

**GlaxoSmithKline Services Unlimited**  
(Registered number: 1047315)

**Directors' report and financial statements**

**for the year ended 31 December 2012**

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**GlaxoSmithKline Services Unlimited**

**Directors' report and financial statements**

**for the year ended 31 December 2012**

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**GlaxoSmithKline Services Unlimited**  
**(Registered number 1047315)**

**Directors' report for the year ended 31 December 2012**

The Directors submit their report and the audited financial statements for the year ended 31 December 2012

**Principal activities**

GlaxoSmithKline Services Unlimited (the "Company") provides management services to GlaxoSmithKline plc and its subsidiaries (the "Group"). The Directors do not envisage any change to the nature of the business in the foreseeable future.

**Review of business**

The Company made a profit for the financial year of £313 million (2011 profit of £256 million). The Directors are of the opinion that the current level of activity and the year end financial position are satisfactory and will remain so in the foreseeable future.

The profit for the year of £313 million will be transferred to reserves (2011 profit for the year of £256 million transferred to reserves).

**Principal risks and uncertainties**

The Directors of GlaxoSmithKline plc manage the risks of the Group at a group level, rather than at an individual business unit level. For this reason, the Company's Directors believe that a discussion of the Group's risks would not be appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's 2012 Annual Report which does not form part of this report.

**Key performance indicators (KPIs)**

The Directors of the Group manage the Group's operations on a business sector basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The development, performance and position of the Group are discussed in the Group's 2012 Annual Report which does not form part of this report.

**Results and dividends**

The Company's results for the financial year are shown in the profit and loss account on page 5.

No dividend is proposed to the holders of Ordinary Shares in respect of the year ended 31 December 2012 (2011: £nil).

**Directors and their interests**

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

Edinburgh Pharmaceutical Industries Limited  
Glaxo Group Limited  
Simon Dingemans

No Director had, during the year or at the end of the year, any material interest in any contract of significance to the Company's business with the exception of the Corporate Directors, where such an interest may arise in the ordinary course of business.

**Directors' report for the year ended 31 December 2012**

**Directors' indemnity**

Each of the Directors of the Company benefits from an indemnity given by the Company under its Articles of Association. This indemnity is in respect of liabilities incurred by the Director in the execution and discharge of his or its duties. In addition, each Director who is an individual benefits from an indemnity in respect of liabilities arising out of third party proceedings to which he is a party by reason of his engagement in the business of the Group. Furthermore, the Company has provided indemnities to those of its employees who serve as Directors of certain other Group undertakings. These indemnities are also in respect of liabilities arising out of third party proceedings to which the relevant individual is a party by reason of their engagement in the business of the Group undertaking.

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

**Employee Share Ownership Plan Trust ("ESOP Trust")**

The ESOP Trust purchases shares to satisfy share awards and share options granted by GlaxoSmithKline plc to employees of the Company. At 31 December 2012, the ESOP Trust held 34,633,000 shares at a nominal value of £9 million (2011: 57,405,000 shares at a nominal value of £15 million). Details of the aggregate consideration paid is disclosed in Note 24.

**Employees**

An extensive programme of open, two-way communications stimulates employee engagement in the Group's strategy and day-to-day operations. This includes the publication of regular summary reports from the Corporate Executive Team meetings, a Chief Executive Officer's home page featuring presentations and a Q&A area, a Group-wide magazine, town hall meetings and video conferences. Live video streaming and video on demand options have been developed as additional means of ensuring employees have access to the most senior levels of management, and as powerful tools for building culture and driving alignment across common goals. The programme also involves consultation with employees on a regular basis so that the views of employees can be taken into account in making decisions that are likely to affect their interests and achieving a common awareness of all employees in the financial and economic factors that affect the Company's performance.

Share ownership schemes encourage participation as shareholders in GlaxoSmithKline plc, the ultimate parent company of the Group, increasing awareness of short and long term business objectives. Global and local employee opinion surveys allow employees the opportunity to express their views and perspectives on important company issues.

The Company is committed to employment policies free from discrimination against potential or existing staff on the grounds of age, race, ethnic and national origin, gender, sexual orientation, faith or disability.

In particular the Company is committed to offering people with disabilities access to the full range of recruitment and career opportunities. Every effort is made to retain and support staff who become disabled while working for the Group.

**Creditor payment policy**

The Company operates procedures to ensure that suppliers are paid on time. In particular, the Company seeks

- to settle terms of payment with suppliers when agreeing the terms of the transaction,
- to ensure that suppliers are made aware of the agreed terms of payment, and
- to abide by the terms of payment.

The procedures include arrangements for accelerated payment of small suppliers.

**Payment performance**

Trade creditors at 31 December 2012 represented 72 days of annual purchases for the Company (2011 Restated: 91 days).

**GlaxoSmithKline Services Unlimited**  
(Registered number 1047315)

**Directors' report for the year ended 31 December 2012**

**Statement of Directors' responsibilities**

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to

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

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

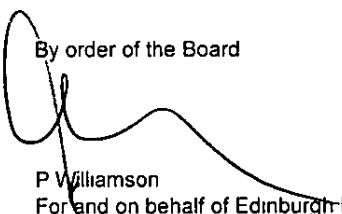
**Disclosure of Information to auditors**

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

**Independent Auditors**

PricewaterhouseCoopers LLP are willing to continue in office as auditors and resolutions dealing with their reappointment and remuneration will be proposed at a General Meeting of the Company.

