020 £m
Cash at bank and in hand	1,427	1,762
Short-term deposits	2,847	4,530
	4,274	6,292

Cash and cash equivalents included £0.2 billion (2020 – £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

	2021 £m	2020 £m
Property, plant and equipment	22	25
Other intangibles	–	62
Inventory	–	19
	22	106

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.

There is no inventory written down to fair value less costs to sell included in Assets held for sale (2020 - £19 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 £48 million were transferred from Other intangibles during the year (2020 - £785 million). There were no intangible assets held for sale after impairments, exchange movements and assets divested during the year remaining at 31 December 2021 (2020 - £62 million).

28. Trade and other payables

	2021 £m	2020 £m
Trade payables	**4,535**	4,357
Wages and salaries	**1,470**	1,367
Social security	**152**	159
ViiV Healthcare put option	**1,008**	960
Other payables	**518**	409
Deferred income	**307**	361
Customer return and rebate accruals	**6,322**	5,775
Other accruals	**3,242**	2,452
	17,554	15,840

Trade and other payables included £nil (2020 – £65 million) due to associates and joint ventures. The Group provides limited supplier financing arrangements to certain customers. The amounts involved at 31 December 2021 were not material.

Revenue recognised in the year that was included in deferred income at 1 January 2021 was £29 million (2020 – £33 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 £5,044 million (2020 – £4,686 million) in respect of US Pharmaceuticals and Vaccines, as more fully described in the Group financial review on page 80. 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	2021 £m	2020 £m
10% increase in sales forecasts*	**89**	117
10% decrease in sales forecasts*	**(89)**	(116)
1% (100 basis points) increase in discount rate	**(30)**	(41)
1% (100 basis points) decrease in discount rate	**34**	45
10 cent appreciation of US Dollar	**55**	52
10 cent depreciation of US Dollar	**(47)**	(45)
10 cent appreciation of Euro	**26**	42
10 cent depreciation of Euro	**(22)**	(34)

* The sales forecast is for ViiV Healthcare sales only in respect of the ViiV Healthcare put option.

An explanation of the accounting for ViiV Healthcare is set out on page 57.

29. Net debt

	Listing exchange	2021 £m	2020 £m
Current assets:			
Liquid investments		61	78
Cash and cash equivalents		4,274	6,292
		4,335	6,370
Short-term borrowings:			
Commercial paper		(252)	(17)
Bank loans, overdrafts and other		(550)	(1,128)
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)
2.850% US$ US Medium Term Note 2022	New York Stock Exchange	(1,483)	–
2.875% US$ US Medium Term Note 2022	New York Stock Exchange	(1,113)	–
Lease liabilities		(203)	(230)
		(3,601)	(3,725)
Long-term borrowings:			
2.850% US$ US Medium Term Note 2022	New York Stock Exchange	–	(1,463)
2.875% US$ US Medium Term Note 2022	New York Stock Exchange	–	(1,097)
2.800% US$ US Medium Term Note 2023	New York Stock Exchange	(926)	(913)
0.125% € Euro Medium Term Note 2023	London Stock Exchange	(629)	(673)
Exchangeable US$ US Medium Term Note 2023	New York Stock Exchange	(204)	(199)
3.375% US$ US Medium Term Note 2023	New York Stock Exchange	(925)	(912)
0.000% € Euro Medium Term Note 2023	London Stock Exchange	(420)	(450)
0.534% US$ US Medium Term Note 2023	New York Stock Exchange	(926)	(913)
3.000% US$ US Medium Term Note 2024	New York Stock Exchange	(739)	(728)
1.375% € Euro Medium Term Note 2024	London Stock Exchange	(836)	(894)
4.000% € Euro Medium Term Note 2025	London Stock Exchange	(627)	(670)
3.625% US$ US Medium Term Note 2025	New York Stock Exchange	(738)	(728)
1.000% € Euro Medium Term Note 2026	London Stock Exchange	(587)	(628)
1.250% € Euro Medium Term Note 2026	London Stock Exchange	(838)	(896)
3.375% £ Euro Medium Term Note 2027	London Stock Exchange	(595)	(595)
3.875% US$ US Medium Term Note 2028	New York Stock Exchange	(1,294)	(1,278)
1.250% £ Euro Medium Term Note 2028	London Stock Exchange	(743)	(742)
3.375% US$ US Medium Term Note 2029	New York Stock Exchange	(733)	(723)
1.375% € Euro Medium Term Note 2029	London Stock Exchange	(418)	(447)
1.750% € Euro Medium Term Note 2030	London Stock Exchange	(628)	(672)
5.250% £ Euro Medium Term Note 2033	London Stock Exchange	(984)	(983)
5.375% US$ US Medium Term Note 2034	London Stock Exchange	(368)	(363)
1.625% £ Euro Medium Term Note 2035	London Stock Exchange	(744)	(743)
6.375% US$ US Medium Term Note 2038	New York Stock Exchange	(2,022)	(1,996)
6.375% £ Euro Medium Term Note 2039	London Stock Exchange	(695)	(695)
5.250% £ Euro Medium Term Note 2042	London Stock Exchange	(987)	(987)
4.200% US$ US Medium Term Note 2043	New York Stock Exchange	(364)	(359)
4.250% £ Euro Medium Term Note 2045	London Stock Exchange	(789)	(789)
Other long-term borrowings		(1)	(2)
Lease liabilities		(812)	(887)
		(20,572)	(23,425)
Net debt		(19,838)	(20,780)

29. Net debt continued

Current assets

Liquid investments are classified as financial assets at amortised cost. At 31 December 2021, they included US Treasury Notes and other government bonds. The effective interest rate on liquid investments at 31 December 2021 was approximately 0.1% (2020 – approximately 1.1%). Liquid investment balances at 31 December 2021 earning interest at floating rates amount to £2 million (2020 – £78 million). Liquid investment balances at 31 December 2021 earning interest at fixed rates amount to £59 million (2020 – £nil).

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 2021 was approximately 0.6% (2020 – approximately 0.3%). Cash and cash equivalents at 31 December 2021 earning interest at floating and fixed rates amounted to £3,906 million and £39 million respectively (2020 – £6,100 million and £9 million) and non-interest bearing holdings amounted to £329 million (2020 – £183 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 (£7.4 billion) US commercial paper programme, of which $nil was in issue at 31 December 2021 (2020 – $25 million (£17 million)). GSK has a £5 billion Euro commercial paper programme, of which €300 million (£252 million) was in issue at 31 December 2021 (2020 – £nil). GSK has a £1.9 billion three-year committed facility and $2.5 billion (£1.9 billion) under a 364 day committed facility. The three-year committed facility was agreed in September 2019 extended by one year in September 2020 and was extended again by one year to 2024 in August 2021. The 364-day committed facility was agreed in August 2021. These facilities were undrawn at 31 December 2021.

In preparation for the separation of the Consumer Healthcare business, in February 2022 GSK cancelled and replaced the three year and 364 day facilities. New revolving credit facilities of equivalent size were agreed with maturities in September 2025 and September 2023.

The weighted average interest rate on commercial paper borrowings at 31 December 2021 was -0.5% (2020 – 2.4%).

The weighted average interest rate on current bank loans and overdrafts at 31 December 2021 was 7.9% (2020 – 5.8%).

The average effective pre-swap interest rate of notes classified as short-term at 31 December 2021 was 3.0% (2020 – 0.0%). The 0.0% rate in 2020 reflected the 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 £20.6 billion (2020 – £23.4 billion), of which £11.7 billion (2020 – £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 2021 was approximately 3.3% (2020 – approximately 3.6%).

Long-term borrowings repayable after five years carry interest at effective rates between 1.4% and 6.4%, with repayment dates ranging from 2027 to 2045.

Pledged assets

The Group held pledged investments in US Treasury Notes with a par value of $56 million (£42 million), (2020 – $50 million (£37 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:

	2021 £m	2020 £m
Rental payments due within one year	**203**	230
Rental payments due between one and two years	**185**	207
Rental payments due between two and three years	**120**	126
Rental payments due between three and four years	**93**	96
Rental payments due between four and five years	**73**	86
Rental payments due after five years	**341**	372
Total lease liabilities	**1,015**	1,117

30. Pensions and other post-employment benefits

Pension and other post-employment costs	2021 £m	2020 £m	2019 £m
UK pension schemes	198	255	181
US pension schemes	42	62	120
Other overseas pension schemes	164	189	185
Unfunded post-retirement healthcare schemes	67	13	74
	471	519	560
Analysed as:			
Funded defined benefit/hybrid pension schemes	245	341	300
Unfunded defined benefit pension schemes	21	32	41
Unfunded post-retirement healthcare schemes	67	13	74
Defined benefit schemes	333	386	415
Defined contribution pension schemes	138	133	145
	471	519	560

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

	2021 £m	2020 £m	2019 £m
Cost of sales	129	143	149
Selling, general and administration	153	185	195
Research and development	51	59	71
	333	387	415

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 rates 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 S3 standard mortality tables to reflect recent scheme experience. These rates are then projected to reflect improvements in life expectancy in line with the CMI 2020 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 2041 for an individual then at the age of 60 is as follows:

		UK		US
	Male Years	Female Years	Male Years	Female Years
Current	27.7	28.7	27.2	28.5
Projected for 2041	29.2	30.2	28.7	30.0

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 is 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 2021, the value of the insurance contract was £570 million (2020 – £620 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 resulted in a one-off cost of £74 million in 2020.

