

GlaxoSmithKline Services Unlimited
(Registered number: 1047315)

Directors' report and financial statements

for the year ended 31 December 2013

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GlaxoSmithKline Services Unlimited

Directors' report and financial statements

for the year ended 31 December 2013

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GlaxoSmithKline Services Unlimited
(Registered number: 1047315)

Strategic report for the year ended 31 December 2013

The Directors submit their strategic report for the year ended 31 December 2013.

Principal activities

GlaxoSmithKline Services Unlimited ("the Company") is a member of, and provides management services to, the GlaxoSmithKline Group ("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 £45 million (2012: profit of £313 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 £45 million will be transferred to reserves (2012: profit for the year of £313 million transferred to reserves).

Principal risks and uncertainties

The Directors of Group manage risks at 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 2013 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 2013 Annual Report which does not form part of this report.

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, initiated in 2007 and expanded in 2009, 2010 and 2011.

By order of the Board



P F Blackburn
For and on behalf of Edinburgh Pharmaceutical Industries Limited
Corporate Director
10 October 2014

Directors' report for the year ended 31 December 2013

The Directors submit their report and the audited financial statements for the year ended 31 December 2013.

Results and dividends

The Company's results for the financial year are shown in the profit and loss account on page 6.

No dividend is proposed to the holders of Ordinary Shares in respect of the year ended 31 December 2013 (2012: £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' 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.

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 2013, the ESOP Trust held 28,737,000 shares at a nominal value of £7 million (2012: 34,494,000 shares at a nominal value of £9 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.

Directors' report for the year ended 31 December 2013

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

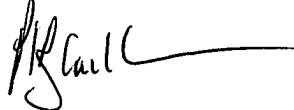
Disclosure of Information to auditors

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 F Blackburn
For and on behalf of Edinburgh Pharmaceutical Industries Limited
Corporate Director
10 October 2014

GlaxoSmithKline Services Unlimited

Independent auditors' report to the members of GlaxoSmithKline Services Unlimited

Report on the financial statements

Our opinion

In our opinion, the financial statements defined below:

- give a true and fair view of the state of the Company's affairs at 31 December 2013 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by GlaxoSmithKline Services Unlimited, comprise:

- the Balance sheet as at 31 December 2013;
- the Profit and loss account for the year then ended;
- the Statement of total recognised gains and losses 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 their preparation is applicable law and United Kingdom Accounting Standards (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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

In addition, we read all the financial and non-financial information in the Directors' report and Strategic report for the year ended 31 December 2013 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 the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

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

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.

GlaxoSmithKline Services Unlimited

Independent auditors' report to the members of GlaxoSmithKline Services Unlimited

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.

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 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.

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

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 October 2014

GlaxoSmithKline Services Unlimited

**Profit and loss account
for the year ended 31 December 2013**

	Notes	2013 £m	2012 (restated) £m
Turnover	2	2,734	1,892
Administrative expenses		(2,325)	(1,383)
Trading profit		409	509
Restructuring costs		(123)	(120)
Impairment (charge)/reversal of fixed asset investments	10	(85)	101
Other operating expenses	4	(174)	(114)
Operating profit		27	376
Other finance income	22	91	29
Interest receivable and similar income	6	5	13
Interest payable and similar charges	7	(54)	(54)
Profit on ordinary activities before taxation		69	364
Tax on profit on ordinary activities	8	(24)	(51)
Profit for the financial year	17	45	313

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.

The comparative figures have been restated (Note 2).

GlaxoSmithKline Services Unlimited

**Statement of total recognised gains and losses
for the year ended 31 December 2013**

	2013	2012
	£m	£m
Profit for the financial year	45	313
Actuarial gains/(losses) on pension schemes	124	(446)
Tax effect of actuarial gains/(losses) on pension schemes	(38)	98
Total recognised gains/(losses) relating to the year	131	(35)