By order of the Board



P Williamson  
For and on behalf of Edinburgh Pharmaceutical Industries Limited  
Corporate Director  
24 July 2013

## **GlaxoSmithKline Services Unlimited**

### **Independent auditors' report to the members of GlaxoSmithKline Services Unlimited**

We have audited the financial statements of GlaxoSmithKline Services Unlimited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 3 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matters prescribed by the Companies Act 2006**

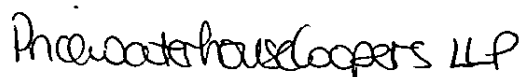
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

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



PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
24 July 2013

**GlaxoSmithKline Services Unlimited**

**Profit and loss account  
for the year ended 31 December 2012**

	Notes	2012 £m	2011 £m
<b>Turnover</b>	2	<b>1,832</b>	2,071
<b>Administrative expenses</b>		<b>(1,222)</b>	(1,625)
Trading profit		610	446
Other operating (expense) / Income	4	(114)	40
<b>Operating profit</b>		<b>496</b>	486
Exceptional items			
Restructuring costs	3	(120)	(80)
<b>Profit before interest and taxation</b>		<b>376</b>	406
Interest receivable and similar income	6	42	39
Interest payable and similar charges	7	(54)	(55)
<b>Profit on ordinary activities before taxation</b>		<b>364</b>	390
<b>Tax on profit on ordinary activities</b>	8	<b>(51)</b>	(134)
<b>Profit for the financial year</b>	17	<b>313</b>	256

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

There is no difference in either the current year or prior year between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents

**GlaxoSmithKline Services Unlimited**

**Statement of total recognised gains and losses  
for the year ended 31 December 2012**

	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
<b>Profit for the financial year</b>	<b>313</b>	<b>256</b>
Changes in actuarial values of retirement benefits (Note 22)	<b>(446)</b>	<b>(636)</b>
Tax effect of changes in actuarial losses values of retirement benefits and impact of change in tax rate	<b>98</b>	<b>158</b>
<b>Total recognised losses relating to the year</b>	<b>(35)</b>	<b>(222)</b>

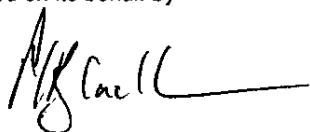


**GlaxoSmithKline Services Unlimited**

**Balance sheet  
as at 31 December 2012**

	Notes	2012 £m	2011 £m
<b>Fixed assets</b>			
Tangible assets	9	312	236
Investments	10	186	320
		<b>498</b>	<b>556</b>
<b>Current assets</b>			
Debtors - amount due within one year	11	4,477	3,085
- amount due after more than one year	11	28	30
Cash at bank and in hand		34	22
		<b>4,539</b>	<b>3,137</b>
<b>Creditors amounts falling due within one year</b>	<b>12</b>	<b>(2,594)</b>	<b>(1,065)</b>
<b>Net current assets</b>		<b>1,945</b>	<b>2,072</b>
<b>Total assets less current liabilities</b>		<b>2,443</b>	<b>2,628</b>
<b>Creditors amounts falling due after more than one year</b>	<b>12</b>	<b>(973)</b>	<b>(975)</b>
<b>Provisions for liabilities</b>	<b>13</b>	<b>(77)</b>	<b>(52)</b>
<b>Net assets before pension liability</b>		<b>1,393</b>	<b>1,601</b>
<b>Pension liability</b>	<b>22</b>	<b>(323)</b>	<b>(552)</b>
<b>Net assets</b>		<b>1,070</b>	<b>1,049</b>
<b>Capital and reserves</b>			
Called up share capital	15	713	713
Profit and loss account	16	357	336
<b>Total shareholders' funds</b>	<b>17</b>	<b>1,070</b>	<b>1,049</b>

The financial statements on pages 5 to 20 were approved by the Board of Directors on 24 July 2013 and were signed on its behalf by



P F Blackburn  
For and on behalf of Glaxo Group Limited - Corporate Director

Notes to the Financial Statements for the year ended 31 December 2012

1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below

(a) Basis of accounting

These financial statements have been prepared on the going concern basis under the historical cost convention the accounting policies set out below which have been applied consistently and in accordance with the Companies Act 2006 and applicable UK Accounting Standards

(b) Foreign currency transactions

Foreign currency transactions are booked in local currency at the exchange rate ruling on the date of the transaction or at the forward rate if hedged by a forward foreign exchange contract Foreign currency monetary assets and liabilities are translated into local currency at rates of exchange ruling at the balance sheet date or at the forward rate Exchange differences are included in operating profit

(c) Turnover

Revenue is recognised in the profit and loss account when services are supplied to Group subsidiaries A management service fee is charged for the services provided

(d) Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms A 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 Advertising expenditure is charged to the profit and loss account as incurred Restructuring costs are recognised in respect of the direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date

(e) 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 period

The Company provides finance to the ESOP Trust to purchase shares on the open market to meet the Company's obligation to provide shares when employees exercise their options or awards Costs of running the ESOP Trust are charged to the profit and loss account Intrinsic costs being the difference between market value at the date of grant and the exercise price are charged to the profit and loss account over the periods of service in respect of which the options and awards are granted Any excess of the purchase price over the market price of the shares at the date of grant of the options and awards is charged to the profit and loss account immediately

Shares held by the ESOP Trust are accounted for as fixed asset investments held at cost less a provision to recognise the amortisation of intrinsic costs and the excess purchase price charges to the profit and loss account

(f) Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less provisions for depreciation or impairment Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use

The costs of acquiring and developing computer software for internal use and internet sites for external use are capitalised as a tangible fixed asset where the software or site supports a significant business system and the expenditure leads to the creation of a durable asset

Depreciation is calculated to write off the cost of tangible fixed assets excluding freehold land in equal annual instalments over their expected useful lives The normal expected useful lives of the major categories of tangible fixed assets are

Freehold buildings	20 to 50 years
Leasehold land and buildings	The shorter of lease term and 50 years
Plant and machinery	10 to 20 years
Fixtures and equipment	3 to 10 years
ERP systems software	7 years
Computer software	3 to 5 years

Depreciation on assets in construction does not commence until the asset has been completed and is available for use

Enterprise Resource Planning (ERP) systems software generally involves significant customisation prior to implementation and is expected to have a useful economic life of seven years rather than the maximum five years of other computer software

On disposal of a tangible fixed asset 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 profit and loss account

(g) Fixed asset investments

Fixed asset investments are stated in the balance sheet at cost less any provision made for impairment in value Such investments are classified as current assets when regarded as available for sale

(h) Impairment of fixed assets

The carrying values of fixed assets are reviewed for impairment when there is an indication that the assets might be impaired Any provision for impairment is charged against profit in the year concerned Impairment is determined by reference to the higher of net realisable value and value in use which is measured by reference to discounted future cash flows Any provision for impairment is charged to the profit and loss account