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
	2021 % pa	2020 % pa	2019 % pa	**2021 % pa**	2020 % pa	2019 % pa	**2021 % pa**	2020 % pa	2019 % pa
Rate of increase of future earnings	**2.00**	2.00	2.00	**n/a**	n/a	4.00	**2.90**	2.60	2.70
Discount rate	**2.00**	1.40	2.00	**2.70**	2.30	3.20	**1.10**	0.60	1.10
Expected pension increases	**3.20**	2.80	3.00	**n/a**	n/a	n/a	**2.30**	2.10	2.10
Cash balance credit/conversion rate	**n/a**	n/a	n/a	**2.00**	1.90	2.60	**0.20**	0.10	0.10
Inflation rate	**3.20**	2.80	3.00	**2.25**	2.00	2.25	**1.90**	1.30	1.40

Sensitivity analysis detailing the effect of changes in assumptions is provided on page 213. The analysis provided reflects the assumption changes which have the most material impact on the results of the Group.

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 2021 in relation to the defined benefit pension and post-retirement healthcare schemes were as follows:

2021	UK £m	US £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Amounts charged to operating profit					
Current service cost	56	9	151	**216**	**29**
Past service cost	28	2	(25)	**5**	**12**
Net interest cost	3	19	6	**28**	**26**
Gains from settlements	–	–	(10)	**(10)**	**–**
Expenses	15	12	–	**27**	**–**
	102	42	122	**266**	**67**
Remeasurement gains/(losses) recorded in the statement of comprehensive income	572	97	194	**863**	**78**

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)

The amounts included within past service costs in the UK included £27 million (2020 – £24 million; 2019 – £58 million) of augmentation costs which arose from Major restructuring programmes, together with a charge of £nil (2020 –£74 million) in relation to the impact of the closure of the defined benefit schemes to future accrual.

In 2020, 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 in 2020 resulted in a credit of £55 million to past service costs in post-retirement benefits in 2020.

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:

	2021 £m	2020 £m	2019 £m
Recognised in Other non-current assets:			
Pension schemes in surplus	**741**	183	127
Recognised in Assets held for sale:			
Post-retirement benefits	**–**	–	(9)
Recognised in Pensions and other post-employment benefits:			
Pension schemes in deficit	**(1,870)**	(2,287)	(2,048)
Post-retirement benefits	**(1,243)**	(1,363)	(1,409)
	(3,113)	(3,650)	(3,457)

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 2021		UK £m	US £m	Rest of World £m	Group £m
Equities:	– listed	3,954	522	731	**5,207**
	– unlisted	–	–	4	**4**
Multi-asset funds		1,415	–	–	**1,415**
Property:	– listed	–	–	68	**68**
	– unlisted	502	154	1	**657**
Corporate bonds:	– listed	1,503	975	140	**2,618**
	– unlisted	–	–	15	**15**
Government bonds:	– listed	5,054	724	984	**6,762**
Insurance contracts		1,334	–	917	**2,251**
Other (liabilities)/assets		(130)	149	72	**91**
Fair value of assets		13,632	2,524	2,932	**19,088**
Asset ceiling restrictions		–	–	(26)	**(26)**
Present value of scheme obligations		(13,299)	(3,248)	(3,644)	**(20,191)**
Net surplus/(obligation)		333	(724)	(738)	**(1,129)**
Included in Other non-current assets		606	–	135	**741**
Included in Pensions and other post-employment benefits		(273)	(724)	(873)	**(1,870)**
		333	(724)	(738)	**(1,129)**
Actual return on plan assets		541	97	48	**686**

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 £350 million (2020 – £847 million).

The ‘Other (liabilities)/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 £513 million at 31 December 2021 (2020 – £650 million; 2019 – £243 million) is deducted within ‘Other assets’.

30. Pensions and other post-employment benefits continued

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**

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

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 2019	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	–
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	–
Exchange adjustments	–	31	(184)	(153)	–
Interest income	187	57	18	262	–
Expenses	(15)	(12)	–	(27)	–
Settlements and curtailments	–	–	(7)	(7)	–
Remeasurement	354	40	30	424	–
Employer contributions	139	40	133	312	105
Scheme participants' contributions	3	–	24	27	15
Benefits paid	(618)	(267)	(97)	(982)	(120)
Assets at 31 December 2021	13,632	2,524	2,906	19,062	-

During 2021, the Group made additional funding contributions to the UK pension schemes of £44 million (2020 – £76 million; 2019 – £78 million) but £nil (2020 – £nil; 2019 – £nil) 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 2022 and these are included within Note 35, 'Commitments' on page 216. 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 2022, including special funding contributions, are estimated to be approximately £380 million in respect of defined benefit pension schemes and £90 million in respect of post-retirement benefits.

30. Pensions and other post-employment benefits continued

Movements in defined benefit obligations	UK £m	US £m	Rest of World £m	Pensions Group £m	Post-retirement benefits Group £m
Obligations at 1 January 2019	(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)**
Exchange adjustments	–	(40)	258	**218**	**4**
Service cost	(56)	(9)	(151)	**(216)**	**(29)**
Past service cost	(28)	(2)	25	**(5)**	**(12)**
Interest cost	(190)	(76)	(23)	**(289)**	**(26)**
Settlements and curtailments	–	–	17	**17**	**–**
Remeasurement	218	57	164	**439**	**78**
Scheme participants' contributions	(3)	–	(24)	**(27)**	**(15)**
Benefits paid	618	267	97	**982**	**120**
Obligations at 31 December 2021	(13,299)	(3,248)	(3,644)	**(20,191)**	**(1,243)**

The defined benefit pension obligation is analysed as follows:

	2021 £m	2020 £m	2019 £m
Funded	**(19,419)**	(20,504)	(19,547)
Unfunded	**(772)**	(806)	(806)
	(20,191)	(21,310)	(20,353)

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 6.25% (2020 – 6.0%) in 2021, grading down to 5% in 2027 and thereafter. At 31 December 2021, the US post-retirement healthcare scheme obligation was £1,059 million (2020 – £1,124 million; 2019 – £1,198 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:

	2021 £m	2020 £m	2019 £m
At 1 January	(2,104)	(1,921)	(995)
Exchange adjustments	65	(18)	87
Additions through business combinations	–	–	(42)
Service cost	(216)	(291)	(266)
Past service cost	(5)	(43)	(31)
Interest cost	(27)	(36)	(26)
Settlements and curtailments	10	18	9
Remeasurements:			
Return on plan assets, excluding amounts included in interest	424	1,056	984
(Loss)/gain from change in demographic assumptions	(62)	69	78
Gain/(loss) from change in financial assumptions	716	(1,340)	(2,022)
Experience (loss)/gain	(215)	110	(13)
Employer contributions	312	313	343
Expenses	(27)	(21)	(27)
At 31 December	(1,129)	(2,104)	(1,921)

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

	2021 £m	2020 £m	2019 £m
Gain from change in demographic assumptions	19	7	–
Gain/(loss) from change in financial assumptions	35	(93)	(80)
Experience gains	24	4	3
	78	(82)	(77)

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

	2021 £m	2020 £m	2019 £m
Active	4,196	4,660	4,572
Retired	11,115	11,257	10,485
Deferred	4,880	5,393	5,296
	20,191	21,310	20,353

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

	2021 £m	2020 £m	2019 £m
Active	494	551	549
Retired	748	808	869
Deferred	1	4	–
	1,243	1,363	1,418

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

	2021 years	2020 years	2019 years
Pension benefits	15	16	15
Post-retirement benefits	12	12	12

30. Pensions and other post-employment benefits continued

Sensitivity analysis

The effect of changes in assumptions used on the benefit obligations and on the 2022 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	(19)	17
Increase/(decrease) in annual post-retirement benefits cost	1	(1)
(Decrease)/increase in pension obligation	(729)	772
(Decrease)/increase in post-retirement benefits obligation	(34)	35
	0.5% increase £m	0.5% decrease £m
(Decrease)/increase in annual pension cost	(41)	33
Increase/(decrease) in annual post-retirement benefits cost	2	(2)
(Decrease)/increase in pension obligation	(1,413)	1,586
(Decrease)/increase in post-retirement benefits obligation	(67)	73

	0.25% increase £m	0.25% decrease £m
Inflation rate		
Increase/(decrease) in annual pension cost	15	(14)
Increase/(decrease) in pension obligation	547	(529)

	1 year increase £m
Life expectancy	
Increase in annual pension cost	16
Increase in annual post-retirement benefits cost	1
Increase in pension obligation	724
Increase in post-retirement benefits obligation	36

	1% increase £m
Rate of future healthcare inflation	
Increase in annual post-retirement benefits cost	1
Increase in post-retirement benefits obligation	39

31. Other provisions

	Legal and other disputes £m	Major restructuring programmes £m	Employee related provisions £m	Other provisions £m	Total £m
At 1 January 2021	320	860	326	253	**1,759**
Exchange adjustments	2	(18)	(8)	(4)	**(28)**
Charge for the year	117	383	81	119	**700**
Reversed unused	(75)	(151)	(11)	(36)	**(273)**
Unwinding of discount	–	2	–	–	**2**
Utilised	(168)	(389)	(65)	(28)	**(650)**
Reclassifications and other movements	–	(8)	(1)	(3)	**(12)**
Transfer to Pension obligations	–	(27)	–	–	**(27)**
At 31 December 2021	196	652	322	301	**1,471**
To be settled within one year	160	545	66	70	**841**
To be settled after one year	36	107	256	231	**630**
At 31 December 2021	196	652	322	301	**1,471**

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 £42 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 provision is £nil in 2021 (2020 – increased by £1 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 £160 million of the amount provided at 31 December 2021 will be settled within one year. At 31 December 2021, it was expected that £4 million (2020 – £13 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 2021, the Group had four major restructuring programmes in progress: the Combined restructuring and integration programme and the 2018 Major restructuring programme, both of which are now substantially complete, 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.

The discount on the provisions increased by £2 million in 2021 (2020 – increased by £2 million).

