

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Annual Report

for the year ended 31 December 2016

Registered office address:

980 Great West Road
Brentford
Middlesex
TW8 9GS
England

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GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Annual Report

for the year ended 31 December 2016

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GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Strategic report for the year ended 31 December 2016

The Directors present their Strategic report on the Company for the year ended 31 December 2016

Principal activities and future developments

GlaxoSmithKline Services Unlimited ("the Company") is the principal legal employing entity of the GlaxoSmithKline Group ("the Group"). The costs of individuals legally employed by the Company are recharged to the economic employers of the individuals within the Group at cost as appropriate. Additionally the Company provides management services to various Group members. The Company is a member of 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 £5m (2015 loss of £67m). 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 £5m will be transferred to reserves (2015: £67m loss transferred from reserves)

The Company provides finance to an ESOP Trust to purchase shares in the ultimate parent company on the open market to meet the ultimate parent company's obligation to provide shares when employees exercise their options or awards. At each reporting date, the loan receivable from the ESOP Trust is tested for an impairment. A write down of £158m (2015: £151m) was recognised in respect of the loan receivable from the Trust.

Exceptional items

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. Major restructuring costs charged in arriving at operating profit include costs arising under the Operational Excellence restructuring programme.

Principal risks and uncertainties

The Directors of the Company manage the functions, assets and risks related to the Company on a business sector, therapy area and stage of product life cycle basis. The principal functions, risks and uncertainties are discussed in the Group's 2016 Annual Report. Please refer to the Group 2016 Report, which does not form part of this report, to ensure a complete understanding of the principal risks and uncertainties of the Group, and therefore the Company

Key performance indicators (KPIs)

The Directors of the Company manage the functions, assets and risks related to the Company on a business sector, therapy area and stage of product life cycle basis. Therefore, 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 2016 Annual Report which does not form part of this report.

On behalf of the Board



A Burns
For and on behalf of Edinburgh Pharmaceutical Industries Limited
Corporate Director
29 September 2017

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Directors' report for the year ended 31 December 2016

The Directors present their report on the Company and the audited financial statements for the year ended 31 December 2016.

Results and dividends

The Company's results for the financial year are shown in the income statement on page 7

No dividend is proposed to the holders of ordinary shares in respect of the year ended 31 December 2016 (2015: £nil)

Directors

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
S 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' indemnity

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

In addition, each 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.

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.

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Directors' report for the year ended 31 December 2016

Employees (Continued)

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 became disabled while working for the Group.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 101 'Reduced disclosure framework' ("FRS 101") 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, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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.

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

- principal activities and future developments;
- review of business;
- exceptional items; and
- principal risks and uncertainties.

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Directors' report for the year ended 31 December 2016

Governance

The Company's approach to the Modern Slavery Act 2015 is set by the Group. As part of their governance, the Group reviewed and approved the approach to the Modern Slavery Act 2015 during 2016

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 have been appointed to act as the Company's auditors in accordance with a resolution of the Board of Directors. A resolution dealing with their reappointment will be proposed at a General Meeting of the Company

On behalf of the Board



A Burns
For and on behalf of Edinburgh Pharmaceutical Industries Limited
Corporate Director
29 September 2017

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Independent auditors' report to the members of GlaxoSmithKline Services Unlimited

Report on the financial statements

Our opinion

In our opinion, GlaxoSmithKline Services Unlimited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 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 properly prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the the Annual Report, comprise:

- the Balance sheet as at 31 December 2016;
- the Income statement and the Statement of other comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Independent auditors' report to the members of GlaxoSmithKline Services Unlimited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing that audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic report and the Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

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



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 September 2017

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Income statement
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Turnover	4	3,194	3,033
Administrative expenses		(2,613)	(2,443)
Trading profit		581	590
Other operating expense	6	(165)	(165)
Amounts written off loan receivable from ESOP Trust	6	(158)	(151)
Exceptional items.			
Restructuring costs	5	(170)	(218)
Operating profit	6	88	56
Profit before interest and taxation		88	56
Finance income	8	9	4
Finance expense	9	(78)	(79)
Finance expense - net		(69)	(75)
Profit / (loss) before taxation		19	(19)
Taxation	10	(14)	(48)
Profit/ (loss) for the year		5	(67)

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

GlaxoSmithKline Services Unlimited
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**Statement of other comprehensive income
for the year ended 31 December 2016**

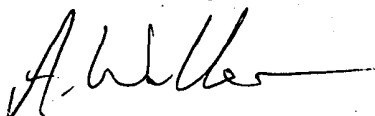
	2016 £m	2015 £m
Profit / (loss) for the year	5	(67)
Items that will not be reclassified to the income statement:		
Actuarial (losses) / gains on pension schemes	(178)	101
Current tax effect of Actuarial movements on pension schemes	37	(41)
Tax effect on defined benefit pension schemes	(7)	9
Other comprehensive (loss) / income for the year	(148)	69
Total comprehensive (loss) / income for the year	(143)	2