(i) Asset retirement obligations

Asset retirement obligations are included within the cost of an asset on its initial purchase or construction if there is a legal obligation to incur the costs on retirement of the asset The addition to the cost of the asset and the provision are measured by discounting the expected future cash outflows to present value The asset cost arising from recognition of the asset retirement obligation is depreciated along with the rest of the asset over the expected useful life

(j) Leases

Leasing agreements which transfer to the Company substantially all the benefits and risks of ownership of an asset are treated as finance leases as if the asset had been purchased outright The assets are included in tangible fixed assets and the capital element of the leasing commitment is shown as obligations under finance leases Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of the assets The interest element of the lease rental is charged against profit

All other leases are operating leases and the annual rentals are charged against profit on a straight-line basis over the lease term

(k) Taxation

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

The Company accounts for taxation which is deferred or accelerated by reason of timing differences which have originated but not reversed by the balance sheet date. Deferred tax assets are recognised as recoverable and therefore only recognised when on the basis of all available evidence it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted. Deferred tax on the retained earnings of overseas subsidiaries is only provided when dividends have been accrued as receivable or there is a binding commitment to distribute past earnings in future periods.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on the tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax liabilities and assets are not discounted.

(l) Derivative financial instruments

The Company does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are used to manage exposure to market risks from treasury operations. The principal derivative instruments are currency swaps, forward exchange contracts and interest rate swaps. The derivative contracts are treated from inception as an economic hedge of the underlying financial instrument with matching accounting treatment and cash flows. The derivative contracts have high correlation with the specific financial instrument being hedged both at inception and throughout the hedge period. Derivative instruments no longer designated as hedges are restated at market value and any future changes in value are taken directly to the profit and loss account.

Currency swaps and forward exchange contracts are used to fix the value of the related asset or liability in the contract currency and at the contract rate.

(m) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and where it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. There are no provisions which are discounted.

(n) Legal and other disputes

Provision is made for the anticipated settlement costs and legal and other expenses associated with claims received and legal and other disputes against the Company where a reasonable estimate can be made of the likely outcome of the dispute. All legal costs are included in administrative expenses.

In respect of product liability claims related to products where there is sufficient history of claims made and settlements, an incurred but not reported (IBNR) actuarial technique is used to determine a reasonable estimate of the exposure to unasserted claims for those products and a provision is made on that basis.

No provision is made for other unasserted claims or where an obligation exists under a dispute but it is not possible to make a reasonable estimate. Costs associated with claims made by the Company against third parties are charged to the profit and loss account as they are incurred.

(o) Pensions and other post employment benefit

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. 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. Actuarial gains and losses (differences between expected and actual returns) and the effect of changes in actuarial assumptions are recognised in the statement of recognised income and expense in the year in which they arise. The Company's contribution to defined contribution plans are charged to the income statement as incurred. 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.

(p) Share based payments

Incentives in the form of shares that are provided to employees under share option and share award schemes are fair-valued at their grant dates and the cost is charged to the profit and loss account over the relevant vesting period.

2 Segmental Information

During the year ended 31 December 2012, the Company operated in one geographical segment, the United Kingdom, and one class of business, being the provision of management services to other Group companies.

3 Restructuring costs

The Group has undertaken an operational excellence programme to improve the effectiveness and productivity of its operations. The costs incurred under this programme reflect projects to eliminate unnecessary processes and simplify continuing processes, leading to staff reductions in administrative and support functions. These costs include severance costs, pension & other post retirement costs which are expected to be incurred through to 2013.

The analysis of costs incurred under this programme in 2012 and 2011 is as follows	2012	2011
	£m	£m
Non operating exceptional expense - restructuring costs	120	80
Effect on profit on ordinary activities before taxation	120	80
Effect on tax on profit on ordinary activities	(29)	(21)
<u>Effect on profit on ordinary activities</u>	<u>91</u>	<u>59</u>

## 4 Other operating (expense) / Income

	2012 £m	2011 £m
Other operating (expense) / Income	(114)	40

Other operating expense principally comprises product divestments cost of £nil (2011 £(22) million) Staff related costs of £2 million (2011 £103 million) and sundry expenditure amounting to £(116) million (2011 £(41) million)

The comparatives balances have been changed to ensure consistent presentation with current year

## 6 Operating profit

	2012 £m	2011 £m
The following items have been charged in operating profit		
Depreciation of tangible fixed assets		
Owned assets	46	42
Exchange (gain)/losses on foreign currency transactions	(6)	2
Operating lease rentals		
Land and buildings	5	4
Audit fees		
Auditors UK firm	6	6
Fees to auditors for other services		
Auditors UK firm	3	5

During the year the Company bore staff costs on behalf of the Group and charged a management fee to other Group companies for these services (see Note 20 for further details)

Included within audit fees above is a fee of £31 936 (2011 £31 006) relating to the audit of the Company and £6 431 000 (2011 £5 852 000) which is recharged to other Group undertakings

The Company has made an appropriate charge for management services provided to other Group companies including an element for auditors remuneration. In 2012 the Company made a special contribution to the Group pension scheme of £366 million (2011 £368 million) which has been recharged to the various UK operating companies in accordance with the management fee arrangement

The charge for pension and other post-employment costs in the year includes a credit of £395 million following a change in policy relating to discretionary pension increases under certain UK pension schemes and the introduction of a limit on future pensionable pay increases in all UK pension schemes which has been recharged to the various UK operating companies in accordance with the management fee arrangement

## 6 Interest receivable and similar income

	2012 £m	2011 £m
Other finance income (Note 22)	29	23
On loans with Group undertakings	13	16
	42	39

## 7 Interest payable and similar charges

	2012 £m	2011 £m
On loans with Group undertakings	(54)	(55)
	(54)	(55)

## 8 Tax on profit on ordinary activities

	2012 £m	2011 £m
Tax charge based on profits for the financial year		
Current Tax		
UK corporation tax at 24.5% (2011 26.5%)	34	(125)
Under provision in previous years	(13)	(4)
Current tax credit/(charge)	21	(129)
Deferred Tax		
Origination and reversal of timing differences	(74)	-
Adjustments in respect of previous years	3	-
Change in tax rate - impact on deferred tax	(1)	(5)
Deferred taxation	(72)	(5)
Total tax charge	(51)	(134)

The tax assessed for the year is lower (2011 higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2012 of 24.5% (2011 26.5%). The differences are explained below

	2012 £m	2011 £m
Reconciliation of current tax charge		
Tax charge on ordinary profits at UK standard tax rate 24.5% (2011 26.5%)	(90)	(103)
Expenses not deductible for tax purposes	29	(47)
Prior year adjustments to current tax	(13)	(4)
R&D Tax credit	26	25
Capital allowance in excess of depreciation	5	2
Other timing differences	54	(2)
Current tax credit/(charge) for the year	21	(129)

## Notes to the Financial Statements for the year ended 31 December 2012

The main rate of UK corporation tax reduced from 26% to 24% with effect from 1 April 2012. Legislation to further reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was included in the Finance Act 2012. These tax changes became substantively enacted on 26 March 2012 and 3 July 2012 respectively and hence the effect of the changes on the deferred tax balances has been included in the figures above.