Pension augmentation includes £27 million relating to the defined benefit plan arising from staff redundancies, as shown in Note 30, 'Pensions and other post-employment benefits'.

Employee related provisions

Employee related provisions include obligations for certain medical benefits to disabled employees and their spouses in the US. At 31 December 2021, the provision for these benefits amounted to £69 million (2020 – £77 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 provisions for onerous contracts, insurance provisions 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 2019	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**
Remeasurement through income statement	1,026	32	5	**1,063**
Cash payments: operating cash flows	(721)	(21)	–	**(742)**
Cash payments: investing activities	(105)	(9)	–	**(114)**
At 31 December 2021	5,559	479	38	**6,076**

Of the contingent consideration payable at 31 December 2021, £958 million (2020 – £765 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% (2020 – 8.5%) and the Novartis Vaccines contingent consideration liability is discounted at 7.5% (2020– 8%) for commercialised products and at 8.5% (2020 – 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.

	2021		2020	
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*	**506**	**61**	515	80
10% decrease in sales forecasts*	**(506)**	**(57)**	(516)	(78)
1% increase in discount rate	**(198)**	**(38)**	(207)	(39)
1% decrease in discount rate	**213**	**45**	223	45
10 cent appreciation of US Dollar	**343**	**1**	305	4
10 cent depreciation of US Dollar	**(299)**	**(4)**	(262)	(2)
10 cent appreciation of Euro	**102**	**28**	125	30
10 cent depreciation of Euro	**(85)**	**(27)**	(105)	(24)

* The sales forecast is for ViiV Healthcare sales only in respect of the Shionogi-ViiV Healthcare contingent consideration.

An explanation of the accounting for ViiV Healthcare is set out on page 57.

33. Other non-current liabilities

	2021 £m	2020 £m
Accruals	**13**	41
Deferred income	**85**	21
Other payables	**823**	741
	921	803

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

34. Contingent liabilities

At 31 December 2021, contingent liabilities where GSK has a present obligation as a result of a past event, comprising guarantees and other items arising in the normal course of business, amounted to £126 million (2020 – £138 million). These contingent liabilities arise where the Group has a present obligation arising from a past event. At 31 December 2021, £0.2 million (2020 – £0.4 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 2021, other than for those disputes where provision has been made, if it is not possible to meaningfully assess whether the outcomes will result in a probable outflow, or to quantify or reliably estimate the liability, if any, no provision is recorded. 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	2021 £m	2020 £m
Contracted for but not provided in the financial statements:		
Intangible assets	**12,082**	12,307
Property, plant and equipment	**616**	528
Investments	**146**	153
Purchase commitments	**484**	746
Pensions	**44**	88
Interest on loans	**7,603**	8,309
Future finance charges on leases	**153**	180
	21,128	22,311

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 net decrease in intangible asset commitments in 2021 is mainly attributable to the termination of a number of agreements including the termination of the agreement for bintrafusp alfa with Merck KGaA, Darmstadt, Germany offset by an increase in a number of new R&D collaborations including with Alector, iTeos Therapeutics and Lifemine Therapeutics.

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 2022. The table above includes this commitment, but excludes the normal ongoing annual funding requirement in the UK of approximately £110 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.

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 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
Issued under employee share schemes	1,825,442	1	20
Ordinary shares acquired by ESOP Trusts	–	–	–
At 31 December 2021	5,387,015,059	1,347	3,301

	31 December 2021 000	31 December 2020 000
Number of shares issuable under employee share schemes	**75,210**	48,205
Number of unissued shares not under option	**4,537,775**	4,566,605

At 31 December 2021, of the issued share capital, 23,205,289 shares were held in the ESOP Trusts, 355,205,950 shares were held as Treasury shares and 5,008,603,820 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 £10,407 million at 31 December 2021 (2020 – £9,960 million; 2019 – £6,885 million) of which £476 million (2020 – £440 million; 2019 – £394 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 2019	381	1	(52)	**330**
Exchange movements on overseas net assets and net investment hedges	(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 and net investment hedges	(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)**
Exchange movements on overseas net assets and net investment hedges	(239)	–	(20)	**(259)**
Reclassification of exchange movements on liquidation or disposal of overseas subsidiaries and associates	(25)	–	–	**(25)**
At 31 December 2021	(803)	(9)	(181)	**(993)**

37. Movements in equity continued

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

2021	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	(239)	–	–	**(239)**
Reclassification of exchange movements on liquidation or disposal of overseas subsidiaries and associates	(25)	–	–	**(25)**
Fair value movements on cash flow hedges	–	5	–	**5**
Reclassification of cash flow hedges to income and expense	–	12	–	**12**
Tax on fair value movements on cash flow hedges	–	(8)	–	**(8)**
Items that will not be reclassified to income statement:				
Exchange movements on overseas net assets of non-controlling interests	–	–	(20)	**(20)**
Fair value movements on equity investments	–	(911)	–	**(911)**
Tax on fair value movements on equity investments	–	131	–	**131**
Remeasurement losses on defined benefit plans	941	–	–	**941**
Tax on remeasurement losses in defined benefit plans	(223)	–	–	**(223)**
Other comprehensive (expense)/income for the year	454	(771)	(20)	**(337)**

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)

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

37. Movements in equity continued

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 2019	(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**
Exchange adjustments	(1)	–	–	–	**(1)**
Transferred to Retained earnings in the year on disposal of equity investments	–	(139)	–	–	**(139)**
Net fair value movement in the year	–	(780)	10	–	**(770)**
Transferred to income and expense in the year on impairments of equity investments	168	–	–	–	**168**
At 31 December 2021	(28)	383	(21)	2,129	**2,463**

Other reserves include various non-distributable merger and pre-merger reserves amounting to £1,849 million at 31 December 2021 (2020 – £1,849 million; 2019 – £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 2021 (2020 – £280 million; 2019 – £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:

	2021 £m	2020 £m	2019 £m
Turnover	**4,637**	4,848	4,816
Profit after taxation	**1,087**	762	2,574
Other comprehensive income/(expense)	**(17)**	33	(29)
Total comprehensive income	**1,070**	795	2,545

	2021 £m	2020 £m
Non-current assets	**2,796**	2,564
Current assets	**2,711**	2,405
Total assets	**5,507**	4,969
Current liabilities	**(3,121)**	(2,748)
Non-current liabilities	**(8,472)**	(8,343)
Total liabilities	**(11,593)**	(11,091)
Net liabilities	**(6,086)**	(6,122)

	2021 £m	2020 £m	2019 £m
Net cash inflow from operating activities	**2,128**	2,249	2,375
Net cash outflow from investing activities	**(287)**	(294)	(202)
Net cash outflow from financing activities	**(1,608)**	(2,483)	(1,947)
(Decrease)/increase in cash and bank overdrafts in the year	**233**	(528)	226

38. Non-controlling interests continued

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 £1,087 million (2020 – £762 million; 2019 – £2,574 million) is stated after charging preferential dividends payable to GSK, Shionogi and Pfizer and after a charge of £1,218 million (2020 – £1,112 million; 2019 – £37 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:

	2021 £m	2020 £m	2019 £m
Share of profit for the year attributable to non-controlling interest	196	223	482
Dividends paid to non-controlling interest	224	419	310
Non-controlling interest in the Consolidated balance sheet	(570)	(539)	(344)

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:

	2021 £m	2020 £m	2019 £m
Turnover	9,545	9,837	4,240
Profit after taxation	1,439	1,219	150
Other comprehensive expenses	(10)	(266)	(721)
Total comprehensive income/(expenses)	1,429	953	(571)

	2021 £m	2020 £m
Non-current assets	29,200	29,134
Current assets	5,251	4,918
Total assets	34,451	34,052
Current liabilities	(4,238)	(4,254)
Non-current liabilities	(3,733)	(3,890)
Total liabilities	(7,971)	(8,144)
Net assets	26,480	25,908

	2021 £m	2020 £m	2019 £m
Net cash inflow from operating activities	1,356	1,419	1,014
Net cash inflow/(outflow) from investing activities	(33)	1,018	(776)
Net cash outflow from financing activities	(1,236)	(2,437)	(78)
Increase in cash and bank overdraft in the year/period	87	–	160

The above financial information relates to the Consumer Healthcare Joint Venture on a stand-alone basis (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:

	2021 £m	2020 £m	2019 £m
Share of profit for the year/period attributable to non-controlling interest	460	374	69
Dividends paid to non-controlling interest	367	735	–
Non-controlling interest in the Consolidated balance sheet	6,609	6,538	6,911

39. Related party transactions

During the year, the Group disposed of its interest in Innoviva Inc. See Note 21 for details of disposal. The royalties due from GSK to Innoviva in the year until the date of disposal were £113 million (2020 – £261 million).

A loan of £4.6 million (2020 – £3.0 million) to Medicxi Ventures I LP remained due to GSK at 31 December 2021. In 2021, GSK increased the investment in Kurma Biofund II, FCPR by £0.2 million and Medicxi Ventures I LP of £1.0 million. As part of the joint venture agreement with Qura Therapeutics LLC, the Group has an obligation to fund the joint venture up to April 2025, with both GSK and its joint venture partner committing financial support in the amount of $26 million. At December 2021, the outstanding liability due to Qura was $13 million.

Cash distributions were received from our investments in Medicxi Ventures I LP of £5.5 million, in Longwood Founders Fund, LP of £3.0 million and in Apollo Therapeutics LLP of £0.1 million.

The aggregate compensation of the Directors and GLT 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:

2021

Business acquisitions

GSK completed no material business acquisitions in 2021.