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Balance sheet
as at 31 December 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Property, plant and equipment	11	119	139
Intangible assets	12	498	417
Deferred tax assets	10	128	144
Total non-current assets		745	700
Current assets			
Trade and other receivables	13	4,980	4,205
Prepayments and accrued income	14	30	42
Cash and cash equivalents		3	3
Assets held for sale	15	22	-
Total current assets		5,035	4,250
Total assets		5,780	4,950
Current liabilities			
Trade and other payables	16	(2,904)	(1,958)
Accruals and deferred income	17	(126)	(181)
Total current liabilities		(3,030)	(2,139)
Net current assets		2,005	2,111
Total assets less current liabilities		2,750	2,811
Non-current liabilities			
Long-term borrowings	18	(973)	(973)
Provisions for liabilities	19	(78)	(96)
Pensions and other post employment benefits	25	(389)	(392)
Total non-current liabilities		(1,440)	(1,461)
Total liabilities		(4,470)	(3,600)
Net assets		1,310	1,350
Equity			
Share capital	20	713	713
Retained earnings		597	637
Shareholders' equity		1,310	1,350

The financial statements on pages 7 to 29 were approved by the Board of Directors on 29 September 2017 and were signed on its behalf by:



A Walker

For and on behalf of Glaxo Group Limited - Corporate Director

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Statement of changes in equity
for the year ended 31 December 2016

	Share capital £m	Retained earnings £m	Total £m
At 1 January 2015	713	536	1,249
Loss for the year	-	(67)	(67)
Share-based incentive plans	-	95	95
Tax on share-based incentive plans	-	4	4
Other comprehensive income for the year	-	69	69
At 31 December 2015	713	637	1,350
Profit for the year	-	5	5
Share-based incentive plans	-	95	95
Tax on share-based incentive plans	-	7	7
Unclaimed dividend written back	-	1	1
Other comprehensive loss for the year	-	(148)	(148)
At 31 December 2016	713	597	1,310

Notes to the Financial Statements for the year ended 31 December 2016

1 Presentation of the financial statements

General information

The Company is the principal legal employing entity of the Group. The costs of individuals legally employed by the Company are recharged to the economic employers of the individuals within the Group at cost as appropriate. Additionally the Company provides management services to various Group members.

The Company is a private company and is incorporated and domiciled in the United Kingdom (England). The address of the registered office is 980 Great West Road, Brentford, Middlesex, TW8 9GS.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

These financial statements have been prepared on the going concern basis under the historical cost convention, and in accordance with the Companies Act 2006.

Disclosure exemptions adopted

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

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payments' (details of the number and weighted-average exercise prices, options, and how the fair value of goods or services received was determined);
- IFRS 7, 'Financial instruments: disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - (i) paragraph 79(a) (iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
 - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period);
 - (iv) paragraph 62(a) and (b) of IAS 40 Investment property;
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or make a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirements for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 40A-D (requirements for a third balance sheet);
 - 111 (cash flow statement information); and
 - 134 - 136 (capital management disclosures)
- IAS 7, 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation);
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group.

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

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

Notes to the Financial Statements for the year ended 31 December 2016

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

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

(c) **Foreign currency transactions**

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

(d) **Turnover**

Turnover is recognised in the income statement when service obligations have been performed and fulfilled, when it is probable that the economic benefit resulting from this performance will flow to the Company and when the economic benefit associated with the service obligations can be reliably measured.

(e) **Expenditure**

Expenditure is recognised in respect of 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 and promotion expenditure is charged to the income statement as incurred.

Restructuring costs are recognised and provided for, where appropriate, 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.

(f) **Royalty income and expenses**

Royalty income and expenses are recognised in other operating income and expenses on an accruals basis in accordance with the terms of the relevant licensing agreements.

(g) **Exceptional items**

Exceptional items are items of income and expenditure which, in the opinion of the Directors, are material and unusual in nature or of such significance that they require separate disclosure.

(h) **Finance income and expense**

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

(i) **Share based payments**

Incentives in the form of shares 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 income statement over the relevant vesting period.

(j) **Receivable from ESOP Trust**

The Company provides finance to an Employee Share Ownership Plan Trust ("ESOP Trust") to purchase shares in the ultimate parent company on the open market to meet the ultimate parent company's obligation to provide shares to the Group's worldwide employees (excluding those in the U S) when they exercise their options or awards. The Company assesses the loan receivable for impairment based on an assessment of the ESOP Trust's ability to repay the loan. The ability of the ESOP Trust to repay the loan is based on the market value of the ESOP Trust's assets at the balance sheet date. The loan is classified within current assets in line with the repayment terms of the loan agreement.

Notes to the Financial Statements for the year ended 31 December 2016

(k) Property, plant and equipment

Property, plant and equipment 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 of property, plant and equipment excluding freehold land, using the straight-line basis over their expected useful lives. The normal expected useful lives of the major categories of Property, plant and equipment are:

Freehold buildings	20 to 50 years
Leasehold land and buildings	The shorter of lease term or 50 years
Plant, equipment and vehicles	3 to 20 years

(l) 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.

