

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Annual Report

for the year ended 31 December 2017

Registered office address:

980 Great West Road
Brentford
Middlesex
TW8 9GS
England

WEDNESDAY



A7F9TLZL

A15

26/09/2018

#179

COMPANIES HOUSE

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Annual Report
for the year ended 31 December 2017

Contents	Pages
Strategic report	1
Directors' report	2-4
Independent auditors' report	5-6
Income statement	7
Statement of other comprehensive income	8
Balance sheet	9
Statement of changes in equity	10
Notes to the financial statements	11-29

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Strategic report for the year ended 31 December 2017

The Directors present their Strategic report on GlaxoSmithKline Services Unlimited ("the Company") for the year ended 31 December 2017.

Principal activities and future developments

The Company is the principal legal employing entity of the GlaxoSmithKline Group ("the Group"). The Company is a member 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 Directors do not envisage any change to the nature of the business in the foreseeable future.

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.

Review of business

The Company made a loss for the financial year of £32m (2016: profit of £5m). 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 loss for the year of £32m will be transferred from reserves (2016: £5m profit transferred to 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 impairment. A write down of £214m (2016: £158m) 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 GlaxoSmithKline plc manage the risks of the Group at a group level, rather than at an individual statutory entity level. For this reason, the Company's Directors believe that a discussion of the Group's risks would not be appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's 2017 Annual Report which does not form part of this report.

Key performance indicators (KPIs)

The Directors of the Group manage the Group's operations on an operating segment basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The development, performance and position of the Group are discussed in the Group's 2017 Annual Report which does not form part of this report.

By order of the Board



A Burns
For and on behalf of Edinburgh Pharmaceutical Industries Limited
Corporate Director
19 September 2018

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Directors' report for the year ended 31 December 2017

The Directors present their report on the Company and the audited financial statements for the year ended 31 December 2017.

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 2017 (2016: £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
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. A Corporate Director is a legal entity of the Group, as opposed to a natural person (an individual) Director.

Directors' indemnity

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

In addition, each 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 2017

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 Annual Report 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, comprising FRS 101 "Reduced Disclosure Framework", 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, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the will continue in business.

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

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

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

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Directors' report for the year ended 31 December 2017

Governance

The Company's approach to the Modern Slavery Act 2015 is set by the Group. Each year, as part of their governance arrangements, the Group formally reviews and approves the approach to the Modern Slavery Act 2015 and has confirmed that the approach is still valid for 2017.

Disclosure of information to auditors

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

Independent Auditors

Following the signing of the accounts, the Company will be appointing Deloitte LLP as statutory auditors for the 2018 financial year.

By order of the Board

A handwritten signature in black ink, appearing to read 'AGD' with a stylized flourish underneath.

A Burns
For and on behalf of Edinburgh Pharmaceutical Industries Limited
Corporate Director
19 September 2018

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Independent auditors' report to the members of GlaxoSmithKline Services Unlimited

Report on the audit of the financial statements

Opinion

In our opinion, GlaxoSmithKline Services Unlimited's financial statements:

- give a true and fair view of the state of the Company's affairs at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet at 31 December 2017; 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 description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included. Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Independent auditors' report to the members of GlaxoSmithKline Services Unlimited

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

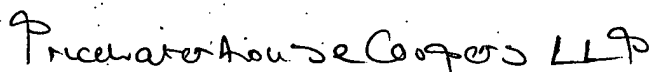
Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Other matter

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
19 September 2018

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Income statement
for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Turnover	4	3,294	3,194
Administrative expenses		(2,604)	(2,613)
Trading profit		690	581
Other operating expense	6	(213)	(165)
Amounts written off loan receivable from ESOP Trust	6	(214)	(158)
Exceptional items:			
Restructuring costs	5	(191)	(170)
Operating profit	6	72	88
Profit before interest and taxation		72	88
Finance income	8	5	9
Finance expense	9	(76)	(78)
Finance expense - net		(71)	(69)
Profit before taxation		1	19
Taxation	10	(33)	(14)
(Loss) / profit for the year		(32)	5

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

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Statement of other comprehensive income
for the year ended 31 December 2017

	2017 £m	2016 £m
(Loss) / profit for the year	(32)	5
Items that will not be reclassified to the income statement:		
Actuarial gains / (losses) on pension schemes	259	(178)
Current tax effect of actuarial movements on defined benefit pension schemes	19	37
Deferred tax effect on defined benefit pension schemes	(61)	(7)
Other comprehensive income / (loss) for the year	217	(148)
Total comprehensive income / (loss) for the year	185	(143)