GlaxoSmithKline Services Unlimited

**Balance sheet
as at 31 December 2013**

	Notes	2013 £m	2012 £m
Fixed assets			
Tangible assets	9	396	312
Investments	10	101	186
		497	498
Current assets			
Debtors - amount due within one year	11	4,906	4,477
- amount due after more than one year	11	134	28
Cash at bank and in hand		18	34
		5,058	4,539
Creditors: amounts falling due within one year	12	(3,149)	(2,594)
Net current assets		1,909	1,945
Total assets less current liabilities		2,406	2,443
Creditors: amounts falling due after more than one year	12	(973)	(973)
Provisions for liabilities	13	(74)	(77)
Net assets before pension liability		1,359	1,393
Pension liability	22	(65)	(323)
Net assets		1,294	1,070
Capital and reserves			
Called up share capital	15	713	713
Profit and loss account	16	581	357
Total shareholders' funds	17	1,294	1,070

The financial statements on pages 6 to 21 were approved by the Board of Directors on 10 October 2014 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 2013

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, throughout the year, 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 are 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 historical 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 less any residual value, 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. 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 for liabilities

Provisions are recognised when the Company has a present obligation as a result of a past event, 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 Turnover and Segmental information

During the year ended 31 December 2013, 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.

Turnover and administrative expenses have been restated by £60m for 2012 with £nil impact to trading profit. Staff related expenses have been reclassified between administrative expenses and turnover by increasing both turnover and administrative expenses by £60m in 2012. This adjustment was required to properly account for pass through costs for staff related expenses within other UK entities where the Company remunerates its employees.

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 and other post retirement costs which are expected to be incurred through to 2013.

The analysis of costs incurred under this programme in 2013 and 2012 is as follows:

	2013	2012
	£m	£m
Non operating exceptional expense - restructuring costs	123	120
Effect on profit on ordinary activities before taxation	123	120
Effect on tax on profit on ordinary activities	(29)	(29)
Effect on profit on ordinary activities	94	91

4 Other operating expense

	2013 £m	2012 £m
Other operating expense	174	114

Other operating expense principally comprises marketing & promotional expenditure of £20 (2012: £18m), professional fees and contract charges of £50m (2012: £30m) and sundry income & expenses of £15m (2012: £45m)

5 Operating profit

	2013 £m	2012 £m
The following items have been charged/(credited) in operating profit:		
Depreciation of tangible fixed assets:		
Owned assets	42	46
Exchange losses/(gains) on foreign currency transactions	(3)	(6)
Operating lease rentals:		
Land and buildings	2	5
Fees payable to the Company's auditor for the audit of the Company's and other Group companies' financial statements	9	6
Fees payable to the Company's auditors for other services	4	3

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 £32,894 (2012: £31,936) relating to the audit of the Company and £8,536,000 (2012: £6,431,000) 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 2013, the Company made a special contribution to the Group pension scheme of £93 million (2012: £366 million).

6 Interest receivable and similar income

	2013 £m	2012 £m
Other finance income (Note 22)	91	29
On loans with Group undertakings	5	13
	96	42

7 Interest payable and similar charges

	2013 £m	2012 £m
On loans with Group undertakings	(54)	(54)
	(54)	(54)

8 Tax on profit on ordinary activities

	2013 £m	2012 £m
Tax charge based on profits for the financial year		
Current Tax		
UK corporation tax at 23.25% (2012: 24.5%)	(8)	(34)
Under provision in previous years	123	13
Current tax charge/(credit)	115	(21)
Total deferred tax		
Origination and reversal of timing differences	12	74
Adjustments in respect of previous years	(131)	(3)
Change in tax rate - impact on deferred tax	28	1
Deferred taxation	(91)	72
Tax on profit on ordinary activities	24	51

The tax assessed for the year is higher (2012: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2013 of 23.25% (2012: 24.5%). The differences are explained below:

	2013 £m	2012 £m
Reconciliation of current tax charge		
Tax charge on ordinary profits at UK standard tax rate 23.25% (2012: 24.5%)	16	90
Effects of:		
Expenses not deductible for tax purposes	9	(29)
Adjustments to tax charge in respect of previous years	123	13
R&D Tax credit	(8)	(26)
Capital allowance in excess of depreciation	(8)	(5)
Other timing differences	(17)	(64)
Current tax charge/(credit) for the year	115	(21)

Notes to the Financial Statements for the year ended 31 December 2013

Factors that may effect future tax charges:

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2013 has been calculated based on the rate of 20% (2012: 23%) which has been substantively enacted at the balance sheet date.