(m) Intangible assets

Intangible assets are stated at cost less a provision for amortisation and impairment.

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.

(n) Capitalised borrowing costs

The Company's borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as expenses in the period in which they are incurred.

(o) Impairment of non-financial assets

The carrying values of all non-financial assets are reviewed for impairment, either on a standalone basis or as part of a larger cash generating unit, when there is an indication that the assets might be impaired. Additionally, 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.

Impairment losses on non-financial 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.

(p) 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 property, plant and equipment or computer software and the capital element of the leasing commitment is shown as obligations under finance leases. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the income statement. All other leases are operating leases and the rental costs are charged to the income statement on a straight-line basis over the lease term.

Notes to the Financial Statements for the year ended 31 December 2016

(q) **Trade and other receivables**

Trade and other receivables are carried at original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When a trade or other receivable is determined to be uncollectable it is written off, firstly against any provisions available and then to the income statement.

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

(r) **Cash and cash equivalents**

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

(s) **Assets held for sale**

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.

(t) **Trade and other payables**

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

(u) **Taxation**

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

Deferred tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date.

(v) **Provisions for liabilities**

Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, it is probable that outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(w) **Pensions**

The costs of providing pensions under defined benefit pension schemes are calculated using the projected unit credit method and spread over the period during which benefit is expected to be derived from the employees' services, consistent with the advice of qualified actuaries. Pension obligations are measured as the present value of estimated future cash flows discounted at rates reflecting the yields of high quality corporate bonds. Pension scheme assets are measured at fair value at the balance sheet date.

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

Actuarial gains and losses and the effect of changes in actuarial assumptions, are recognised in the statement of other comprehensive income in the year in which they arise. The Company's contributions to defined contribution plans are charged to the income statement as incurred.

Notes to the Financial Statements for the year ended 31 December 2016

3 Key accounting judgements and estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported in the financial statements. Actual amounts and results could differ from those estimates. The following are considered to be the key accounting judgements and estimates made.

(a) Taxation

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised, based on management's assumptions relating to the amounts and timing of future taxable profit.

(b) Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the asset. See Note 11 for the carrying values of property, plant and equipment. Useful economic lives are disclosed in the accounting policy for property, plant and equipment.

(c) Pensions and other post-employment benefits

The costs of providing pensions and other post-employment benefits are charged to the income statement in accordance with IAS 19 'Employee benefits' over the period during which benefit is derived from the employee's services. The costs are assessed on the basis of assumptions selected by management. These assumptions include future earnings and pension increases, discount rates and mortality rates, and are disclosed in Note 25. 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 Company from 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. Discount rates are derived from AA rated corporate bond yields.

(d) Recognition of share-based payment charge

As disclosed in Note 7, certain employees of the Company provide services to other entities in the Group. Management has assessed if it is appropriate for the Company to recognise the share-based payment charge for all employees in the Company, or if part of the share-based payment charge should be recognised by the entities receiving services from the employees of the Company.

Management has concluded that it is appropriate that the Company recognised the share-based payment charge for all of the employees of the Company based on the following factors:

(i) All employees are contracted with the Company (ii) no secondment arrangements are in place where employees provide services to other members of the Group (iii) employees can provide service to a number of other entities in the Group without the need for new contracts of employment (iv) review of salaries and awarding of bonuses for all UK employees is the responsibility of the UK Human Resource function, which is contained within the Company.

4 Turnover

During the year ended 31 December 2016 the Company operated in one geographical segment, the United Kingdom. Its principal activity was to act as the legal employer of all United Kingdom Group employees. Additionally the Company provided management services to other Group companies.

Notes to the Financial Statements for the year ended 31 December 2016

5 Exceptional items

The Group has undertaken an OE restructuring 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 and other post retirement costs which are expected to be incurred through to 2017.

The analysis of costs incurred under this programme in 2016 and 2015 is as follows	2016	2015
	£m	£m
Restructuring costs	170	218

6 Operating profit

	2016	2015
	£m	£m
The following items have been charged in operating profit:		
Other operating expense	165	165
Depreciation of property, plant and equipment		
Owned assets	36	30
Amortisation of intangible assets	53	35
Loss on disposal of intangible assets	-	2
Exchange losses on foreign currency transactions	28	8
Operating lease rentals		
Land and buildings	16	16
Restructuring costs	170	218
Amounts written off loan receivable from ESOP Trust	158	151
Fees payable to the Company's auditor for the audit of the Company's and other Group companies' financial statements	11	13

Other operating expense principally comprises professional fees and contract charges of £110 million (2015: £125 million), rental costs of £16 million (2015: £15 million) and general business and sundry expenditure of £54 million (2015: £27 million).

During the year, the Company bore staff costs on behalf of the Group and recharged these at cost where appropriate. It also charged a management fee to other Group companies for the provision of management services (see Note 7 for further details).