Business disposals

GSK made a number of business disposals for net cash consideration received in the year of £10 million. The profit on the disposal of the businesses in the year of £24 million was calculated as follows:

	Total £m
Consideration:	
Cash consideration including currency forwards, purchase adjustments and deferred consideration	10
Total	10
Net assets sold:	
Property, plant and equipment	3
Cash and cash equivalents	1
Other net assets	1
Total	5
Costs:	
Deal costs	(16)
Reclassification of exchange from other comprehensive income	35
Gain on disposals in 2021	24

Associates and joint ventures

On 20 May 2021 GSK agreed with Innoviva, Inc ("Innoviva") to sell all of its approximately 32 million shares of common stock of Innoviva back to Innoviva at a price of $12.25 per share, raising gross proceeds of approximately $392 million. Following settlement of the transaction, GSK will no longer hold any Innoviva stock. See details in Note 21 'Investment in associates and joint ventures'.

Cash flows

	Business disposals £m	Associates and joint ventures disposals £m
Cash consideration received	43	277
Net deferred consideration paid	(51)	–
Transaction costs	(8)	–
Cash and cash equivalents (divested)/acquired	(1)	–
Cash (outflow)/inflow	(17)	277

40. Acquisitions and disposals continued

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.

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

40. Acquisitions and disposals continued

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)

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.

40. Acquisitions and disposals continued

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

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

40. Acquisitions and disposals continued

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)

41. Adjustments reconciling profit after tax to operating cash flows

	2021 £m	2020 £m	2019 £m
Profit after tax	**5,096**	6,388	5,268
Tax on profits	**346**	580	953
Share of after-tax profits of associates and joint ventures	**(33)**	(33)	(74)
Finance expense net of finance income	**756**	848	814
Depreciation	**1,195**	1,214	1,231
Amortisation of intangible assets	**1,182**	1,137	1,103
Impairment and assets written off	**540**	781	825
Profit on sale of businesses	**(38)**	(2,831)	(201)
Profit on sale of intangible assets	**(568)**	(426)	(342)
Loss on sale of investments in associates	**36**	–	–
Profit on sale of equity investments	**(8)**	(69)	(2)
Business acquisition costs	**–**	–	59
Changes in working capital:			
Decrease in inventories	**25**	119	300
Increase in trade receivables	**(782)**	(224)	(32)
Increase in trade payables	**284**	225	263
(Increase) in other receivables	**(314)**	(159)	(160)
Contingent consideration paid (see Note 32)	**(742)**	(765)	(780)
Other non-cash increase in contingent consideration liabilities	**1,063**	1,275	83
Increase in other payables	**1,324**	818	89
Increase/(decrease) in pension and other provisions	**(340)**	400	(188)
Share-based incentive plans	**367**	381	365
Fair value adjustments	**(17)**	464	19
Other	**(129)**	(27)	(61)
	4,147	3,708	4,264
Cash generated from operations	**9,243**	10,096	9,532

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

	2021 £m	2020 £m	2019 £m
Net debt, as previously reported	**(20,780)**	(25,215)	(21,621)
Implementation of IFRS 16	**–**	–	(1,303)
Net debt at beginning of year, as adjusted	**(20,780)**	(25,215)	(22,924)
Increase in cash and bank overdrafts	**(1,414)**	470	826
Increase/(decrease) in liquid investments	**(18)**	1	(1)
Increase in long-term loans	**–**	(3,298)	(4,794)
Repayment of short-term Notes	**2,313**	3,738	4,160
Repayment of/(increase in) other short-term loans	**(318)**	3,567	(3,095)
Repayment of lease liabilities	**215**	227	214
Debt of subsidiary undertakings acquired	**–**	–	(524)
Exchange adjustments	**314**	(135)	1,015
Other non-cash movements	**(150)**	(135)	(92)
Movement in net debt	**942**	4,435	(2,291)
Net debt at end of year	**(19,838)**	(20,780)	(25,215)

Analysis of changes in net debt	At 1 January 2021 £m	Exchange £m	Other £m	Interest expense £m	Change in fair value £m	Reclass-ifications £m	Cash flow £m	At 31 December 2021 £m
Liquid investments	78	1	–	–	–	–	(18)	**61**
Cash and cash equivalents	6,292	(29)	(1)	–	–	–	(1,988)	**4,274**
Overdrafts	(1,030)	–	–	–	–	–	574	**(456)**
	5,262	(29)	(1)	–	–	–	(1,414)	**3,818**
Debt due within one year:								
Commercial paper	(17)	8	–	–	–	–	(243)	**(252)**
European/US MTN & Bank facilities	(2,350)	1	–	–	–	(2,494)	2,247	**(2,596)**
Lease liabilities	(230)	5	7	–	–	(200)	215	**(203)**
Other	(98)	15	(2)	–	–	–	(9)	**(94)**
	(2,695)	29	5	–	–	(2,694)	2,210	**(3,145)**
Debt due after one year:								
European/US MTN & Bank facilities	(22,538)	306	–	(22)	–	2,494	–	**(19,760)**
Lease liabilities	(887)	7	(132)	–	–	200	–	**(812)**
	(23,425)	313	(132)	(22)	–	2,694	–	**(20,572)**
Net debt	(20,780)	314	(128)	(22)	–	–	778	**(19,838)**
Interest payable	(247)	–	(30)	(753)	–	–	786	(244)
Derivative financial instruments	(74)	–	–	–	72	–	(20)	(22)
Total liabilities from financing activities*	(26,441)	342	(157)	(775)	72	–	2,976	(23,983)

* Excluding cash and cash equivalents, overdrafts and liquid investments.

42. Adjustments of net cash flow to movement in net debt continued

Analysis of changes in net debt	At 1 January 2020 £m	Exchange £m	Other £m	Interest expense £m	Change in fair value £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 MTN 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 MTN & 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)
Interest payable	(244)	1	–	(868)	–	–	864	(247)
Derivative financial instruments	335	–	–	–	(290)	–	(119)	(74)
Total liabilities from financing activities*	(30,034)	(88)	(120)	(888)	(290)	–	4,979	(26,441)

* Excluding cash and cash equivalents, overdrafts and liquid investments.

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 £19.8 billion (see Note 29, 'Net debt') and total equity, including items related to non-controlling interests, of £21.3 billion (see 'Consolidated statement of changes in equity' on page 170). Total capital, including that provided by non-controlling interests, is £41.1 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 & Poor's is A (stable outlook) and with Moody's Investor Services ('Moody's') it is A2 (stable outlook). The Group's short-term credit ratings are A-1 and P-1 with Standard & 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. Each day, we sweep cash to or from a number of global subsidiaries and central Treasury accounts for liquidity management purposes. GSK utilises both physical and notional cash pool arrangements as appropriate by location and currency. For notional cash pools, liquidity is drawn against foreign currency balances to provide both local funding and central liquidity as required and with balances actively managed and maintained to appropriate levels. As balances in notional pooling arrangements are not settled across currencies, gross cash and overdraft balances are reported.

At 31 December 2021, GSK had £3.6 billion of borrowings repayable within one year and held £4.3 billion of cash and cash equivalents and liquid investments of which £2.9 billion was held centrally.

GSK has access to short-term finance under a $10 billion (£7.4 billion) US commercial paper programme; $nil (£nil) was in issue at 31 December 2021 (2020 – $25 million (£17 million)). GSK has access to short-term finance under a £5 billion Euro commercial paper programme; €300 million (£252 million) was in issue at 31 December 2021 (2020 – £nil). At 31 December 2021, GSK had a £1.9 billion three-year committed facility and a $2.5 billion (£1.9 billion) 364-day committed facility. The three-year committed facility was agreed in September 2019, extended by one year in September 2020 and was extended again by one year to 2024 in August 2021. The 364-day committed facility was agreed in August 2021.

These committed facilities were undrawn at 31 December 2021. GSK considers this level of committed facilities to be adequate, given current liquidity requirements.

In preparation for the separation of the Consumer Healthcare business, in February 2022 GSK cancelled and replaced the three year and 364 day facilities. New revolving credit facilities of equivalent size were agreed with maturities in September 2025 and September 2023.

GSK has a £20.0 billion Euro Medium Term Note programme and at 31 December 2021, £10.5 billion of notes were in issue under this programme. The Group also had $15.7 billion (£11.6 billion) of notes in issue at 31 December 2021 under a US shelf registration. GSK's borrowings mature at dates between 2022 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.

43. Financial instruments and related disclosures continued

Interest rate benchmark reform

'Interest rate benchmark reform – Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16' Phase I and Phase II were issued by the IASB in September 2019 and August 2020, and adopted by the UK Endorsement Board on 5 January 2021. Phase I of the amendment modifies 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. Phase II also provides that, for financial instruments measured using amortised cost measurement, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform should be reflected by adjusting their effective interest rate and no immediate gain or loss should be recognised.

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.

At 31 December 2021, the Group was not directly exposed to interest rate benchmark reform as it held no interest rate derivatives or floating rate debt that referenced to LIBOR. The Group did not transition any material derivatives or floating rate debt into a new index as all of the instruments referencing LIBOR matured before December 2021.

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 2021 to be £11,417 million (31 December 2020 – £12,572 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 232 for details on the Group's total financial assets. At 31 December 2021, GSK's greatest concentration of credit risk was £0.9 billion with a wholesaler in the US (2020 - £1.4 billion with Legal and General Investment Management Class 4 GBP liquidity fund (AAA/Aaa)). See page 230 for further information on the Group's credit risk exposure in respect of the three largest US wholesaler customers.

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 or at FVTOCI 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 240 sets out the Group's financial assets and liabilities on an offset basis.