9 Tangible assets

	Land and buildings £m	Plant, equipment and vehicles £m	Assets in construction £m	Computer software £m	Total £m
Cost					
At 1 January 2013	3	314	149	250	716
Additions	-	-	26	95	121
Disposals	-	-	-	(6)	(6)
Reclassifications	-	12	(12)	-	-
Intra-group transfer	47	-	(10)	(28)	9
At 31 December 2013	50	326	153	312	840
Accumulated depreciation					
At 1 January 2013	(2)	(300)	-	(100)	(402)
Charge for the year	-	(10)	-	(32)	(42)
Disposals	-	-	-	2	2
At 31 December 2013	(2)	(310)	-	(131)	(442)
Impairment					
At 1 January 2013	-	-	-	(2)	(2)
At 31 December 2013	-	-	-	(2)	(2)
Net book value at 1 January 2013	1	14	149	148	312
Net book value at 31 December 2013	48	16	153	180	396

The net book value at 31 December 2013 of the Company's land and buildings comprises freehold properties £1 million (at 1 January 2013: £1 million).

Included in plant, equipment and vehicles at 31 December 2013 are leased assets with a cost of £8 million (at 1 January 2013: £8 million), accumulated depreciation of £7 million (at 1 January 2013: £7 million) and a net book value of £1 million (at 1 January 2013: £1 million). During the year there was loss on disposal of Computer software amounting to £3m.

10 Fixed asset investments

	Shares in parent company £m	Total £m
Cost		
At 1 January 2013	327	327
Disposals	-	-
At 31 December 2013	327	327
Impairment		
At 1 January 2013	(141)	(141)
Impairment	(85)	(85)
At 31 December 2013	(226)	(226)
Carrying value at 1 January 2013	186	186
Carrying value at 31 December 2013	101	101

An impairment of £85 million was recorded as a result of a decreased carrying value of investments in shares of the Company's parent, GlaxoSmithKline plc, which are held by the Employee Share Ownership Plan Trust (Note 1(e) and Note 24). The market value of these shares at 31 December 2013 was £465 million (2012: £462 million).

11 Debtors

	2013 £m	2012 £m
Amounts due within one year		
Amounts owed by Group undertakings	4,825	4,274
Corporation tax	-	139
Other debtors	60	45
Prepayments and accrued income	21	19
	4,906	4,477
Amounts due after more than one year		
Deferred tax (Note 14)	134	28
	134	28
	5,040	4,505

Amounts owed to Group undertakings include Loan account balances with GlaxoSmithKline Finance Plc and GlaxoSmithKline Plc which are unsecured with interest charged at 0.36% and 5.55% per annum respectively and repayable on demand. The corporation tax debtor contains amounts which will be received from fellow Group companies.

12 Creditors

	2013 £m	2012 £m
Amounts falling due within one year		
Obligations under finance leases	-	1
Trade creditors	238	192
Amounts owed to Group undertakings	2,560	2,260
Corporation tax	87	-
Other creditors	89	59
Accruals and deferred income	175	82
	3,149	2,594
Amounts falling due after more than one year		
Amounts owed to Group undertakings	973	972
Obligations under finance leases	-	1
	973	973
	4,122	3,567

Amounts owed to Group undertakings within one year are unsecured and repayable on demand. The corporation tax creditor contains amounts which will be paid to fellow Group companies. Amounts owed to Group undertakings due after more than one year include loans totalling £973 million (2012: £972 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 2013	38	20	19	77
Charge for the year	3	25	3	31
Utilised	(14)	(4)	(4)	(22)
Reversed/released	-	(9)	-	(9)
Reclassifications and other movements	-	-	(3)	(3)
At 31 December 2013	27	32	15	74

Restructuring provisions are expected to be utilised in 2014. 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.

14 Deferred tax asset

	2013 £m	2012 £m
Accelerated capital allowances	3	(8)
Tax losses carried forward and other deductions	99	-
Other net timing differences	32	36
As at 31 December	134	28

All deferred taxation movements arise from the origination and reversal of timing differences.