Included within audit fees above is a fee of £35,575 (2015: £50,575) relating to the audit of the Company and £10.9 million (2015: £12.9 million) which is recharged to other Group companies through management services.

The Company has made an appropriate charge for management services provided to other Group companies, including an element for auditors' remuneration. In 2016, the Company made a special funding contribution to the UK pension scheme totalling £191 million (2015: £85 million).

The Company provides finance to an ESOP Trust to purchase shares in the ultimate parent company on the open market to meet the ultimate parent company's obligation to provide shares to the Group's employees when they exercise their options or awards. The Company assesses the loan receivable for impairment annually based on an assessment of the Trust's ability to repay the loan. The ability of the Trust to repay the loan is based on the market value of the Trust's assets at the balance sheet date. A write down of £158 million (2015: £151 million) was recognised in respect of the loan receivable from the ESOP Trust.

Notes to the Financial Statements for the year ended 31 December 2016

7 Employees

	2016	2015
	£m	£m
Employee costs		
Wages and salaries	833	813
Social security costs	111	107
Pension and other post retirement cost	208	161
Severance costs arising from integration and restructuring activities	87	94
Share based payments	95	95
Other costs	87	85
	1,421	1,355

Certain UK employees of the Group are remunerated by the Company. The costs of individuals are recharged at cost to the economic employers as appropriate. 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 Company also incurred £214 million (2015 £191 million) related to use of temporary and contract staff.

Severance costs of £87 million (2015 £94 million) has arisen as a result of the operational excellence programme undertaken by the Group (Note 5).

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

	2016	2015
Manufacturing	5,872	5,480
Selling, general and administration	4,866	5,118
Research and development	3,308	3,289
	14,046	13,887

The average number of Company employees exclude temporary and contract staff

8 Finance income

	2016	2015
	£m	£m
On loans with Group undertakings	9	4

9 Finance expense

	2016	2015
	£m	£m
On loans with Group undertakings	66	62
Other finance expense (Note 24)	12	17
Total finance expense	78	79

Notes to the Financial Statements for the year ended 31 December 2016

10 Taxation

	2016 £m	2015 £m
Income tax expense on profit / (loss)		
Current Tax:		
UK corporation tax at 20.00% (2015: 20.25%)	33	57
Adjustments in respect of previous years	(33)	-
Total current tax	-	57
Deferred tax:		
Origination and reversal of timing differences	(14)	(7)
Adjustments in respect of previous years	28	(5)
Change in tax rate - impact on deferred tax	-	3
Total deferred tax	14	(9)
Total tax charge for the year	14	48

The tax assessed for the year is higher (2015: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2016 of 20.00% (2015: 20.25%). The differences are explained below:

	2016 £m	2015 £m
Reconciliation of total tax charge		
Profit / (loss) on ordinary activities before tax	19	(19)
Profit / (loss) on ordinary activities at the UK statutory rate 20.00% (2015: 20.25%)	4	(4)
Effects of:		
Expenses not deductible for tax purposes	17	55
R&D Tax credit	(1)	(1)
Change in tax rate - impact on deferred tax	-	3
Adjustment to tax charge in respect of previous periods	(6)	(5)
Total tax charge for the year	14	48

Factors that may effect future tax charges

Reductions in the UK corporation tax rates from 20% to 19% (effective 1 April 2017) and to 17% (effective 1 April 2020) were substantively enacted as part of the Finance (No 2) Act 2015 on 26 October 2015 and Finance Act 2016 on 15 September 2016. This will impact the Company's future current tax charge accordingly. Deferred taxes have been calculated based on the rate of 17% (2015: 18%) substantively enacted at the balance sheet date.

	2016 £m	2015 £m
Tax (income) / expense included in other comprehensive income		
Current Tax:		
Defined benefit plans	(37)	(8)
Deferred tax:		
Defined benefit plans	1	26
Change in tax rates	6	16
Total tax (income) / expense included in other comprehensive income	(30)	34

	2016 £m	2015 £m
Tax income included in equity		
Current Tax:		
Share-based incentive plans	(2)	(5)
Deferred tax:		
Share-based incentive plans	(5)	2
Total tax income included in equity	(7)	(3)

Notes to the Financial Statements for the year ended 31 December 2016

10 Taxation (continued)

Movement in deferred tax assets and liabilities

	Accelerated capital allowances £m	Pensions and other post retirement benefits £m	Other net temporary differences £m	Total £m
At 1 January 2015	34	106	36	176
Charge / (Credit) to income statement	10	5	(6)	9
Credit to other comprehensive income	-	(41)	-	(41)
At 1 January 2016	44	70	30	144
(Credit) / Charge to income statement	(15)	3	(2)	(14)
Credit to equity	-	-	5	5
Credit to other comprehensive income	-	(7)	-	(7)
At 31 December 2016	29	66	33	128