43. Financial instruments and related disclosures continued

At 31 December 2021, £54 million (2020 – £47 million) of cash is categorised as held with unrated or sub-investment grade rated counterparties (lower than BBB-/Baa3) of which £7 million (2020 – £1 million) is cash in transit. The remaining exposure is concentrated in overseas banks used for local cash management or investment purposes, including: £19 million in Nigeria held with United Bank for Africa, Zenith Bank, Access Bank and Stanbic IBTC Bank; £14 million with Halk Bank in the UK; £2 million with BTV in Austria; £2 million in Argentina held with Banco de la Nacion and Banco de la Provincia; £2 million with J Trust Royal Bank in Cambodia; £1 million with Produbanco in Ecuador; £1 million with Banco Central de Honduras in Honduras; £1 million with BAC San José in Panama and £1 million with Banco Popular in Puerto Rico. Of the £77 million of bank balances and deposits held with BBB/Baa rated counterparties, £25 million was held with BBB-/Baa3 rated counterparties, including balances or deposits of £24 million with HDFC Bank in 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 2021.

Credit ratings are assigned by Standard & 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 & 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.

2021	AAA/Aaa £m	AA/Aa £m	A/A £m	BBB/Baa £m	BB+/Ba1 and below /unrated £m	**Total £m**
Bank balances and deposits	–	7	2,687	77	54	**2,825**
US Treasury and Treasury repo only money market funds	54	–	–	–	–	**54**
Liquidity funds	1,395	–	–	–	–	**1,395**
Government securities	–	60	–	1	–	**61**
3rd party financial derivatives	–	–	200	–	–	**200**
Total	1,449	67	2,887	78	54	**4,535**

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

GSK's centrally managed cash reserves amounted to £2.9 billion at 31 December 2021, all available within three months. This includes £1.7 billion of cash managed by the Group for ViiV Healthcare, a 78.3% owned subsidiary and £0.7 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 75% (2020 – 79%) of the sales of the US Pharmaceuticals and Vaccines businesses in 2021.

At 31 December 2021, the Group had trade receivables due from these three wholesalers totalling £2,430 million or 39% of total trade receivables (2020 – £2,362 million or 43%). 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.

43. Financial instruments and related disclosures continued

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').

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 2021, £315 million (2020 – £386 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 232 presents the carrying amounts and the fair values of the Group's financial assets and liabilities excluding lease liabilities at 31 December 2021 and 31 December 2020.

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:

- 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	2021 Carrying value £m	2021 Fair value £m	2020 Carrying value £m	2020 Fair value £m
Financial assets measured at amortised cost:					
Other non-current assets	b	21	21	37	37
Trade and other receivables	b	4,830	4,830	3,990	3,990
Liquid investments		61	61	78	78
Cash and cash equivalents		2,825	2,825	3,000	3,000
Financial assets measured at fair value through other comprehensive income (FVTOCI):					
Other investments designated at FVTOCI	a	1,927	1,927	2,939	2,939
Trade and other receivables	a,b	1,943	1,943	1,942	1,942
Financial assets mandatorily measured at fair value through profit or loss (FVTPL):					
Other investments	a	199	199	121	121
Other non-current assets	a,b	23	23	30	30
Trade and other receivables	a,b	59	59	46	46
Held for trading derivatives that are not in a designated and effective hedging relationship	a,d,e	83	83	68	68
Cash and cash equivalents	a	1,449	1,449	3,292	3,292
Derivatives designated and effective as hedging instruments (fair value movements through Other comprehensive income)	a,d,e	123	123	89	89
Total financial assets		13,543	13,543	15,632	15,632
Financial liabilities measured at amortised cost:					
Borrowings excluding obligations under lease liabilities:					
– bonds in a designated hedging relationship	d	(4,982)	(5,311)	(7,681)	(8,171)
– other bonds		(17,373)	(20,746)	(17,205)	(21,966)
– bank loans and overdrafts		(550)	(550)	(1,110)	(1,110)
– commercial paper		(252)	(252)	(17)	(17)
– other borrowings		(1)	(1)	(20)	(20)
Total borrowings excluding lease liabilities	f	(23,158)	(26,860)	(26,033)	(31,284)
Trade and other payables	c	(15,431)	(15,431)	(13,748)	(13,748)
Other provisions	c	(113)	(113)	(232)	(232)
Other non-current liabilities	c	(52)	(52)	(72)	(72)
Financial liabilities mandatorily measured at fair value through profit or loss (FVTPL):					
Contingent consideration liabilities	a,c	(6,076)	(6,076)	(5,869)	(5,869)
Held for trading derivatives that are not in a designated and effective hedging relationship	a,d,e	(171)	(171)	(200)	(200)
Derivatives designated and effective as hedging instruments (fair value movements through Other comprehensive income)	a,d,e	(57)	(57)	(31)	(31)
Total financial liabilities excluding lease liabilities		(45,058)	(48,760)	(46,185)	(51,436)
Net financial assets and financial liabilities excluding lease liabilities		(31,515)	(35,217)	(30,553)	(35,804)

The valuation methodology used to measure fair value in the above table is described and categorised on page 231.

Trade and other receivables, Other non-current assets, Trade and other payables, Other provisions, Contingent consideration liabilities and Other non-current liabilities are reconciled to the relevant Notes on pages 234 and 235.

43. Financial instruments and related disclosures continued

Fair value of investments in GSK shares

At 31 December 2021, the Employee Share Ownership Plan (ESOP) Trusts held GSK shares with a carrying value of £28 million (2020 – £195 million) and a market value of £373 million (2020 – £657 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 2021, 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 2021, GSK held Treasury shares at a cost of £4,969 million (2020 – £4,969 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 2021	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	1,736	–	191	**1,927**
Trade and other receivables	–	1,943	–	**1,943**
Financial assets mandatorily measured at fair value through profit or loss (FVTPL):				
Other investments	–	–	199	**199**
Other non-current assets	–	–	23	**23**
Trade and other receivables	–	59	–	**59**
Held for trading derivatives that are not in a designated and effective hedging relationship	–	77	6	**83**
Cash and cash equivalents	1,449	–	–	**1,449**
Derivatives designated and effective as hedging instruments (fair value movements through OCI)	–	123	–	**123**
	3,185	2,202	419	**5,806**
Financial liabilities at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss (FVTPL):				
Contingent consideration liabilities	–	–	(6,076)	**(6,076)**
Held for trading derivatives that are not in a designated and effective hedging relationship	–	(171)	–	**(171)**
Derivatives designated and effective as hedging instruments (fair value movements through OCI)	–	(57)	–	**(57)**
	–	(228)	(6,076)	**(6,304)**

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)

43. Financial instruments and related disclosures continued

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

	2021 £m	2020 £m
At 1 January	(5,064)	(4,722)
Net losses recognised in the income statement	(1,024)	(1,269)
Net gains recognised in other comprehensive income	189	160
Settlement of contingent consideration liabilities	856	885
Additions	99	126
Disposals and settlements	(19)	(172)
Transfers from Level 3	(694)	(72)
At 31 December	(5,657)	(5,064)

Net losses of £1,024 million (2020 – £1,269 million) attributable to Level 3 financial instruments which were recognised in the income statement were all in respect of financial instruments which were held at the end of the year and were reported in Other operating income. Charges of £1,026 million (2020 – £1,114 million) arose from remeasurement of the contingent consideration payable for the acquisition of the former Shionogi-ViiV Healthcare joint venture and £32 million (2020 – £161 million) arose from remeasurement of the contingent consideration payable for the acquisition of the Novartis Vaccines business. Net gains of £195 million (2020 – net gains of £39 million) attributable to Level 3 financial instruments reported in Other comprehensive income as Fair value movements on equity investments 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 £5,559 million (2020 – £5,359 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 £479 million (2020 – £477 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 and Other non-current assets in scope of IFRS 9

The following table reconciles financial instruments within Trade and other receivables and Other non-current assets 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.

	2021						2020					
	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)	59	1,943	4,830	6,832	1,028	7,860	46	1,942	3,990	5,978	974	6,952
Other non-current assets (Note 23)	23	–	21	44	1,632	1,676	30	–	37	67	974	1,041
	82	1,943	4,851	6,876	2,660	9,536	76	1,942	4,027	6,045	1,948	7,993

Trade and other receivables include trade receivables of £6,246 million (2020 – £5,549 million). The Group has portfolios in each of the three business models under IFRS 9: £59 million (2020 – £46 million), measured at FVTPL, is held to sell the contractual cash flows as the receivables will be sold under a factoring arrangement, £1,943 million (2020 – £1,942 million), measured at FVTOCI, is held to either collect or sell the contractual cash flows as the receivables may be sold under a factoring agreement, and £4,244 million (2020 – £3,561 million), measured at amortised cost, is held to collect the contractual cash flows and there is no factoring agreement in place.

43. Financial instruments and related disclosures continued

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

The following table reconciles financial instruments within Trade and other payables, Other provisions, Contingent consideration liabilities and Other non-current liabilities which fall within the scope of IFRS 9 to the relevant balance sheet amounts. The financial liabilities are predominantly non-interest bearing. 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.

	2021					2020				
	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)	–	(15,431)	(15,431)	(2,123)	(17,554)	–	(13,748)	(13,748)	(2,092)	(15,840)
Other provisions (Note 31)	–	(113)	(113)	(1,358)	(1,471)	–	(232)	(232)	(1,527)	(1,759)
Contingent consideration liabilities (Note 32)	(6,076)	–	(6,076)	–	(6,076)	(5,869)	–	(5,869)	–	(5,869)
Other non-current liabilities (Note 33)	–	(52)	(52)	(869)	(921)	–	(72)	(72)	(731)	(803)
	(6,076)	(15,596)	(21,672)	(4,350)	(26,022)	(5,869)	(14,052)	(19,921)	(4,350)	(24,271)

(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:

	2021 Fair value		2020 Fair value	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Non-current				
Cash flow hedges – Interest rate swap contracts (principal amount – £1,996 million (2020 – £nil))	12	(1)	–	–
Current				
Cash flow hedges – Interest rate swap contracts (principal amount – £nil (2020 – £899 million))	–	–	–	(1)
Net investment hedges – Cross currency swaps (principal amount – £nil (2020 – £549 million))	–	–	–	(18)
Cash flow hedges – Foreign exchange contracts (principal amount – £160 million (2020 – £24 million))	–	(3)	–	–
Net investment hedges – Foreign exchange contracts (principal amount – £5,469 million (2020 – £11,193 million))	111	(53)	89	(12)
Derivatives designated and effective as hedging instruments	123	(57)	89	(31)
Non-current				
Embedded and other derivatives	6	–	5	(10)
Current				
Foreign exchange contracts (principal amount – £9,728 million (2020 – £13,563 million))	77	(169)	57	(190)
Embedded and other derivatives	–	(2)	6	–
Derivatives classified as held for trading	83	(171)	68	(200)
Total derivative instruments	206	(228)	157	(231)

Fair value hedges

At 31 December 2021 and 31 December 2020, the Group had no designated fair value hedges.