Reconciliation of deferred taxation asset	£m
At 1 January 2013	28
Deferred tax credit (excluding the deferred taxation on Pensions)	106
At 31 December 2013	134

15 Called up share capital

	2013 Number of shares	2012 Number of shares	2,013 £m	2,012 £m
Authorised				
Ordinary Shares of 25p each (2012: 25p each)	16,000,000,000	16,000,000,000	4,000	4,000
Issued and fully paid				
Ordinary Shares of 25p each (2012: 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 2013	357	357
Profit for the financial year	45	45
Share based payments	79	79
Tax effect on share based payments	14	14
Changes in actuarial values of retirement benefits (Note 22)	124	124
Tax effect on changes in actuarial values of retirement benefits	(38)	(38)
At 31 December 2013	581	581

17 Reconciliation of movements in shareholders' funds

	2013 £m	2012 £m
Profit for the financial year	45	313
Share based payments	79	56
Tax effect on share based payments	14	-
Changes in actuarial values of retirement benefits (Note 22)	124	(446)
Tax effect on changes in actuarial values of retirement benefits	(38)	98
Net addition to shareholders funds	224	21
Opening shareholders' funds	1,070	1,049
Closing shareholders' funds	1,294	1,070

18 Commitments

	2013 £m	2012 £m
Capital Commitments		
Contracted for but not provided in the financial statements		
Tangible fixed assets	8	6

	2013 £m	2012 £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	8
After five years	4	-
	12	8

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 2013 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 (2012: £nil).

20 Employees

	2013 £m	2012 (restated) £m
Employee costs		
Wages and salaries	925	842
Social security costs	97	89
Pension and other post retirement cost/(credit)	121	(261)
Severance costs arising from integration and restructuring activities	35	24
Pension and other post-retirement costs arising from restructuring activities	-	4
Share based payments	79	56
Other costs	115	81
	1,372	835

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.

Severance costs of £35 million and pension and other post-retirement costs of £nil million have both arisen as a result of the operational excellence programme undertaken by the Group (Note 3).

The comparative figures for Wages and salaries and Pension and other post retirement cost/(credit) have been adjusted to properly reflect the cost of employee remuneration by the Company and provided services to other Group companies.

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

	2013	2012
Manufacturing	5,027	4,992
Selling, general and administration	5,463	5,434
Research and development	3,394	3,482
	13,884	13,908

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

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 (2012: £nil). Corporate Directors received no remuneration during the year, either as executives of the Group or in respect of their services to the Company (2012: £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 2013, the Company made special funding contributions to the UK pension schemes totalling £93 million (2012: £366 million). In 2013, 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 2011 actuarial funding valuation. Based on the funding agreements following the 2011 valuation, the additional contributions are expected to be £85 million in 2014. The contributions are based on a government bond yield curve approach to selecting the discount rate.

Employers contribution for 2014, including special funding contributions, is estimated at approximately £190 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.

The Company accounts for pension arrangements in accordance with FRS17 'Retirement Benefits'. Certain disclosures are required on the basis of the valuation methodology adopted by FRS 17 'Retirement benefits'. For defined benefit schemes, the fair values of pension scheme assets at 31 December 2013 are compared with the future pension liabilities calculated under the projected unit method applying the following assumptions:

Principal financial assumptions

	2013 % pa	2012 % pa	2011 % pa
Rate of increase of future earnings	2.00	2.00	4.00
Discount rate	4.50	4.40	4.80
Expected pension increases	3.40	3.00	3.00
Inflation rate	3.40	3.00	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 27.5 years if they are male and for a further 29.7 years if they are female. For a member who retires in 2033 at age 60 the assumptions are that they will live on average for a further 29.4 years after retirement if they are male and for a further 31.5 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 2013

	Expected rate of return %	Fair value £m
Equities	7.50	6,474
Property	6.50	254
Bonds	3.70	3,860
Other assets	5.20	656
Fair value of assets	6.04	11,244
Present value of funded scheme obligations		(11,043)
Present value of unfunded scheme obligations		(86)
Schemes surplus/(deficit)		115
Asset not recognised on the balance sheet		(116)
Surplus/(deficit) recognised on the balance sheet		(1)
Value of schemes in surplus		176
Deferred tax liability at 20%		(35)
Net pension surplus		141
Value of schemes in deficit		(177)
Deferred tax asset at 20%		35
Net pension deficit		(142)
Net pension surplus/(deficit) recognised on the balance sheet		(1)
Actual return on scheme assets		1,377