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

	2016 £m	2015 £m
Deferred tax assets	128	144
	128	144

11 Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Assets in construction £m	Total £m
Cost				
At 1 January 2016	51	363	63	477
Additions	-	-	44	44
Retirement of assets	-	(140)	-	(140)
Reclassifications	(1)	19	(23)	(5)
Transfer to assets held for sale	(24)	-	-	(24)
At 31 December 2016	26	242	84	352
Accumulated depreciation				
At 1 January 2016	(4)	(332)	-	(336)
Charge for the year	(3)	(33)	-	(36)
Retirement of assets	-	140	-	140
Transfer to assets held for sale	-	-	-	-
At 31 December 2016	(7)	(225)	-	(232)
Accumulated impairment				
At 1 January 2016	(2)	-	-	(2)
Impairment charge for the year	-	(1)	-	(1)
Transfer to assets held for sale	2	-	-	2
At 31 December 2016	-	(1)	-	(1)
Total depreciation and impairment at 31 December 2016	(7)	(226)	-	(233)
Net book value at 1 January 2016	45	31	63	139
Net book value at 31 December 2016	19	16	84	119

The net book value at 31 December 2016 of the Company's land and buildings comprises freehold properties £1 million (at 31 December 2015 £1 million).

Notes to the Financial Statements for the year ended 31 December 2016

11 Property, plant and equipment (continued)

Included in plant, equipment and vehicles at 31 December 2016 are leased assets with a cost of £8 million (at 31 December 2015: £8 million), accumulated depreciation of £8 million (at 31 December 2015: £8 million) and a net book value of £nil million (at 31 December 2015: £nil million)

£22m relates to movement of assets of Stockley Park Building 11 from the Property, plant and equipment to assets held for sale

12 Intangible assets

	Computer Software £m
Cost	
At 1 January 2016	598
Additions	125
Asset write down	(31)
Capitalised borrowing costs	4
Reclassifications	5
At 31 December 2016	701
Accumulated amortisation	
At 1 January 2016	(179)
Charge for the year	(53)
Asset write down	31
At 31 December 2016	(201)
Accumulated impairment	
At 1 January 2016 and at 31 December 2016	(2)
Total amortisation and impairment at 31 December 2016	(203)
Net book value at 1 January 2016	417
Net book value at 31 December 2016	498

13 Trade and other receivables

	2016 £m	2015 £m
Amounts owed by Group undertakings	4,227	3,850
Loan receivable from ESOP Trust	576	232
Corporation tax	157	77
Other receivables	20	46
	4,980	4,205

Amounts owed by Group undertakings include Loan account balances with GlaxoSmithKline Finance Plc of £3,334 million (2015: £3,211 million) and GlaxoSmithKline Plc of £5 million (2015: £2million) which are unsecured with interest charged at 0.26% (LIBOR rate less 1.25%) (2015: 0.36% (LIBOR rate less 1.25%)) and 5.55% (2015: 5.5%) per annum respectively and repayable on demand.

The loan receivable from the ESOP Trust is repayable on either 10 business days notice, or on a date agreed by the Company and the ESOP Trust.

The corporation tax debtor contains amounts which will be received from Group companies.

14 Prepayments and accrued income

	2016 £m	2015 £m
Amounts due within one year	30	42

Notes to the Financial Statements for the year ended 31 December 2016

15 Assets held for sale

	Land and buildings £m
At 1 January 2016	-
Additions	22
At 31 December 2016	22

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.

£22m relates to movement of assets of Stockley Park Building 11 from the Property, plant and equipment to assets held for sale.

16 Trade and other payables

	2016 £m	2015 £m
Trade payables	210	235
Amounts owed to Group undertakings	2,639	1,669
Other payables	55	54
	2,904	1,958

Amounts owed to Group undertakings within one year include loan balances with GlaxoSmithKline IHC Limited totalling £2,348 million (2015: £1,430 million) with interest at 0.64% (LIBOR rate plus 0.25%) (2015: 0.74% (LIBOR rate plus 0.25%)) per annum and payable on demand.

17 Accruals and deferred income

	2016 £m	2015 £m
Amounts falling due within one year	126	181

18 Long-term borrowings

	2016 £m	2015 £m
Amounts owed to Group undertakings	973	973

Amounts owed to Group undertakings due after more than one year include loan balance with GlaxoSmithKline Capital plc totalling £973 million (2015: £973 million) which is unsecured with interest charged at 5.55% (2015: 5.55%) per annum and repayable on 19 December 2033.

19 Provisions for liabilities

The Company had the following provisions during the year:

	Restructuring provision £m	Provision for payroll tax on exercise of options £m	Other provisions £m	Total £m
At 1 January 2015	69	28	16	113
Charge for the year	-	9	3	12
Utilised	(12)	(13)	(4)	(29)
At 31 December 2015	57	24	15	96
Charge for the year	13	18	6	37
Utilised	(22)	(14)	(5)	(41)
Reversed	(14)	-	-	(14)
Reclassifications and other movements	9	-	(9)	-
At 31 December 2016	43	28	7	78

Notes to the Financial Statements for the year ended 31 December 2016

19 Provisions for liabilities (continued)

Restructuring provisions are expected to be utilised in 2017. 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 2018.