43. Financial instruments and related disclosures continued

Net investment hedges

At 31 December 2021, certain foreign exchange contracts were designated as net investment hedges in respect of the foreign currency translation risk arising on consolidation of the Group's net investment in its European (Euro) and Japanese (JPY) foreign operations as shown in the table above.

The carrying value of bonds on page 232 included £4,982 million (2020 – £7,681 million) that were designated as hedging instruments in net investment hedges.

Cash flow hedges

During 2018-2021, 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 in the current year, and in the future. 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.

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 £nil in 2021 (2020 – gain of £7 million). No ineffectiveness was recorded from net investment hedges (2020 – £nil).

Included in the 2020 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.

					2021
Hedging instruments	Average exchange rate	Foreign currency	Notional value £m	Carrying value £m	Periodic change in value for calculating hedge ineffectiveness £m
Cash flow hedges					
Foreign exchange contracts					
Buy foreign currency:					
Less than 3 months	1.32	USD	89	(2)	–
3 to 6 months	1.17	EUR	48	(1)	(1)
Over 6 months	1.17	EUR	23	–	–
			160	(3)	(1)

43. Financial instruments and related disclosures continued

Hedging instruments	Average exchange rate	Foreign currency	2021 Notional value £m	2021 Carrying value £m	2021 Periodic change in value for calculating hedge ineffectiveness £m
Net investment hedges					
Foreign exchange contracts					
Sell foreign currency:					
Less than 3 months	1.18	EUR	5,348	58	578
		SGD	–	–	55
	155.19	JPY	121	–	15
Borrowings					
Less than 3 months		EUR	252	(252)	11
Over 6 months		EUR	4,998	(4,982)	459
			10,719	(5,176)	1,118

Hedged items	2021 Periodic change in value for calculating hedge ineffectiveness £m	2021 Cumulative balance in cash flow hedge reserve/foreign currency translation reserve for continuing hedges £m
Cash flow hedges		
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 foreign operations	(1,117)	(873)

Hedging instruments	Average exchange rate	Foreign currency	2020 Notional value £m	2020 Carrying value £m	2020 Periodic change in value for calculating hedge ineffectiveness £m
Cash flow hedges					
Foreign exchange contracts					
Buy foreign currency:					
3 to 6 months	1.12	EUR	24	0.1	–
			24	0.1	–

Hedging instruments	Average exchange rate	Foreign currency	2020 Notional value £m	2020 Carrying value £m	2020 Periodic change in value for calculating hedge ineffectiveness £m
Net investment hedges					
Foreign exchange contracts					
Sell foreign currency:					
Less than 3 months	1.10	EUR	9,663	60	(370)
Less than 3 months	1.79	SGD	1,387	13	32
Less than 3 months	139.41	JPY	143	4	(30)
Borrowings (including cross currency interest rate swaps):					
3 to 6 months		EUR	549	(550)	(34)
Over 6 months		EUR	7,117	(7,131)	(501)
			18,859	(7,604)	(903)

43. Financial instruments and related disclosures continued

Hedged items	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 (2020)
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)

£19 million (2020 – £19 million) of balances in the cash flow hedge reserve arise 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:

2021				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)	–	(7)	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	1,117	–	Finance income/ (expense)	–	(7)	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:

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)

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.

There are none of these swaps outstanding as 31 December 2021, however, the interest rate risk on an element of future debt issuance has been managed by entering into forward starting interest rate swaps, effectively to lock in the interest rates on the debt in advance. These will be closed out at the time of issuing the debt, and the resulting gain or loss held in OCI and recycled to income statement as the interest payments on the debt impact the income statement.

Forward starting interest rate swaps

The forward starting interest rate contracts, exchanging floating interest for fixed interest, have been designated as cash flow hedges to hedge the interest variability of the interest cash flows associated with the future fixed rate debt.

Interest rate swaps

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 and forward starting interest rate swap contracts and their corresponding hedged items are materially 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 material sources of ineffectiveness emerged from these hedging relationships.

The following tables provide information regarding interest rate swap and forward starting interest rate swap contracts outstanding and the related hedged items at 31 December 2021 and 31 December 2020. 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.

	2021			
Hedging instruments	Average contracted fixed rate %	Notional principal value £m	Change in fair value for recognising hedge ineffectiveness £m	Fair value assets/ (liabilities) £m
5-10 years	1.1038	668	4	4
10-30 years	1.3385	935	3	3
More than 30 years	1.4515	393	4	4

	2021	
Hedged items	Change in value used for calculating hedge ineffectiveness £m	Balance in cash flow hedge reserve for continuing hedges after tax £m
Pre-hedging of long-term interest rate	(11)	(8)

£11 million (2020 – £11 million) of balances in the cash flow hedge reserve arise from hedge relationships for which hedge accounting is no longer applied.

	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 after tax £m
Variable rate borrowings	(3)	1

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:

2021						
				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	(11)	–	Finance income/ (expense)	–	17	Finance income/ (expense)
Pre-hedging of long-term interest rates:						
Matured in the past	–	–	Finance income/ (expense)	–	2	Finance income/ (expense)
5-10 years	4	–		–	–	
10-30 years	3	–		–	–	
>30 years	4	–		–	–	

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)

(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 2021 and 31 December 2020. The column 'Net amount' shows the impact on the Group's balance sheet if all offset rights were exercised.

At 31 December 2021	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	6,851	(19)	**6,832**	(3)	6,829
Derivative financial instruments	206	–	**206**	(192)	14
Financial liabilities					
Trade and other payables	(15,450)	19	**(15,431)**	3	(15,428)
Derivative financial instruments	(228)	–	**(228)**	192	(36)

43. Financial instruments and related disclosures continued

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 balance £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	(13,767)	19	(13,748)	28	(13,720)
Derivative financial instruments	(231)	–	(231)	142	(89)

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.

	2021 Total debt £m	2020 Total £m
Floating and fixed rate debt less than one year	(3,398)	(3,495)
Between one and two years	(4,030)	(2,561)
Between two and three years	(1,576)	(4,061)
Between three and four years	(1,365)	(1,622)
Between four and five years	(1,425)	(1,398)
Between five and ten years	(4,411)	(5,981)
Greater than ten years	(6,953)	(6,915)
Total	(23,158)	(26,033)
Original issuance profile:		
Fixed rate interest	(22,355)	(23,002)
Floating rate interest	(803)	(3,031)
	(23,158)	(26,033)

In addition to the above, forward starting interest rate swaps have been entered into, which affect the pricing of debt to be raised in the future. See Section (d) Interest Rate Risk for further details.

Strategic report
Governance and remuneration
Financial statements
Investor information

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.

	2021	2020
Income statement impact of non-functional currency foreign exchange exposures	**Increase/(decrease) in income £m**	Increase/(decrease) in income £m
10 cent appreciation of the US Dollar	**5**	20
10 cent appreciation of the Euro	**(26)**	(25)
10 yen appreciation of the Yen	**–**	(1)

	2021	2020
Income statement impact of non-functional currency foreign exchange exposures	**Increase/(decrease) in income £m**	Increase/(decrease) in income £m
10 cent depreciation of the US Dollar	**(4)**	(17)
10 cent depreciation of the Euro	**22**	21
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.

	2021	2020
Equity impact of non-functional currency foreign exchange exposures	**Increase/(decrease) in equity £m**	Increase/(decrease) in equity £m
10 cent appreciation of the Euro	**(964)**	(1,711)

	2021	2020
Equity impact of non-functional currency foreign exchange exposures	**Increase/(decrease) in equity £m**	Increase/(decrease) in equity £m
10 cent depreciation of the Euro	**814**	1,429

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	2021 (Increase)/decrease in net debt £m	2020 (Increase)/decrease in net debt £m
10 cent appreciation of the US Dollar	(767)	(782)
10 cent appreciation of the Euro	444	286
10 yen appreciation of the Yen	17	23

Impact of foreign exchange movements on net debt	2021 (Increase)/decrease in net debt £m	2020 (Increase)/decrease in net debt £m
10 cent depreciation of the US Dollar	661	675
10 cent depreciation of the Euro	(375)	(239)
10 yen depreciation of the Yen	(15)	(20)

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 2021 would have decreased by approximately £11 million (2020 – £14 million increase). A 1% (100 basis points) movement in USD interest rates would cause an increase of £197 million to equity (2020 - £nil). A 1% (100 basis points) movement in interest rates EUR or Sterling is not deemed to have a material effect on equity.