The Chancellor also proposed changes to further reduce the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015 on 5 December 2012 and 20 March 2013 respectively. These changes were substantively enacted on 2 July 2013 and therefore are not included in the figures above.

The overall effect of the further changes from 23% to 20% if these applied to the deferred tax balance at 31 December 2012 would be to reduce the deferred tax asset by approximately £4m.

## 9 Tangible assets

	Land and buildings £m	Plant equipment and vehicles £m	Assets in construction £m	Computer Software £m	Total £m
<b>Cost</b>					
At 1 January 2012	3	304	53	235	595
Additions	-	-	112	5	117
Asset write down	-	(1)	(2)	(1)	(4)
Capitalised borrowing costs	-	-	(3)	11	8
Reclassifications	-	11	(11)	-	-
At 31 December 2012	3	314	149	250	716
<b>Accumulated depreciation</b>					
At 1 January 2012	(2)	(286)	-	(69)	(357)
Charge for the year	-	(14)	-	(32)	(46)
Asset write down	-	-	-	1	1
At 31 December 2012	(2)	(300)	-	(100)	(402)
<b>Impairment</b>					
At 1 January 2012	-	-	-	(2)	(2)
Charge for the year	-	-	(2)	(1)	(3)
Asset write down	-	-	2	1	3
At 31 December 2012	-	-	-	(2)	(2)
Net book value at 1 January 2012	1	18	53	164	236
Net book value at 31 December 2012	1	14	149	148	312

The net book value at 31 December 2012 of the Company's land and buildings comprises freehold properties £1 million (at 1 January 2012 £1million).

Included in plant, equipment and vehicles at 31 December 2012 are leased assets with a cost of £8 million (at 1 January 2012 £8 million), accumulated depreciation of £7 million (at 1 January 2012 £6 million) and a net book value of £1 million (at 1 January 2012 £2 million).

## 10 Fixed asset investments

	Shares in parent company £m	Total £m
<b>Cost</b>		
At 1 January 2012	562	562
Disposals	(235)	(235)
At 31 December 2012	327	327
<b>Impairment</b>		
At 1 January 2012	(242)	(242)
Impairment reversal in the year	101	101
At 31 December 2012	(141)	(141)
Carrying value at 1 January 2012	-	320
Carrying value at 31 December 2012	-	186

Investments in shares of the Company's parent, GlaxoSmithKline plc, consist of shares held by the Employee Share Ownership Plan Trust (see Note 24). The market value of these shares at 31 December 2012 was £462 million (2011: £845 million).

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

## 11 Debtors

	2012 £m	2011 £m
<b>Amounts due within one year</b>		
Amounts owed by Group undertakings	4,274	3,022
Corporation tax	139	-
Other debtors	45	38
Prepayments and accrued income	19	25
	4,477	3,085
<b>Amounts due after more than one year</b>		
Deferred taxation (excluding the deferred taxation on Pensions - Note 14)	28	30
	28	30
	4,505	3,115

The taxation debtor contains amounts which will be recovered by way of payments from fellow Group companies. Amounts owed by Group undertakings are unsecured and repayable on demand.

## 12 Creditors

	2012 £m	2011 £m
Amounts falling due within one year		
Finance leases	1	-
Trade creditors	192	127
Amounts owed to Group undertakings	2,260	753
Corporation tax		45
Other creditors	59	73
Accruals and deferred income	82	67
	<b>2,594</b>	<b>1,065</b>
Amounts falling due after more than one year		
Amounts owed to Group undertakings	972	974
Obligations under finance leases	1	1
	<b>973</b>	<b>975</b>
	<b>3,567</b>	<b>2,040</b>

Amounts owed to Group undertakings within one year are unsecured and repayable on demand. The taxation creditor contains amounts which will be payable to fellow Group companies. Amounts owed to Group undertakings due after more than one year include loans totalling £972 million (2011: 974 million). These are unsecured with interest charged at 5.55% per annum and repayable at 19 December 2033.

## 13 Provisions for liabilities

	Restructuring provision £m	Provision for payroll tax on exercise of options £m	Other provisions £m	Total £m
At 1 January 2012	23	23	6	52
Charge for the year	19	18	4	41
Utilised	(4)	(7)	(5)	(16)
Reclassifications and other movements		(14)	14	
At 31 December 2012	<b>38</b>	<b>20</b>	<b>19</b>	<b>77</b>

Restructuring provisions are expected to be utilised in 2013. Provision for payroll taxes is created for National Insurance contribution costs on exercise of options. Other provisions include vacant premises provision expected to be utilised by 2025 and a share option matching provision for certain employees expected to be utilised in 2013.