20 Share capital

	2016 Number of shares	2015 Number of shares	2016 £m	2015 £m
Issued and fully paid				
Ordinary Shares of 25p each (2015: 25p each)	2,852,000,000	2,852,000,000	713	713

21 Capital commitments

At 31 December, the Company had the following capital commitments

	2016 £m	2015 £m
Capital Commitments		
Contracted for but not provided in the financial statements		
Property, plant and equipment	10	10

Commitments under non-cancellable operating leases are disclosed below. £17million (2015: £13million) is provided against these commitments on the Company's balance sheet.

	2016 £m	2015 £m
Commitments under non-cancellable operating lease		
Rental payments due within one year	9	9
Rental payments due between one and five years	8	8
Rental payments due after five years	7	3
Total commitments under non-cancellable operating leases	24	20

22 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 2016 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 (2015: £nil).

23 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 (2015: £nil). Corporate Directors received no remuneration during the year, either as executives of the Group or in respect of their services to the Company (2015: £nil).

Notes to the Financial Statements for the year ended 31 December 2016

24 Related party transactions

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

The Group has a 78.3% equity interest in the ViiV Healthcare Limited group and 63.5% equity interest in the GlaxoSmithKline Consumer Healthcare Holdings Limited group. Transactions with members of the ViiV Healthcare Limited group ("ViiV Group") and the GlaxoSmithKline Consumer Healthcare Holdings Limited group ("Consumer Healthcare Group") are disclosed below.

Related party transactions included in the Income statement	Consumer Healthcare		ViiV Group	
	2016 £m	2015 £m	2016 £m	2015 £m
Turnover	318	325	21	21
Administrative expenses	1	33	1	-

Turnover is earned principally from the recharge of central service charges and employee costs. Administrative expenses charged to the Company from related parties encompass central service charge costs from the operating of certain global shared service centres.

Balances outstanding with related parties as at 31 December	Consumer Healthcare		ViiV Group	
	2016 £m	2015 £m	2016 £m	2015 £m
Trade and other receivables	44	31	20	-
Trade and other payables	1	103	1	23

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

25 Pensions

The Company operates pension arrangements which cover the Company's material obligations to provide pensions to retired employees. These arrangements have been developed in accordance with practices in the UK. 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.

The assets of funded schemes are generally held in separately administered trusts, either as specific assets or as a proportion of general funds or 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 company reviewed the investment strategy of the UK plans in 2011 and the asset allocation for the UK plans has been adjusted to approximately 55% return seeking assets and 45% liability matching assets.

The pension schemes are exposed to risk that arises because the estimated market value of the scheme assets might decline, the investment returns might reduce or the estimated value of the schemes' 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 Company has defined an overall long-term strategy for the schemes, with investments across a broad range of assets. The main market risks within the asset and hedging portfolio are against credit risk, interest rates, long-term inflation, equities, property and bank counterparty risk.

Pension costs of defined benefit schemes for accounting purposes have been calculated using the projected unit credit method. Formal, independent, actuarial valuations of the Company's main plans are undertaken regularly, normally at least every three years. Actuarial movements in the year are recognised through the statement of comprehensive income. Discount rates are derived from AA rated corporate bond yields. Discount rates are selected to reflect the term of the expected benefit payments. Projected inflation rate and pension increases are long-term predictions based on the yield gap between long-term index-linked and fixed interest Gilts. Mortality rates are determined by adjusting the SAPS S2 standard mortality tables to reflect recent scheme experience. These rates are then projected to reflect improvements in life expectancy in line with the CMI projections with a long-term rate of improvement of 1.25% per year for both males and females.

Notes to the Financial Statements for the year ended 31 December 2016

25 Pensions (continued)

During 2016, the Company made special funding contributions to the UK pension schemes totalling £191 million (2015 £85 million). In 2016, the Company 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 2014 actuarial funding valuation. Based on the funding agreements following the 2014 valuation, the additional contributions to eliminate the pension deficit are expected to be £123 million in 2017. The contributions are 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.

Employers contribution for 2017, including special funding contributions is estimated at approximately £220 million.

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.

For defined benefit schemes, the fair values of pension scheme assets at 31 December 2016 are compared with the future pension liabilities calculated under the projected unit credit method applying the following assumptions:

Principal financial assumptions

	2016 % pa	2015 % pa	2014 % pa
Rate of increase of future earnings	2.00	2.00	2.00
Discount rate	2.70	3.80	3.60
Expected pension increases	3.20	3.10	3.00
Inflation rate	3.20	3.10	3.00

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 27.8 years if they are male and for a further 29.8 years if they are female. For a member who retires in 2036 at age 60 the assumptions are that they will live on average for a further 29.6 years after retirement if they are male and for a further 31.9 years after retirement if they are female.