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Balance sheet
at 31 December 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Property, plant and equipment	11	111	119
Intangible assets	12	560	498
Deferred tax assets	10	75	128
Total non-current assets		746	745
Current assets			
Trade and other receivables	13	1,839	4,980
Prepayments and accrued income	14	29	30
Cash and cash equivalents		4	3
Assets held for sale	15	12	22
Total current assets		1,884	5,035
Total assets		2,630	5,780
Current liabilities			
Trade and other payables	16	(819)	(2,904)
Accruals and deferred income	17	(114)	(126)
Total current liabilities		(933)	(3,030)
Net current assets		951	2,005
Total assets less current liabilities		1,697	2,750
Non-current liabilities			
Long-term borrowings	18	-	(973)
Provisions for liabilities	19	(70)	(78)
Pensions and other post employment benefits	25	(35)	(389)
Total non-current liabilities		(105)	(1,440)
Total liabilities		(1,038)	(4,470)
Net assets		1,592	1,310
Equity			
Share capital	20	713	713
Retained earnings		879	597
Shareholders' equity		1,592	1,310

The financial statements on pages 7 to 29 were approved by the Board of Directors on 19 September 2018 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 2017

	Share capital £m	Retained earnings £m	Total £m
At 1 January 2016	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
Loss for the year	-	(32)	(32)
Share-based incentive plans (Note 26)	-	98	98
Tax on share-based incentive plans	-	(1)	(1)
Other comprehensive income for the year	-	217	217
At 31 December 2017	713	879	1,592

Notes to the Financial Statements for the year ended 31 December 2017

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 76 and 79(d) 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 2017

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

(d) 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

The Company operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets, and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances, employees might provide services in advance of the grant date, and so the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement and grant date.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

Notes to the Financial Statements for the year ended 31 December 2017

(i) **Share based payments (continued)**

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

(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.

(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 less residual value, 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.

Notes to the Financial Statements for the year ended 31 December 2017

(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.

(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 2017

(x) Share capital

Ordinary shares are classified as equity.

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; and (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 2017, 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 2017

5 Exceptional items

The Group has undertaken an operational excellence 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.

The analysis of costs incurred under this programme in 2017 and 2016 is as follows:	2017	2016
	£m	£m
Restructuring costs	191	170

6 Operating profit

	2017	2016
	£m	£m
The following items have been charged in operating profit:		
Other operating expense	213	165
Depreciation of property, plant and equipment:		
Owned assets (Note 11)	30	36
Amortisation of intangible assets (Note 12)	63	53
Exchange losses on foreign currency transactions	-	28
Operating lease rentals:		
Land and buildings	14	16
Restructuring costs (Note 5)	191	170
Amounts written off loan receivable from ESOP Trust	214	158
Fees payable to the Company's auditor for the audit of the Company's and other Group companies' financial statements	12	11

Other operating expense principally comprises professional fees and contract charges of £63 million (2016: £110 million), rental costs of £15 million (2016: £16 million) and general business and sundry expenditure of £44 million (2016: £54 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 (2016: £35,575) relating to the audit of the Company and £12.4 million (2016: £10.9 million) relating to the audit of other Group companies 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 2017, the Company made a special funding contribution to the UK pension scheme totalling £136 million (2016: £191 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 £214 million (2016: £158 million) was recognised in respect of the loan receivable from the ESOP Trust.

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Notes to the Financial Statements for the year ended 31 December 2017

7 Employees

	2017	2016
	£m	£m
Employee costs		
Wages and salaries	914	833
Social security costs	119	111
Pension and other post retirement cost	225	208
Severance costs arising from integration and restructuring activities	127	87
Share based payments	98	95
Other costs	93	87
	1,576	1,421

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 £192 million (2016: £214 million) relating to the use of temporary and contract staff.

Severance costs of £127 million (2016: £87 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**

	2017	2016
Manufacturing	6,098	5,872
Selling, general and administration	4,854	4,866
Research and development	3,472	3,308
	14,424	14,046

The average numbers of Company employees exclude temporary and contract staff.

8 Finance income

	2017	2016
	£m	£m
On loans with Group undertakings	5	9

9 Finance expense

	2017	2016
	£m	£m
On loans with Group undertakings	66	66
Other finance expense (Note 25)	10	12
Total finance expense	76	78

Notes to the Financial Statements for the year ended 31 December 2017

10 Taxation

	2017 £m	2016 £m
Income tax expense on profit		
Current Tax:		
UK corporation tax at 19.25% (2016: 20.00%)	42	33
Adjustments in respect of previous years	4	(33)
Total current tax	46	-
Deferred tax:		
Origination and reversal of timing differences	(12)	(14)
Adjustments in respect of previous years	(1)	28
Change in tax rate - impact on deferred tax	-	-
Total deferred tax	(13)	14
Total tax charge for the year	33	14

The tax assessed for the year is higher (2016: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20.00%). The differences are explained below:

	2017 £m	2016 £m
Reconciliation of total tax charge		
Profit on ordinary activities before tax	1	19
Profit on ordinary activities at the UK statutory rate 19.25% (2016: 20.00%)	-	4
Effects of:		
Expenses not deductible for tax purposes	30	17
R&D Tax credit	-	(1)
Change in tax rate - impact on deferred tax	-	-
Adjustment to tax charge in respect of previous periods	3	(6)
Total tax charge for the year	33	14

Factors that may effect future tax charges:

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. Changes to the UK corporation tax rates were fully enacted as part of Finance Bill 2016 (on 15 September 2016). These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. This will impact the Company's future current tax charge accordingly. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

	2017 £m	2016 £m
Tax (income) / expense included in other comprehensive income		
Current Tax:		
Defined benefit plans	(19)	(37)
Deferred tax:		
Defined benefit plans	61	1
Change in tax rates	-	6
Total tax (income) / expense included in other comprehensive income	42	(30)
Tax income included in equity		
Current Tax:		
Share-based incentive plans	(4)	(2)
Deferred tax:		
Share-based incentive plans	5	(5)
Total tax income included in equity	1	(7)

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Notes to the Financial Statements for the year ended 31 December 2017

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 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 1 January 2017	29	66	33	128
Charge to income statement	11	1	1	13
Credit to equity	-	-	(5)	(5)
Credit to other comprehensive income	-	(61)	-	(61)
At 31 December 2017	40	6	29	75

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

	2017 £m	2016 £m
Deferred tax assets classified as non-current assets	75	128

11 Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Assets in construction £m	Total £m
Cost				
At 1 January 2017	26	242	84	352
Additions	-	-	40	40
Retirement of assets	-	(27)	-	(27)
Reclassifications	-	21	(39)	(18)
Transfer to assets held for sale	-	(4)	-	(4)
At 31 December 2017	26	232	85	343
Accumulated depreciation				
At 1 January 2017	(7)	(225)	-	(232)
Charge for the year	(2)	(28)	-	(30)
Retirement of assets	-	27	-	27
Transfer to assets held for sale	-	4	-	4
At 31 December 2017	(9)	(222)	-	(231)
Accumulated impairment				
At 1 January 2017	-	(1)	-	(1)
Impairment charge for the year	-	-	-	-
Transfer to assets held for sale	-	-	-	-
At 31 December 2017	-	(1)	-	(1)
Total depreciation and impairment at 31 December 2017	(9)	(223)	-	(232)
Net book value at 1 January 2017	19	16	84	119
Net book value at 31 December 2017	17	9	85	111

The net book value at 31 December 2017 of the Company's land and buildings comprises freehold properties of £1 million (2016: £1 million).

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Notes to the Financial Statements for the year ended 31 December 2017

11 Property, plant and equipment (continued)

Included in plant, equipment and vehicles at 31 December 2017 are leased assets with a cost of £8 million (2016: £8 million), accumulated depreciation of £8 million (at 31 December 2016: £8 million) and a net book value of £nil (2016: £nil).

12 Intangible assets

	Computer Software £m
Cost	
At 1 January 2017	701
Additions	109
Disposals and asset write-offs	(60)
Capitalised borrowing costs	2
Intra group transfer	(4)
Reclassifications	18
At 31 December 2017	766
Accumulated amortisation	
At 1 January 2017	(201)
Charge for the year	(63)
Disposals and asset write-offs	58
Intra group transfer	1
At 31 December 2017	(205)
Accumulated impairment	
At 1 January 2017	(2)
Impairment charge for the year	(1)
Asset write down	2
At 31 December 2017	(1)
Total amortisation and impairment at 31 December 2017	(206)
Net book value at 1 January 2017	498
Net book value at 31 December 2017	560

13 Trade and other receivables

	2017 £m	2016 £m
Amounts due within one year		
Amounts owed by Group undertakings	1,283	4,227
Loan receivable from ESOP Trust	362	576
Corporation tax	179	157
Other receivables	15	20
	1,839	4,980

Amounts owed by Group undertakings include Loan account balances with GlaxoSmithKline Finance plc of £nil (2016: £3,334 million) which are unsecured with interest charged at LIBOR rate less 0.125% (2016: LIBOR rate less 0.125%) per annum 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 receivable contains amounts which will be received from fellow Group companies.

14 Prepayments and accrued income

	2017 £m	2016 £m
Amounts due within one year	29	30

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Notes to the Financial Statements for the year ended 31 December 2017

15 Assets held for sale

	Land and buildings £m
At 1 January 2017	22
Impairment	(10)
At 31 December 2017	12

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.

The impairment in the current period relates to an asset in West London.

16 Trade and other payables

	2017 £m	2016 £m
Amounts falling due within one year		
Trade payables	229	210
Amounts owed to Group undertakings	531	2,639
Other payables	59	55
	819	2,904

Amounts owed to Group undertakings within one year include loan balances with GlaxoSmithKline IHC Limited totalling £69million (2016: £2,348 million) and GlaxoSmithKline Finance plc of £126 million (2016: £nil) with interest paid at LIBOR rate plus 0.25% (2016: LIBOR rate plus 0.25%) per annum and repayable on demand.