## 14 Deferred tax asset

	2012 £m	2011 £m
Accelerated capital allowances	(8)	(8)
Other net timing differences	38	38
As at 31 December	<b>28</b>	<b>30</b>
All deferred taxation movements arise from the origination and reversal of timing differences		
Reconciliation of deferred taxation asset		£m
At 1 January 2012		30
Deferred tax charge (excluding the deferred taxation on Pensions)		(2)
At 31 December 2012		<b>28</b>

## 15 Called up share capital

	2012 Number of shares	2011 Number of shares	2012 £m	2011 £m
Authorised				
Ordinary Shares of 25p each (2011: 25p each)	16,000,000,000	16,000,000,000	4,000	4,000
Issued and fully paid				
Ordinary Shares of 25p each (2011: 25p each)	2,852,000,000	2,852,000,000	713	713

## 16 Reserves

	Profit and loss account £m	Total reserves £m
At 1 January 2012	336	336
Profit for the financial year	313	313
Share based payments	56	56
Changes in actuarial values of retirement benefits (Note 22)	(446)	(446)
Tax effect on changes in actuarial values of retirement benefits	98	98
At 31 December 2012	357	357

## 17 Reconciliation of movements in shareholders' funds

	2012 £m	2011 £m
Profit for the financial year	313	256
Share based payments	56	51
Changes in actuarial values of retirement benefits (Note 22)	(446)	(636)
Tax effect on changes in actuarial values of retirement benefits	98	158
Net addition to / (deduction) from addition to shareholders' funds	21	(171)
Opening shareholders' funds	1,049	1,220
Closing shareholders' funds	1,070	1,049

## 18 Commitments

	2012 £m	2011 £m
Capital Commitments		
Contracted for but not provided in the financial statements		
Tangible fixed assets	6	10

	2012 £m	2011 £m
The Company had annual commitments under non-cancellable operating leases expiring as follows		
Operating leases on land and buildings which expire		
Between one and five years	8	14
After five years		1
	8	15

## 19 Contingent liabilities

## Group banking arrangement

The Company together with fellow Group undertakings has entered into a Group banking arrangement with the Company's principal bank. The bank holds the right to pay and apply funds from any account of the Company to settle any indebtedness to the bank of any other party to this agreement. The Company's maximum potential liability as at 31 December 2012 is limited to the amount held on its account with the bank. No loss is expected to accrue to the Company from the agreement.

The Company has no outstanding guarantees in respect of other borrowings by Group undertakings (2011: £nil).

## 20 Employees (including Directors' remuneration)

	2012 £m	2011 £m
Employee costs		
Wages and salaries	1,277	897
Social security costs	89	82
Pension and other post retirement (credit) / cost	(281)	66
Severance costs arising from integration and restructuring activities	24	19
Pension and other post-retirement costs arising from restructuring activities	4	5
Share based payments	56	50
Other costs	81	73
	1,250	1,192

All UK employees are remunerated by the Company. A management fee is charged by the Company to other Group companies for the services of those employees to other Group companies. Pension and other post-retirement costs are charged to other Group companies based on a percentage of salaries. The charge for pension and other post-employment costs in the year includes a credit of £395 million as indicated in Note 22 following a change in policy relating to discretionary pension increases under certain UK pension schemes and the introduction of a limit on future pensionable pay increases in all UK pension schemes which has been recharged to the various UK operating companies in accordance with the management fee arrangement.

Severance costs of £24 million and pension and other post-retirement costs of £4 million have both arisen as a result of the operational excellence programme undertaken by the Group (Note 3).

## The average monthly number of persons employed by the Company (including Directors) during the year

	2012	2011
Manufacturing	4,992	5,379
Selling, general and administration	5,434	5,224
Research and development	3,482	3,414
	13,908	14,017

The average number of Company employees excludes temporary and contract staff.

## Notes to the Financial Statements for the year ended 31 December 2012

## 21 Directors' remuneration

During the year the Directors of the Company with the exception of the Corporate Directors were remunerated as executives of the Group and received no remuneration in respect of their services to the Company (2011: £nil). Corporate Directors received no remuneration during the year either as executives of the Group or in respect of their services to the Company (2011: £nil).

## 22 Pensions

The Company operates pension arrangements which cover the Company's contractual obligations to provide pensions to retired employees. Pension benefits can be provided 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.

Formal independent actuarial valuations of the Company's main plans are undertaken regularly, normally at least every three years. The assets of funded schemes are generally held in separately administered trusts. 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.

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

During 2012, the Company made special funding contributions to the UK pension schemes totalling £368 million (2011: £368 million). In 2009, the Company reached an agreement with the trustees of the UK defined benefit pension schemes to make additional contributions to eliminate the pension deficit identified at the 31 December 2008 actuarial funding valuation. The additional contributions are expected to be £368 million in 2013. The contributions are based on a discount rate of 5.25% and an inflation assumption of 2.8%. The next review of contribution levels is in progress and will be based on the actuarial valuation at 31 December 2012.

Employers' contribution for 2013, including special funding contributions, is estimated at approximately £490 million.

In the UK, the defined benefit schemes operated for the benefit of Glaxo Wellcome employees and former SmithKline Beecham employees remain separate. These schemes were closed to new entrants in 2001 and subsequent employees are entitled to join a defined contribution scheme.

During 2012, the Company changed the policy towards granting discretionary pension increases in SmithKline Beecham defined benefit scheme. As a result of the change, discretionary pension increases for pensions accruing prior to 1997 will be based on increase in the Consumer Price Index instead of the Retail Price Index. This change will also apply to revaluation of some of the deferred pensions of certain scheme participants who left service prior to 1991.

In the year, the Company has also introduced a limit for all UK defined benefit schemes of 2% per year on the rate at which pensionable pay may increase. The consequence of this is that those benefits which are related to final pensionable pay are now expected to be lower than was previously the case.

The combined impact of these two changes in 2012 is a credit to the income statement of £395 million and a similar reduction in the pension obligation.

The Company accounts for pension arrangements in accordance with FRS 17, Retirement Benefits. Certain disclosures are required on the basis of the valuation methodology adopted by FRS 17. For defined benefit schemes, the fair values of pension scheme assets at 31 December 2012 are compared with the future pension liabilities calculated under the projected unit method applying the following assumptions:

## Principal financial assumptions

	2012 % pa	2011 % pa	2010 % pa
Rate of increase of future earnings	2.00	4.00	4.50
Discount rate	4.40	4.80	5.50
Expected pension increases	3.00	3.00	3.50
Inflation rate	3.00	3.00	3.50

## Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 27.4 years if they are male and for a further 29.6 years if they are female. For a member who retires in 2032 at age 60, the assumptions are that they will live on average for a further 29.0 years after retirement if they are male and for a further 31.2 years after retirement if they are female.