The fair values of the assets and liabilities of the defined benefit schemes are as follows:

At 31 December 2016		Fair value £m
Equities	- listed	5,357
	- unlisted	1,545
Property	- unlisted	314
Corporate bonds	- listed	292
	- unlisted	321
Government bonds	- listed	6,165
Insurance contracts		856
Other assets		(2,267)
Fair value of assets		12,583
Present value of funded scheme obligations		(12,672)
Present value of unfunded scheme obligations		(212)
Net pension deficit recognised on the balance sheet		(301)
Value of schemes in surplus		276
Value of schemes in deficit		(577)
Net pension deficit recognised on the balance sheet		(301)
Actual return on plan assets		2,473

Notes to the Financial Statements for the year ended 31 December 2016

25 Pensions (continued)

In October 2013, the UK schemes entered into repurchase agreements to gain exposure to index-linked gilts and these are included within government bonds in the table above. The related loan is included within 'Other assets' at a value of £(1,698) million (2015 £(2,215) million)

At 31 December 2015		Fair value (restated) £m
Equities	- listed	5,187
	- unlisted	481
Property	- unlisted	302
Corporate bonds	- listed	251
	- unlisted	232
Government bonds	- listed	5,687
Insurance contracts		755
Other assets		(2,611)
Fair value of assets		10,284
Present value of funded scheme obligations		(10,453)
Present value of unfunded scheme obligations		(148)
Net pension deficit recognised on the balance sheet		(317)
Value of schemes in surplus		232
Value of schemes in deficit		(549)
Net pension deficit recognised on the balance sheet		(317)
Actual return on plan assets		(17)

The total provision for pensions and post-retirement benefits at 31 December 2016 amounts to £389 million (2015 £392 million)

The Company also operates an unfunded post-retirement healthcare scheme. The liability under FRS 101 has been assessed using the same assumptions as for the pension scheme, together with the assumption for future medical inflation of 7.0% in 2017 going down to 5.00% in 2021 and 4.7% after. On this basis, the liability for the scheme has been assessed at £88 million (2015: £75 million).

The following amounts representing both pension and post-retirement arrangements were recorded in the Income statement and Statement of comprehensive income for the year ended 31 December 2016.

2016

	Pensions	Post retirement benefits	Total
Amounts charged to operating profit			
Current service cost	(70)	-	(70)
Past service cost	(52)	-	(52)
Expenses	(7)	-	(7)
Total charged to operating profit	(129)	-	(129)
Amounts (credited)/charged to net finance costs			
Interest income	385	-	385
Interest on scheme liabilities	(394)	(3)	(397)
Total charged to net finance costs	(9)	(3)	(12)
Amounts recorded in statement of other comprehensive income			
Returns on plan assets, excluding amounts included in interest	2,088	-	2,088
Gain from change in demographic assumptions	92	-	92
Gain from change in financial assumptions	(2,372)	(13)	(2,385)
Experience gains	27	-	27
Remeasurement gains	(165)	(13)	(178)

Notes to the Financial Statements for the year ended 31 December 2016

25 Pensions (continued)

2015

	Pensions (restated) £m	Post retirement benefits £m	Total (restated) £m
Amounts charged to operating profit			
Current service cost	(77)	-	(77)
Past service cost	(25)	-	(25)
Expenses	(7)	-	(7)
Total charged to operating profit	(109)	-	(109)
Amounts credited/(charged) to net finance income			
Interest income	374	-	374
Interest on scheme liabilities	(388)	(3)	(391)
Total credited/(charged) to net finance income	(14)	(3)	(17)
Amounts recorded in statement of other comprehensive income			
Returns on plan assets, excluding amounts included in interest	(391)	-	(391)
Gain from change in demographic assumptions	118	16	134
Gain from change in financial assumptions	162	2	164
Experience gains	193	1	194
Remeasurement losses	82	19	101

The amounts included within past service costs include amounts related to augmentation costs arising from major restructuring programmes

	Assets (restated) £m	Liabilities (restated) £m	Total pensions (restated) £m	Post retirement benefits £m	Total (restated) £m
Reconciliation of scheme assets and liabilities:					
At 31 December 2014	10,551	(10,991)	(440)	(91)	(531)
Charged to operating profit	-	(102)	(102)	-	(102)
Interest income	374	(388)	(14)	(3)	(17)
Expenses	(7)	-	(7)	-	(7)
Contributions by plan participants	4	(4)	-	-	-
Benefits paid	(411)	411	-	-	-
Employer contributions	164	-	164	-	164
Remeasurement (losses)/gains	(391)	473	82	19	101
At 31 December 2015	10,284	(10,601)	(317)	(75)	(392)
Charged to operating profit	-	(122)	(122)	-	(122)
Interest income	385	(394)	(9)	(3)	(12)
Expenses	(7)	-	(7)	-	(7)
Contributions by plan participants	4	(4)	-	-	-
Benefits paid	(490)	490	-	-	-
Employer contributions	319	-	319	3	322
Remeasurement gains/(losses)	2,088	(2,253)	(165)	(13)	(178)
At 31 December 2016	12,583	(12,884)	(301)	(88)	(389)

In addition to the above defined benefit schemes, there are assets and obligations of defined contribution plans amounting to £1,862 million at December 2016 (2015: £1,591 million) which had previously been included in these figures. Prior year figures have been restated to reflect this change.