Notes to the Financial Statements for the year ended 31 December 2013

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' in the table above, and the 'Present value of funded scheme obligations' at a value of £775 million at 31 December 2013 (2012 - £751 million). In October 2013, the UK schemes entered into repurchase agreements to gain exposure to index-linked gilts. The related loan is also included within 'Other assets' at a value of £(407) million (2012 - £nil)

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	5.94	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)
Actual return on scheme assets		665

The total provision for pensions and post-retirement benefits at 31 December 2013 amounts to £81 million (2012: £394 million) which reduces to £65 million (2012: £303 million) after taking account of deferred tax of £nil (2012: £72 million) for pensions and £16 million (2012: £19 million) for post retirement benefits.

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 2013.

The Company also operates an unfunded post-retirement healthcare scheme. The liability under FRS 17 'Retirement benefits' has been assessed using the same assumptions as for the pension scheme, together with the assumption for future medical inflation of 7.0% in 2014 going down to 4.35% in 2020 and after. On this basis, the liability for the scheme has been assessed at £80 million (2012 - £81 million), which reduced to £64 million (2012: £61 million) after taking account of deferred tax of £16 million (2012: £19 million).

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 2013.

2013

	Pensions £m	Post retirement benefits £m	Total £m
Amounts credited/(charged) to operating profit			
Current service cost	(117)	-	(117)
Past service cost	(2)	-	(2)
Curtailment/settlements	(2)	-	(2)
Total credited/(charged) to operating profit	(121)	-	(121)
Amounts credited/(charged) to net interest			
Expected return on pension scheme assets	492	-	492
Interest on scheme liabilities	(397)	(4)	(401)
Total credited/(charged) to net interest	95	(4)	91
Amounts recorded in statement of total recognised gains and losses			
Total actuarial gains	235	5	240
Change in irrecoverable surplus	(116)	-	(116)
Total	119	5	124

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.

2012

	Pensions £m	Post retirement benefits £m	Total £m
Amounts credited/(charged) to operating profit			
Current service cost	(130)	-	(130)
Past service cost	395	-	395
Curtailments/settlements	(4)	-	(4)
Total credited/(charged) 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 credited/(charged) to net interest	33	(4)	29
Amounts recorded in statement of total recognised gains and losses			
	(447)	1	(446)

The cumulative actuarial losses recorded in the statement of recognised income and expenses amounted to £1,962 million.

22 Pensions continued

	Pensions	Post retirement benefits	Total
	£m	£m	£m
Changes to the present value of the defined benefit obligations are as follows:			
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
Employer contributions	(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)
Charged to operating profit	(121)	-	(121)
Contributions by plan participants	(26)	-	(26)
Benefits paid	359	-	359
Interest cost	(397)	(4)	(401)
Actuarial loss	(650)	5	(645)
Scheme transferred from a fellow group undertaking	-	-	-
Obligation in schemes at 31 December 2013	(11,129)	(80)	(11,209)

	Pensions	Post retirement benefits	Total
	£m	£m	£m
Changes to the fair value of plan assets during the year are as follows:			
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	-	-	-
Scheme transferred from a fellow group undertaking	220	-	220
Assets at 31 December 2012	9,981	-	9,981
Expected return on plan assets	492	-	492
Contributions by plan participants	26	-	26
Benefits paid	(359)	-	(359)
Employer contributions	219	-	219
Actuarial gain	885	-	885
Scheme transferred from a fellow group undertaking	-	-	-
Assets at 31 December 2013	11,244	-	11,244

	Pensions	Post retirement benefits	Total
	£m	£m	£m
History of experience adjustments			
2013			
Experience adjustments on scheme assets (£m)	885	-	885
Percentage of scheme assets at 31 December 2013	8%	-	8%
Experience adjustments on scheme liabilities (£m)	(259)	-	(259)
Percentage of present value of scheme liabilities at 31 December 2013	2%	-	2%
History of experience adjustments			
2012			
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%	-
History of experience adjustments			
2011			
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%
History of experience adjustments			
2010			
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	-	-	-