The expected long-term rates of return on the assets determined based on actuarial advice and the fair values of the assets and liabilities of the defined benefit schemes are as follows:

At 31 December 2012	Expected rate of return %	Fair value £m
Equities	8.00	5,270
Property	7.00	265
Bonds	3.40	3,493
Other assets	3.60	953
Fair value of assets		9,981
Present value of funded scheme obligations		(10,225)
Present value of unfunded scheme obligations		(69)
Schemes deficit		(313)
Value of schemes in surplus		103
Deferred tax liability at 23 %		(24)
Net pension surplus		79
Value of schemes in deficit		(416)
Deferred tax asset at 23 %		96
Net pension deficit		(241)
Company total		(241)
Actual return on scheme assets		665



## 22 Pensions continued

In December 2010 the UK scheme purchased an insurance contract that will guarantee payment of specified pensioner liabilities. This is included within Other assets and the Present value of funded scheme obligations in the table above at a value of £751 million at 31 December 2012

At 31 December 2011	Expected rate of return %	Fair value £m
Equities	8.00	4,349
Property	7.00	274
Bonds	3.40	3,354
Other assets	3.35	1,142
Fair value of assets		9,119
Present value of funded scheme obligations		(66)
Present value of unfunded scheme obligations		(9,709)
Schemes deficit		(656)
Value of schemes in surplus		-
Deferred tax liability		-
Value of schemes in deficit		(656)
Deferred tax asset at 25%		164
Net pension deficit		(492)
Company total		(492)
Actual return on scheme assets		286

The total provision for pensions and post-retirement benefits at 31 December 2012 amounts to £394 million (2011: £737 million) which reduces to £303 million (2011: £552 million) after taking account of deferred tax.

In determining the long-term rate of return on pension plan assets, historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the current asset allocation for the plan at 31 December 2012 allowing for re-investment of cash early in 2013.

The Company also operates an unfunded post-retirement healthcare scheme. The liability under FRS 17 has been assessed using the same assumptions as for the pension scheme, together with the assumption for future medical inflation of 7.5% in 2013 grading down to 4.35% in 2020 and after. On this basis the liability for the scheme has been assessed at £81 million (2011: £81 million) which reduced to £61 million (2011: £81 million) after taking account of deferred tax.

The following amounts representing both pension and post-retirement arrangements were recorded in the profit and loss account and statement of recognised gains and losses for the year ended 31 December 2012:

2012	Pensions £m	Post retirement benefits £m	Total £m
Amounts charged to operating profit			
Current service cost	(130)	-	(130)
Past service cost	395	-	395
Curtailments/settlements	(4)	-	(4)
Total charge to operating profit	261	-	261
Amounts credited/charged to net interest			
Expected return on pension scheme assets	445	-	445
Interest on scheme liabilities	(412)	(4)	(416)
Total charged to net interest	33	(4)	29
Amounts recorded in statement of total recognised gains and losses	(447)	1	(446)

The past service credit of £395 million in 2012 reflects the adjustments related to the capping of future pensionable salary increase and a change in the basis of future discretionary pension increases from RPI to CPI in certain legacy plans.

2011	Pensions £m	Post retirement benefits £m	Total £m
Amounts charged to operating profit			
Current service cost	(123)	-	(123)
Past service cost	48	-	48
Curtailments/settlements	(5)	-	(5)
Total charge to operating profit	(80)	-	(80)
Amounts credited/(charged) to net interest			
Expected return on pension scheme assets	463	-	463
Interest on scheme liabilities	(436)	(4)	(440)
Total charged to net interest	27	(4)	23
Amounts recorded in statement of total recognised gains and losses	(631)	(5)	(636)

The cumulative actuarial losses recorded in the statement of recognised income and expenses amounted to £2,086 million.

## 22 Pensions continued

	Pensions £m	Post retirement benefits £m	Total £m
<b>Changes to the present value of the defined benefit obligations are as follows</b>			
Obligation in schemes at 31 December 2010	(9 084)	(74)	(9 158)
Charged to operating profit	(80)	-	(80)
Contributions by plan participants	(7)	-	(7)
Benefits paid	320	2	322
Employer contributions	(436)	(4)	(440)
Actuarial loss recognised in statement of total recognised gains and losses	(454)	(5)	(459)
Scheme transferred from a fellow group undertaking	(34)	-	(34)
Obligation in schemes at 31 December 2011	(9 775)	(81)	(9 856)
Charged to operating profit	261	-	261
Contributions by plan participants	(33)	-	(33)
Benefits paid	333	3	336
Interest cost	(412)	(4)	(416)
Actuarial loss recognised in statement of total recognised gains and losses	(668)	1	(667)
Scheme transferred from a fellow group undertaking	-	-	-
Obligation in schemes at 31 December 2012	(10,294)	(81)	(10,375)
<b>Changes to the fair value of plan assets during the year are as follows</b>			
Assets at 31 December 2010	8 588	-	8 588
Expected return on plan assets	463	-	463
Contributions by plan participants	7	-	7
Benefits paid	(320)	-	(320)
Employer contributions	530	-	530
Actuarial gain recognised in statement of total recognised gains and losses	(177)	-	(177)
Scheme transferred from a fellow group undertaking	28	-	28
Assets at 31 December 2011	9 119	-	9 119
Expected return on plan assets	445	-	445
Contributions by plan participants	33	-	33
Benefits paid	(333)	-	(333)
Employer contributions	497	-	497
Actuarial gain recognised in statement of total recognised gains and losses	220	-	220
Scheme transferred from a fellow group undertaking	-	-	-
Assets at 31 December 2012	9 981	-	9,981
<b>History of experience adjustments</b>			
<b>2012</b>			
Experience adjustments on scheme assets (£m)	220	-	220
Percentage of scheme assets at 31 December 2012	2%	-	2%
Experience adjustments on scheme liabilities (£m)	(30)	8	(22)
Percentage of present value of scheme liabilities at 31 December 2012	-	10%	-
<b>History of experience gains and losses</b>			
<b>2011</b>			
Experience adjustments on scheme assets (£m)	(177)	-	(177)
Percentage of scheme assets at 31 December 2011	2%	-	2%
Experience adjustments on scheme liabilities (£m)	(66)	-	(66)
Percentage of present value of scheme liabilities at 31 December 2011	1%	-	1%
<b>History of experience gains and losses</b>			
<b>2010</b>			
Experience adjustments on scheme assets (£m)	452	-	452
Percentage of scheme assets at 31 December 2010	5%	-	5%
Experience adjustments on scheme liabilities (£m)	(45)	-	(45)
Percentage of present value of scheme liabilities at 31 December 2010	-	-	-
<b>History of experience gains and losses</b>			
<b>2009</b>			
Experience adjustments on scheme assets (£m)	727	-	727
Percentage of scheme assets at 31 December 2009	10%	-	10%
Experience adjustments on scheme liabilities (£m)	162	3	165
Percentage of present value of scheme liabilities at 31 December 2009	2%	4%	6%