Notes to the Financial Statements for the year ended 31 December 2016

25 Pensions (continued)

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

	2016	2015 (restated)
	£m	£m
Active	1,713	1,467
Retired	7,183	6,010
Deferred	3,988	3,124
	12,884	10,601

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

	2016	2015
	£m	£m
Active	6	5
Retired	82	70
	88	75

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

	2016	2015
	£m	£m
Pension benefits	17	17
Post-retirement benefits	14	14

Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is.

	£m
A 0.25% decrease in discount rate would have the following approximate effect:	
Increase in annual pension cost	18
Increase in pension obligation	548
Increase in post-retirement benefits obligation	3
A one year increase in life expectancy would have the following approximate effect:	
Increase in annual pension cost	15
Increase in pension obligation	441
Increase in post-retirement benefits obligation	3
A 1% increase in the rate of future healthcare inflation would have the following approximate effect:	
Increase in annual post-retirement benefits cost	1
Increase in post-retirement benefits obligation	13
A 0.25% increase in inflation would have the following approximate effect:	
Increase in annual pension cost	14
Increase in pension obligation	433

26 Employee Share Schemes

GSK operates several employee share schemes, including the Share Value Plan, whereby awards are granted to employees to acquire shares or American Depositary Shares ("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 under the Performance Share Plan are normally granted to employees to acquire shares or ADS in GlaxoSmithKline plc. 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 share based compensation charge has been recorded in the income statement as administrative expenses of £95 million (2015: £95 million).

Notes to the Financial Statements for the year ended 31 December 2016

26 Employee Share Schemes (continued)

Share options and savings-related options

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

	2016	2015
Risk-free rate	0.32%	0.88%
Dividend yield	4.9%	6.5%
Volatility	23%	21%
Expected life	3 years	3 years
Savings-related options grant price (including 20% discount)	£12.95	£10.14

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 1 January 2015	15,155	£12.80		207	\$46.78	
Options granted	-	£0.00	£0.00	-	\$0.00	\$0.00
Options exercised	(2,105)	£12.69		(21)	\$36.90	
Options cancelled	(395)	£13.39		(45)	\$35.25	
As at 31 December 2015	12,655	£12.84		141	\$47.79	
Options exercised	(4,567)	£12.68		(7)	\$36.41	
Options adjusted	-	£0.00		99	\$47.79	
Options cancelled	(2,203)	£14.42		(48)	\$51.08	
As at 31 December 2016	5,885	£12.36		185	\$46.14	
Range of exercise prices	£11.47 - £14.88			\$33.42 - \$58.00		
Weighted average market price on exercise	£15.85			\$42.08		
Weighted average remaining contractual life	1.8 Years			1.1 Years		

Savings-related share option schemes

	Number '000	Weighted exercise price	Weighted fair value
As at 31 December 2014	5,610	£11.66	
Options granted	4,364	£10.13	£1.78
Options exercised	(2,786)	£11.59	
Options cancelled	(577)	£11.63	
As at 31 December 2015	6,611	£10.68	
Options granted	1,259	£12.95	£2.69
Options exercised	(1,202)	£11.94	
Options cancelled	(401)	£10.76	
As at 31 December 2016	6,267	£10.89	
Range of exercise prices	£10.13 - £12.95		
Weighted average market price on exercise	£14.93		
Weighted average remaining contractual life	2.5 Years		

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.

Notes to the Financial Statements for the year ended 31 December 2016

26 Employee Share Schemes (continued)

GlaxoSmithKline share award schemes

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 2014 to Directors and members of the Corporate Executive Team, the performance conditions are based on three equally weighted measures over a three year performance period. These are adjusted free cash flow, Total Stakeholder Return and R&D new product performance. For details on the calculation of these measures, see Annual Report pages 114 to 136.

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

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

During 2016, awards were made of 5.5 million shares at a weighted fair value of £11.01. At 31 December 2016, there were outstanding awards over 13.2 million shares.

Number of shares issuable	Shares Number ('000)	Weighted fair value
At 31 December 2015	13,187	
Awards granted	5,500	£11.01
Awards exercised	(1,769)	
Awards cancelled	(3,693)	
At 31 December 2016	13,225	

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 4.5% (2015: 5.7%) over the duration of the award.

Number of shares issuable	Shares Number ('000)	Weighted fair value
At 31 December 2015	32,577	
Awards granted	12,983	£14.97
Awards exercised	(11,198)	
Awards cancelled	(1,507)	
At 31 December 2016	32,855	