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 £79 million (2012: £56 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:

	2013	2012
Risk-free rate	0.7%	0.1%-0.5%
Dividend yield	5.3%	5.2%
Volatility	20%	18%-23%
Expected lives of options granted under:		
Share option schemes	3-4 Years	4 Years
Savings related share option schemes	3-4 Years	3-4 Years
Weighted average share price for grants in the year:		
Ordinary shares	£16.14	£14.35
ADS	\$50.49	\$45.57

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 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	
Options granted	-	£0.00	£0.00	-	\$0.00	\$0.00
Options exercised	(19,759)	£12.77		(113)	\$42.13	
Options cancelled	(2,081)	£12.61		(14)	\$51.22	
As at 31 December 2013	19,666	£12.66		321	\$45.90	
Range of exercise prices	£10.76 - £14.93			\$33.42 - \$58.00		
Weighted average market price on exercise	£12.77			\$42.13		
Weighted average remaining contractual life	4.24 Years			3.67 Years		

23 Employee Share Schemes continued

Savings-related share option schemes			
	Number '000	Weighted exercise price	Weighted fair value
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	
Options granted	1,092	£12.47	£2.33
Options exercised	(241)	£9.79	
Options cancelled	(210)	£11.34	
As at 31 December 2013	5,102	£11.78	
Range of exercise prices		£9.79 - £12.47	
Weighted average market price on exercise		£15.40	
Weighted average remaining contractual life		2.5 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 2013

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						
2004	1,481	£11.22	01.12.14	34	\$43.53	01.12.14
2005	54	£13.12	01.11.15	1	\$47.49	31.10.15
2006	2,885	£14.69	28.07.16	64	\$51.15	28.07.16
2007	3,232	£14.80	25.07.17	69	\$57.71	25.07.17
2008	2,768	£11.49	22.07.18	53	\$44.79	22.07.18
2009	3,749	£11.76	22.07.19	41	\$33.46	21.07.19
2010	5,696	£12.03	21.07.20	59	\$37.31	21.07.20
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
Total	19,666	£12.68		321	\$45.90	

Savings-related share option schemes			
Year of grant	Number '000	Weighted exercise price	Latest exercise date
2011	-	-	-
2012	4,012	£11.59	01.05.16
2013	1,090	£12.47	01.05.17
Total	5,102	£11.78	

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 2012	32,782	£12.90	385	\$45.93
At 31 December 2013	19,666	£12.68	321	\$45.90

Savings-related share option schemes		
	Number '000	Weighted exercise price
At 31 December 2012	281	£9.72
At 31 December 2013	-	£0.00

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 96 to 126.

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. Half of the TSR element of each award is measured over three years and half over four years.

For those awards made to all other eligible employees the performance conditions consist of two parts, each of which applies to 50% of the award. The first part of the performance condition compares GSK's 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. 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 2012	12,156	
Awards granted	5,205	£13.36
Awards exercised	(1,022)	
Awards cancelled	(2,977)	
At 31 December 2013	13,362	

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 2012	25,318	
Awards granted	12,011	£14.76
Awards exercised	(5,324)	
Awards cancelled	(938)	
At 31 December 2013	31,067	

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 2012	294	
Awards granted	-	£0.00
Awards exercised	-	
Awards cancelled	-	
At 31 December 2013	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(e). 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 2013 Annual Report.

	2013	2012
Shares held for share award scheme		
Number of Ordinary shares ('000)	28,737	34,494
	£m	£m
Nominal value	7	9
Carrying value	100	185
Market value	463	460
Shares held for share option schemes		
Number of Ordinary shares ('000)	139	139
	£m	£m
Nominal value	-	-
Carrying value	1	1
Market value	2	2

The trustees have waived their rights to dividends on the shares held by the ESOP Trust. Other costs in 2013 amounted to £(20,645,000) (2012: £8,851,000) and were charged to other operating expense.

25 Currency swaps designated as fair value hedges

	2013	2012
	£'000	£'000
At 31 December 2013	-	(357)

The notional principal amount of the outstanding derivative instruments at 31 December 2013 was £nil (2012: £nil). 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.