22 Pensions continued

History of experience gains and losses

2008			
Experience adjustments on scheme assets (£m)	(1 691)	-	(1 691)
Percentage of scheme assets at 31 December 2008	28%	-	
Experience adjustments on scheme liabilities (£m)	(148)	3	(145)
Percentage of present value of scheme liabilities at 31 December 2008	2%	4%	

23 Employee Share Schemes

The Group operates share option schemes whereby options are granted to employees to acquire shares or American Depositary Shares ("ADS") in GlaxoSmithKline plc at the grant price savings-related share option schemes and share award schemes. In addition, the GSK operates the Performance Share Plan whereby awards are granted to employees to acquire shares or ADS in GlaxoSmithKline plc at no cost, subject to the achievement by the Group of specified performance targets and the Share Value Plan whereby awards are granted to employees to acquire shares or ADS in GlaxoSmithKline plc at no cost after a three year vesting period. The granting of restricted share awards has replaced the granting of options to certain employees as the cost of the scheme more readily equates to the potential gain to be made by the employee and from 2010 onwards no further grants will be made under the savings related share option schemes.

Grants under share options schemes are normally exercisable between three and ten years from the date of grant. Grants of restricted shares and share awards are normally exercisable at the end of the three year vesting/performance period. Grants under savings-related share options schemes are normally exercisable after three years saving. Grants under share option schemes and awards under the Performance Share Plan are normally granted to employees to acquire shares or ADS in GlaxoSmithKline plc but in some circumstances will be settled in cash. Options under the share option schemes are granted at the market price ruling at the date of grant. In accordance with UK practice, the majority of options under the savings-related share option schemes are granted at a price 20% below the market price ruling at the date of grant. Share options awarded to the Directors and with effect from the 2004 grant, the Corporate Executive Team of GlaxoSmithKline plc ("CET") are subject to performance criteria.

The share based compensation charge has been recorded in the profit and loss account as administrative expenses of £56 million (2011: £50 million).

Option pricing

For the purpose of valuing options to arrive at the share based compensation charge, the Black Scholes option pricing model has been used. The assumptions used in the model are as follows:

	2012	2011
Risk-free rate	0.1%-0.5%	0.5%-1.9%
Dividend yield	5.2%	5.8%
Volatility	18%-23%	24%-28%
Expected lives of options granted under:		
Share option schemes	4 Years	5 Years
Savings related share option schemes	3-4 Years	3-4 Years
Weighted average share price for grants in the year:		
Ordinary shares	£14.35	£11.90
ADS	\$45.57	\$39.10

Volatility is determined based on the three year and five year share price history where appropriate. The fair value of performance share plan grants takes into account market conditions. Expected lives of options were determined based on weighted average historic exercises of options.

Options Outstanding	Share option schemes - shares			Share option schemes - ADS		
	Number 000	Weighted exercise price	Weighted fair value	Number 000	Weighted exercise price	Weighted fair value
As at 31 December 2010	107 270	£13.99		792	\$46.87	
Options granted	-	£0.00	£0.00	-	\$0.00	\$0.00
Options exercised	(14 116)	£11.97		(92)	\$42.03	
Options cancelled	(34 778)	£17.28		(210)	\$51.55	
As at 31 December 2011	58 376	£12.62		490	\$43.80	
Options granted	-	£0.00	£0.00	-	\$0.00	\$0.00
Options exercised	(11 754)	£11.97		(19)	\$38.81	
Options cancelled	(5 116)	£13.28		(23)	\$48.47	
As at 31 December 2012	41 506	£12.71		448	\$44.72	
Range of exercise prices		£10.76 - £14.93			\$33.42 - \$46.36	
Weighted average market price on exercise		£11.97			\$38.81	
Weighted average remaining contractual life		4.42 Years			3.95 Years	

## 23 Employee Share Schemes continued

Savings-related share option schemes			
	Number 000	Weighted exercise price	Weighted fair value
As at 31 December 2010	5 955	£9 59	
Options granted	-	-	-
Options exercised	(4 068)	£9 55	
Options cancelled	(317)	£9 70	
As at 31 December 2011	1 570	£9 68	
Options granted	4 210	£11 59	£1 76
Options exercised	(1 229)	£9 67	
Options cancelled	(90)	£9 82	
As at 31 December 2012	4 461	£11 48	
Range of exercise prices		£9 51 - £11 59	
Weighted average market price on exercise		£13 93	
Weighted average remaining contractual life		3 16 Years	

In order to encourage employees to convert options excluding savings-related share options held over Glaxo Wellcome or SmithKline Beecham shares or ADS into those over GlaxoSmithKline plc shares or ADS a programme was established to give an additional cash benefit of 10% of the exercise price of the original option provided that the employee did not voluntarily leave the Group for two years from the date of the merger and did not exercise the option before the earlier of six months from the expiry of the original option or two years from the date of the merger. The cash benefit will also be paid if the options expire unexercised if the market price is below the exercise price on the date of expiry.

## Options Outstanding at 31 December 2012

Share option schemes - shares				Share option schemes - ADS			
Year of grant	Number 000	Weighted exercise price	Latest exercise date	Number '000	Weighted exercise price	Latest exercise date	
2003	7 401	£12 66	14 12 13	88	\$43 92	27 10 13	
2004	2 459	£11 22	02 12 14	49	\$43 31	01 12 14	
2005	91	£13 24	01 11 15	1	\$47 28	31 10 15	
2006	5 013	£14 69	28 07 16	57	\$51 30	27 07 16	
2007	5 875	£14 81	25 07 17	66	\$57 48	25 07 17	
2008	4 330	£11 49	22 07 18	65	\$45 02	22 07 18	
2009	6 922	£11 76	21 07 19	56	\$33 76	21 07 19	
2010	9 415	£12 03	21 07 20	66	\$37 28	21 07 20	
2011	-	-	-	-	-	-	
2012	-	-	-	-	-	-	
Total	41 506	£12 72		448	\$44 36		

Savings-related share option schemes			
Year of grant	Number 000	Weighted exercise price	Latest exercise date
2009	261	£9 72	22 04 13
2010	-	-	
2011	-	-	
2012	4 200	£11 59	2 05 16
Total	4 461	£11 48	

Options normally become exercisable three years from the date of grant but may under certain circumstances vest earlier as set out within the various scheme rules.