Income statement impact of interest rate movements	2021 Increase/(decrease) in income £m	2020 Increase/(decrease) in income £m
1% (100 basis points) increase in Sterling interest rates	(25)	8
1% (100 basis points) increase in US Dollar interest rates	11	28
1% (100 basis points) increase in Euro interest rates	3	(22)

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 2021	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	(3,399)	(686)	(203)	(25)	(16,432)	**(20,745)**
Between one and two years	(4,042)	(620)	(185)	(22)	(935)	**(5,804)**
Between two and three years	(1,582)	(574)	(120)	(19)	(893)	**(3,188)**
Between three and four years	(1,372)	(538)	(93)	(16)	(919)	**(2,938)**
Between four and five years	(1,428)	(500)	(73)	(14)	(924)	**(2,939)**
Between five and ten years	(4,440)	(2,046)	(205)	(44)	(2,703)	**(9,438)**
Greater than ten years	(7,033)	(2,639)	(136)	(13)	(1,571)	**(11,392)**
Gross contractual cash flows	(23,296)	(7,603)	(1,015)	(153)	(24,377)	**(56,444)**

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)	(14,554)	(19,036)
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)	(22,894)	(58,691)

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.

	2021				2020			
	Gross cash inflows		**Gross cash ouflows**		Gross cash inflows		Gross cash outflows	
	Forward starting interest rate swaps £m	**Foreign exchange forward contracts and swaps £m**	**Forward starting 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
Less than one year	**–**	**41,252**	**(13)**	**(41,290)**	551	32,451	(569)	(32,508)
Between one and two years	**12**	**–**	**(26)**	**–**	–	–	–	–
Between two and three years	**24**	**–**	**(26)**	**–**	–	–	–	–
Between three and four years	**28**	**–**	**(26)**	**–**	–	–	–	–
Between four and five years	**28**	**–**	**(26)**	**–**	–	–	–	–
Greater than five years	**259**	**–**	**(220)**	**–**	–	–	–	–
Gross contractual cash flows	**351**	**41,252**	**(337)**	**(41,290)**	551	32,451	(569)	(32,508)

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 2021 was £404 million (2020 – £393 million; 2019 – £432 million). Of this amount, £303 million (2020 – £313 million; 2019 – £302 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 3.8% (2020 – 5.0%; 2019 – 4.2%) 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 2019	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	
Awards granted	13,681	£13.30	7,280	$36.68
Awards exercised	(11,440)		(5,726)	
Awards cancelled	(1,776)		(1,705)	
At 31 December 2021	34,337		17,839	

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 2016 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 2021, awards were made of 4.9 million shares at a weighted fair value of £10.69 and 1.6 million ADS at a weighted fair value of $29.40. At 31 December 2021, there were outstanding awards over 13.7 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:

	2021 Grant	2020 Grant	2019 Grant
Risk-free interest rate	**0.74%**	(0.07)%	0.44%
Dividend yield	**3.8%**	6.2%	4.5%
Volatility	**27%**	27%	22%
Expected life	**3 years**	3 years	3 years
Savings-related options grant price (including 20% discount)	**£12.07**	£10.34	£14.15

Options outstanding	Savings-related share option schemes		
	Number 000		Weighted exercise price
At 31 December 2021	7,165		£11.58
Range of exercise prices on options outstanding at year end	£10.34	–	£14.15
Weighted average market price on exercise during year			£13.30
Weighted average remaining contractual life			2.1 years

Options over 1.9 million shares were granted during the year under the savings-related share option scheme at a weighted average fair value of £3.22. At 31 December 2021, 5.3 million of the savings-related share options were not exercisable.

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. On 10 February 2022, 50.3 million treasury shares were transferred to the ESOP Trusts after which the Trusts held 72.9 million shares against the exercise of share options and share rewards.

Shares held for share award schemes	2021	2020
Number of shares (000)	**23,065**	48,835

	£m	£m
Nominal value	**6**	12
Carrying value	**27**	194
Market value	**371**	655

Shares held for share option schemes	2021	2020
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 2021. The equity share capital of these entities is shown in the percentage columns. All companies are incorporated in their principal country of operation except where stated.

England	%
Glaxo Group Limited	100.00
Glaxo Operations UK Limited	100.00
GlaxoSmithKline Capital plc	100.00
GlaxoSmithKline Consumer Healthcare Holdings Limited*	100.00
GlaxoSmithKline Consumer Healthcare (UK) Trading Limited	68.00
GlaxoSmithKline Consumer Trading Services Limited	68.00
GlaxoSmithKline Export Limited	100.00
GlaxoSmithKline Finance plc	100.00
GlaxoSmithKline Holdings Limited*	100.00
GlaxoSmithKline Research & Development Limited	100.00
GlaxoSmithKline Services Unlimited*	100.00
GlaxoSmithKline UK Limited	100.00
GlaxoSmithKline US Trading Limited	100.00
Glaxo Wellcome UK Limited	100.00
Setfirst Limited	100.00
SmithKline Beecham Limited	100.00
ViiV Healthcare Finance Limited	78.30
ViiV Healthcare Limited	78.30
ViiV Healthcare UK Limited	78.30

US	%
Alacer Corp	68.00
Block Drug Company, Inc.	68.00
Corixa Corporation	100.00
GlaxoSmithKline Capital Inc.	100.00
GlaxoSmithKline Consumer Healthcare Holdings (US) LLC	68.00
GlaxoSmithKline Consumer Healthcare, L.P.	59.84
GlaxoSmithKline Holdings (Americas) Inc.	100.00
GlaxoSmithKline LLC	100.00
Human Genome Sciences, Inc.	100.00
GSK Consumer Health, Inc.	68.00
GSK Equity Investments, Limited	100.00
Stiefel Laboratories, Inc.	100.00
Tesaro, Inc.	100.00
ViiV Healthcare Company	78.30

Europe	%
GlaxoSmithKline Biologicals SA (Belgium)	100.00
GlaxoSmithKline Santé Grand Public (France)	68.00
Laboratoire GlaxoSmithKline (France)	100.00
ViiV Healthcare SAS (France)	78.30
GlaxoSmithKline Consumer Healthcare GmbH & Co. KG (Germany)	68.00
GlaxoSmithKline GmbH & Co. KG (Germany)	100.00
GSK Vaccines GmbH (Germany)	100.00
GlaxoSmithKline Consumer Healthcare S.r.l (Italy)	68.00
GlaxoSmithKline S.p.A. (Italy)	100.00
GSK Vaccines S.r.l. (Italy)	100.00
ViiV Healthcare S.r.l. (Italy)	78.30
Pfizer Consumer Manufacturing Italy S.r.l. (Italy)	68.00
GSK Services Sp z o.o. (Poland)	100.00
GlaxoSmithKline Trading Services Limited (Republic of Ireland)**	100.00
GlaxoSmithKline Healthcare AO (Russia)	68.00
JSC GlaxoSmithKline Trading (Russia)	100.00
GlaxoSmithKline S.A. (Spain)	100.00
Laboratorios ViiV Healthcare, S.L. (Spain)	78.30
GSK Consumer Healthcare SARL (Switzerland)	68.00

Others	%
GlaxoSmithKline Australia Pty Ltd (Australia)	100.00
GlaxoSmithKline Consumer Healthcare Australia Pty Ltd (Australia)	68.00
GlaxoSmithKline Brasil Limitada (Brazil)	100.00
GlaxoSmithKline Consumer Healthcare ULC/GlaxoSmithKline Soins De Sante Aux Consommateurs SRI (Canada)	68.00
GlaxoSmithKline Inc. (Canada)	100.00
ID Biomedical Corporation of Quebec (Canada)	100.00
PF Consumer Healthcare Canada ULC/PF Soins De Sante SRI (Canada)	68.00
GlaxoSmithKline Limited (China (Hong Kong))	100.00
Sino-American Tianjin Smith Kline & French Laboratories Ltd (China)	37.40
Wyeth Pharmaceutical Co. Ltd (China)	68.00
GlaxoSmithKline Asia Private Limited (India)	100.00
GlaxoSmithKline Pharmaceuticals Limited (India)	75.00
GlaxoSmithKline Consumer Healthcare Japan K.K. (Japan)	68.00
GlaxoSmithKline K.K. (Japan)	100.00
GlaxoSmithKline Pakistan Limited (Pakistan)	82.60
Glaxo Wellcome Manufacturing Pte Ltd. (Singapore)	100.00
GlaxoSmithKline Korea Limited (Republic of Korea)	100.00

* Directly held wholly-owned subsidiary of GlaxoSmithKline plc.
** Head office in England.

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 299 to 310 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 2021, the Group's aggregate provision for legal and other disputes (not including tax matters described in Note 14, 'Taxation') was £196 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. On 5 August 2021, the original panel issued its rehearing opinion where the majority again reinstated the jury's damages award of $235.51 million in GSK's favour. Teva again filed a petition for rehearing en banc which was rejected by the Court of Appeals for the Federal Circuit on 11 February 2022.

Dolutegravir Proceedings

– *Tivicay/Triumeq*

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. Settlements have been reached in all litigations.

In September 2021, ViiV Healthcare received a paragraph IV letter from Lupin relating to the *Tivicay* 5mg dosage for oral suspension, challenging only the crystal form patent. On 2 November 2021, ViiV Healthcare filed suit against Lupin in the US District Court for the District of Delaware. No trial date has yet been set.

– *Dovato*

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.

– *Juluca*

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 in either matter.

– Litigation Against Gilead Sciences, Inc.

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 alleged 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. ViiV Healthcare also commenced actions in the UK, France, Germany, Japan, Ireland, South Korea and Australia against Gilead, alleging that Gilead's Biktarvy infringes certain of ViiV Healthcare's HIV integrase inhibitor patents. ViiV Healthcare has agreed to settle the global patent infringement litigation between GSK, Shionogi (a shareholder of ViiV Healthcare) and Gilead concerning ViiV Healthcare's patents relating to dolutegravir. Details regarding the global settlement and licensing agreement can be found in Note 47, 'Post balance sheet events'.

46. Legal proceedings continued

Product liability

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

Avandia

There are two pending US class actions brought by third-party payers which 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. Discovery is underway in the district court but no trial dates have yet been set. It is possible that a class certification hearing will be held in early 2023.