## Options exercisable

Share option schemes - shares			Share option schemes - ADS		
	Number 000	Weighted exercise price		Number 000	Weighted exercise price
At 31 December 2011	40 862	£12 91		377	\$46 36
At 31 December 2012	32 782	£12 90		385	\$45 93

Savings-related share option schemes		
	Number 000	Weighted exercise price
At 31 December 2011	-	-
At 31 December 2012	261	£9 72

## 23 Employee Share Schemes continued

## GlaxoSmithKline share award schemes

## Performance Share Plan

The Group operates a Performance Share Plan whereby awards are granted to Directors and senior executives at no cost. The percentage of each award that vests is based upon the performance of the Group over a defined year measurement period with dividends reinvested during the same period. For awards granted from 2011 onwards to Directors and members of the CET the performance conditions are based on four equally weighted measures over a three year performance period. The first measure is based on the achievement of adjusted free cash flow targets. The second measure is based on relative TSR performance against a comparator group. The remaining two measures are based on business-specific performance measures on business diversification and R&D new product performance. For details on the calculation of these measures see Annual Report pages 109 to 136.

For awards granted in 2009 and 2010 to Directors and members of the CET 40% of the award is based on the achievement of adjusted free cash flow targets over a three year measurement period. The remaining 60% of the award is based on relative TSR performance against a comparator group as described on pages 115 and 117. Half of the TSR element of each award is measured over three years and half over four years. Awards granted to Directors and members of the CET prior to 2009 are subject to a single performance condition which compares GSK's TSR over the period with the TSR of companies in the comparator group over the same period.

For those awards made to all other eligible employees prior to 2009 the performance conditions consist of two parts each of which applies to 50% of the award. The first part of the performance condition compares GlaxoSmithKline plc's Earning Per Share ("EPS") growth to the increase in the UK Retail Prices Index over the three year measurement period. The second part of the performance condition compares GlaxoSmithKline plc's TSR over the period with the TSR of companies in its comparator group over the same period. For awards granted from 2009 onwards the first part of the performance condition continues to be based on EPS. The second part of the performance condition is based on strategic or operational business measures over a three year measurement period specific to the employee's business area.

Number of shares issuable	Shares Number ('000)	Weighted fair value
At 31 December 2011	10 541	
Awards granted	4 797	£11.43
Awards exercised	(1 388)	
Awards cancelled	(1,794)	
At 31 December 2012	12 156	

## Share Value Plan

The Group operates a Share Value Plan whereby awards are granted in the form of shares to certain employees at no cost. The awards vest after three years. There are no performance criteria attached.

Number of shares issuable	Shares Number ('000)	Weighted fair value
At 31 December 2011	19 458	
Awards granted	11 411	£11.96
Awards exercised	(4 650)	
Awards cancelled	(901)	
At 31 December 2012	25 318	

## Deferred Investment Award Plan

The Group operates a Deferred Investment Award Plan whereby awards are granted in the form of notional shares to certain senior executives at no cost. Awards typically vest over a three year period commencing on the fourth anniversary from date of grant with 50% of the award initially vesting and then 25% in each of the subsequent two years. There are no performance criteria attached.

Number of shares issuable	Shares Number ('000)	Weighted fair value
At 31 December 2011	362	
Awards granted	36	£13.97
Awards exercised	(75)	
Awards cancelled	(29)	
At 31 December 2012	294	

## 24 Employee Share Ownership Plan Trust

The Company sponsors the ESOP Trust 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 Trust purchase shares on the open market with finance provided by the Company by way of loan or contributions.

The expected cost of the obligations to deliver shares under the employee incentive plans and share option schemes are charged to the profit and loss account in accordance with the accounting policy set out in Note 1(f). An accelerated charge was made in 2000 in respect of the outstanding cost of providing shares for awards and options which became exercisable as a result of the merger.

**24 Employee Share Ownership Plan Trust continued**

Details of the exercise prices and the periods during which the options and awards are exercisable are disclosed in the Group's 2012 Annual Report

	2012	2011
<b>Shares held for share award scheme</b>		
Number of Ordinary shares ('000)	34,494	28,840
	£m	£m
Nominal value	9	7
Carrying value	185	124
Market value	460	385
<b>Shares held for share option schemes</b>		
Number of Ordinary shares ('000)	139	30,565
	£m	£m
Nominal value		8
Carrying value	1	196
Market value	2	450

The trustees have waived their rights to dividends on the shares held by the ESOP Trust. Other costs in 2012 amounted to £8,851,000 (2011: £4,398,000) and were charged to other operating expense.

**25 Currency swaps designated as fair value hedges**

	2012	2011
	£'000	£'000
At 31 December 2012	(357)	272

The notional principal amount of the outstanding derivative instruments at 31 December 2012 was £nil (2011: £134 million). All outstanding contracts have a maturity of less than 12 months.

**26 Cash flow statement**

A cash flow statement has been included in the consolidated financial statements of GlaxoSmithKline plc, the ultimate parent undertaking, which are publicly available. As a wholly owned subsidiary of the ultimate parent undertaking, advantage has been taken of the exemption afforded by FRS 1 Cash flow statements (revised 1996) not to prepare a cash flow statement.

**27 Group financial statements**

The Company is a wholly owned subsidiary of the ultimate parent company and as such has taken advantage of the exemption from preparing group financial statements under section 400 of the Companies Act 2006.

**28 Ultimate parent undertaking**

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

**29 Related party transactions**

As a wholly owned subsidiary of the ultimate parent company, GlaxoSmithKline plc, advantage has been taken of the exemption afforded by FRS 8 Related party disclosures not to disclose any related party transactions within the Group. There are no other related party transactions.