PPI litigation

Certain members of the Group are defendants 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 2022, there are approximately 1,500 Prevacid 24HR personal injury lawsuits and approximately 2,300 Nexium 24HR cases pending against the Group, nearly all of which are pending in a Multidistrict Litigation (MDL) proceeding in the District of New Jersey. Manufacturers of other PPIs, including both prescription and OTC products, 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 was delayed due to the ongoing COVID-19 pandemic and is now set for October 2022 but will not involve the Group. 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 2,150 US personal injury claims and numerous unfiled claims registered in a census required by the Court presiding over the *Zantac* Multidistrict Litigation (MDL) proceeding. 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. Among the state court cases naming the Group, the first bellwether trial in California is currently scheduled to begin 10 October 2022 and a trial has been scheduled in Madison County, Illinois to proceed on 22 August 2022.

On 6 February 2020, the US product liability litigation was assigned MDL status in the Southern District of Florida. The Group has filed several rounds of Motions to Dismiss in the MDL resulting in the following position: 1) the Court ruled in favour of the Group's motion on innovator liability; that issue is on appeal; 2) the Court ruled in favour of Defendants with respect to the Third Party Payor Class Action; Plaintiffs opted not to replead their action and these issues are now on appeal; 3) the Court dismissed RICO claims from the Economic Loss Class Action but allowed the class to move forward on plaintiffs misbranding theory; and 4) the Medical Monitoring and Economic Loss class actions are allowed to move forward. Generics, retailers and packagers have been dismissed from the cases.

In the MDL, plaintiffs were required to identify the types of cancer that they wished to pursue and identified 10 different types. In November 2021, plaintiffs withdrew from consideration breast cancer and kidney cancer, reducing the number of types of cancer from 10 to 8. In January 2022, plaintiffs withdrew from consideration colorectal, prostate and lung and will proceed only as to the following five types of cancer: bladder, esophageal, gastric, liver and pancreatic.

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.

46. Legal proceedings continued

Zofran
The Group was a defendant in over 400 product liability cases involving Zofran pending in a Multidistrict Litigation (MDL) proceeding in the District of Massachusetts. The cases alleged that children suffered birth defects due to their mothers' ingestion of Zofran and/or generic ondansetron for pregnancy-related nausea and vomiting. Plaintiffs asserted 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.

On 1 June 2021, the MDL Court granted the Group's motion for summary judgment on federal pre-emption grounds. The Court found that the FDA was fully informed of all relevant safety information regarding Zofran and had repeatedly rejected any attempt to add a birth defect warning to the label. The Court granted judgment for the Group in all cases pending in the MDL and closed the MDL proceeding. On 1 July 2021, Plaintiffs filed an appeal of the preemption decision to the United States Court of Appeals for the First Circuit. The appeal is pending.

The Group is also a defendant in two state court cases and 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.

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 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, in general, the approach undertaken by the CMA in its original decision. On 10 May 2021, the CAT delivered its final judgement and held that GSK had infringed applicable competition law but reduced the fine imposed on the Group from £37.6 million to £22.2 million. This litigation is now closed.

Lamictal
Purported classes of direct 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. On 9 April 2021, the district court denied Plaintiffs' motion for class certification of the putative direct purchaser class, leaving a potential class of brand-only purchasers. Plaintiffs moved to supplement their expert report and seek additional discovery to support the addition of certain generic purchasers. On 21 January 2022, the district court denied Plaintiffs' motion to supplement their expert report and seek additional discovery and held that the issue of generic purchasers had already been decided and denied in the court's ruling on decertification. The parties will now move to briefing on class certification as to the remaining brand-only purchasers.

47. Post balance sheet events

On 1 February 2022, ViiV Healthcare reached agreement with Gilead to settle the global patent infringement litigation relating to the commercialisation of Gilead's Biktarvy concerning ViiV Healthcare's patents relating to dolutegravir, an anti-retroviral medication used, together with other medicines, to treat human immunodeficiency virus (HIV). Under the terms of the global settlement and licensing agreement, Gilead made an upfront payment of $1.25 billion to ViiV Healthcare on 15 February 2022. In addition, Gilead will also pay a 3% royalty on all future US sales of Biktarvy and in respect of the bictegravir component of any other future bictegravir-containing products sold in the US. These royalties will be payable by Gilead to ViiV Healthcare from 1 February 2022 until the expiry of ViiV Healthcare's US Patent No. 8,129,385 on 5 October 2027. Gilead's obligation to pay royalties does not extend into any period of regulatory paediatric exclusivity, if awarded.

The settlement resulted in a re-measurement of the existing liabilities for contingent consideration and the Pfizer put option at the 2021 year end. The upfront payment is a contingent asset at the balance sheet date as its receipt was not considered virtually certain at that date and therefore it will be recognised in Q1 2022 as Other operating income. As a result of the settlement, patent infringement cases in the US, UK, France, Ireland, Germany, Japan, South Korea, Australia, and Canada will be discontinued.

Company balance sheet – UK GAAP

(including FRS 101 'Reduced Disclosure Framework') as at 31 December 2021

	Notes	2021 £m	2021 £m	2020 £m	2020 £m
Fixed assets – investments	E		**54,995**		54,992
Current assets:					
Trade and other receivables	F		**2,720**		1,689
Cash at bank			**17**		14
Total current assets			**2,737**		1,703
Trade and other payables	G		**(598)**		(531)
Total current liabilities			**(598)**		(531)
Net current assets			**2,139**		1,172
Total assets less current liabilities			**57,134**		56,164
Provisions for liabilities	H		**(12)**		(7)
Other non-current liabilities	I		**(458)**		(457)
Net assets			**56,664**		55,700
Capital and reserves					
Share capital	J		**1,347**		1,346
Share premium account	J		**3,301**		3,281
Other reserves	K		**1,420**		1,420
Retained earnings:					
At 1 January		**49,653**		49,206	
Profit/(loss) for the year		**4,942**		3,893	
Other changes in retained earnings		**(3,999)**		(3,446)	
	K		**50,596**		49,653
Equity shareholders' funds			**56,664**		55,700

The financial statements on pages 252 to 256 were approved by the Board on 28 February 2022 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 2021

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	**Total equity £m**
At 1 January 2020	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**
Profit and Total comprehensive income attributable to shareholders	–	–	–	4,942	**4,942**
Dividends to shareholders	–	–	–	(3,999)	**(3,999)**
Shares issued under employee share schemes	1	20	–	–	**21**
At 31 December 2021	1,347	3,301	1,420	50,596	**56,664**

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 2021, with comparative figures as at 31 December 2020.

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 net assets value of the investment or against its share of the valuation of the subsidiary based on expected discounted cash flows. The total amount of investments is also evaluated against 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 (2020 – £12,600) 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 2020. For further details, see Note 16 to the Group financial statements, 'Dividends'.

E) Fixed assets – investments

	2021 £m	2020 £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	480	477
	54,995	54,992

F) Trade and other receivables

	2021 £m	2020 £m
Amounts due within one year:		
UK Corporation tax recoverable	9	10
Amounts owed by Group undertakings	2,319	1,231
	2,328	1,241
Amounts due after more than one year:		
Amounts owed by Group undertakings	392	448
	2,720	1,689

The movement in the Amounts owed by Group undertakings in the period, as reflected within Notes 7 and 8, primarily reflects the receipt of dividend income from subsidiaries and utilisation of the company's current account to fund the payment of the third and fourth interim 2020 dividends as well as the first and second interim dividends for 2021.

Notes to the company balance sheet – UK GAAP

(including FRS 101 'Reduced Disclosure Framework') continued

G) Trade and other payables

	2021 £m	2020 £m
Amounts due within one year:		
Other creditors	457	511
Contingent consideration payable	22	20
Amounts owed to Group undertakings	119	–
	598	531

The company has guaranteed debt issued by its subsidiary companies from one of which it receives fees. In aggregate, the company has outstanding guarantees over £22.4 billion of debt instruments (2020 – £24.9 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).

H) Provisions for liabilities

	2021 £m	2020 £m
At 1 January	7	4
Charge for the year	24	15
Utilised	(19)	(12)
At 31 December	12	7

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

I) Other non-current liabilities

	2021 £m	2020 £m
Contingent consideration payable	458	457

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

J) 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 2020	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
Issued under employee share schemes	1,825,442	1	20
At 31 December 2021	5,387,015,059	1,347	3,301

	31 December 2021 000	31 December 2020 000
Number of shares issuable under employee share schemes	**75,210**	48,205
Number of unissued shares not under option	**4,537,775**	4,566,605

At 31 December 2021, of the issued share capital, 23,205,289 (2020 – 48,975,304) shares were held in the ESOP Trusts, 355,205,950 (2020 – 355,205,950) shares were held as Treasury shares and 5,008,603,820 (2020 – 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'. On 10 February 2022, 50.3 million treasury shares were transferred to the ESOP Trusts after which the Trusts held 72.9 million shares against the exercise of share options and share rewards.

K) Retained earnings and other reserves

The profit of GlaxoSmithKline plc for the year was £4,942 million (2020 – £3,893 million profit). After dividends paid of £3,999 million (2020 – £3,977 million), and the effect of £nil Treasury shares transferred to a subsidiary company (2020 – £531 million) retained earnings at 31 December 2021 stood at £50,596 million (2020 – £49,653 million), of which £38,896 million was unrealised (2020 – £38,896 million). Dividends to shareholders are paid out of the realised profits of the company, which at 31 December 2021 amounted to £11,700 million (2020 – £10,757 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.

L) Group companies

See pages 299 to 310 for a complete list of subsidiaries, associates, joint ventures and other significant shareholdings, which forms part of these financial statements.