17 Accruals and deferred income

	2017 £m	2016 £m
Amounts falling due within one year	114	126

18 Long-term borrowings

	2017 £m	2016 £m
Amounts owed to Group undertakings	-	973

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 2016	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
Charge for the year	21	12	3	36
Utilised	(20)	(14)	(3)	(37)
Reversed	(7)	-	-	(7)
At 31 December 2017	37	26	7	70

GlaxoSmithKline Services Unlimited
(Registered number:01047315)

Notes to the Financial Statements for the year ended 31 December 2017

19 Provisions for liabilities (continued)

Restructuring provisions are expected to be utilised in 2018. 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

	2017 Number of shares	2016 Number of shares	2017 £m	2016 £m
Issued and fully paid				
Ordinary Shares of 25p each (2016: 25p each)	2,852,000,000	2,852,000,000	713	713

21 Capital commitments

The Company had the following capital commitments at the end of the year:

	2017 £m	2016 £m
Capital Commitments		
Contracted for but not provided for in the financial statements:		
Property, plant and equipment	7	10

Commitments under non-cancellable operating leases are disclosed below. £15million (2016: £17million) is provided against these commitments on the Company's balance sheet.

	2017 £m	2016 £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	4	7
Total commitments under non-cancellable operating leases	21	24

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 2017 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 (2016: £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 (2016: £nil). Corporate Directors received no remuneration during the year, either as executives of the Group or in respect of their services to the Company (2016: £nil).

Notes to the Financial Statements for the year ended 31 December 2017

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 disclose 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	
	2017 £m	2016 £m	2017 £m	2016 £m
Turnover	261	318	21	21
Administrative expenses	8	1	-	1

Turnover is earning 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	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade and other receivables	55	44	28	20
Trade and other payables	8	1	-	1

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.

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. 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 2017

25 Pensions (continued)

During 2017, the Company made special funding contributions to the UK pension schemes totalling £136 million (2016: £191 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 2018. 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 2018, including special funding contributions is estimated at approximately £280 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 2017 are compared with the future pension liabilities calculated under the projected unit credit method applying the following assumptions:

Principal financial assumptions

	2017 % pa	2016 % pa	2015 % pa
Rate of increase of future earnings	2.00	2.00	2.00
Discount rate	2.50	2.70	3.80
Expected pension increases	3.20	3.20	3.10
Inflation rate	3.20	3.20	3.10

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 29.5 years if they are female. For a member who retires in 2037 at age 60 the assumptions are that they will live on average for a further 29.1 years after retirement if they are male and for a further 31.1 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 2017		Fair value £m
Equities	- listed	4,902
Multi-asset funds		2,517
Property	- unlisted	352
Corporate bonds	- listed	297
	- unlisted	326
Government bonds	- listed	5,127
Insurance contracts		849
Other assets		(1,216)
Fair value of assets		13,154
Present value of funded scheme obligations		(12,857)
Present value of unfunded scheme obligations		(244)
Net pension surplus recognised on the balance sheet		53
Value of schemes in surplus		470
Value of schemes in deficit		(417)
Net pension surplus recognised on the balance sheet		53
Actual return on scheme assets		893

Notes to the Financial Statements for the year ended 31 December 2017

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 £(773) million (2016: £(1,698) million).

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

The total provision for pensions and post-retirement benefits at 31 December 2017 amounts to £35 million (2016: £389 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 6.5% in 2018 going down to 5.0% in 2021 and 4.7% after. On this basis, the liability for the scheme has been assessed at £88 million (2016: £88 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 2017.

2017	Pensions	Post retirement benefits	Total
Amounts charged to operating profit			
Current service cost	(79)	-	(79)
Past service cost	(37)	-	(37)
Expenses	(7)	-	(7)
Total charged to operating profit (Note 6)	(123)	-	(123)
Amounts (credited)/charged to net finance costs			
Interest income	333	-	333
Interest on scheme liabilities	(340)	(3)	(343)
Total charged to net finance costs (Note 9)	(7)	(3)	(10)
Amounts recorded in statement of other comprehensive income			
Returns on plan assets, excluding amounts included in interest	560	-	560
Gain from change in demographic assumptions	214	-	214
Gain from change in financial assumptions	(469)	-	(469)
Experience gains	(46)	-	(46)
Remeasurement gains	259	-	259

Notes to the Financial Statements for the year ended 31 December 2017

25 Pensions (continued)

2016	Pensions £m	Post retirement £m	Total £m
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 income			
Interest income	385	-	385
Interest on scheme liabilities	(394)	(3)	(397)
Total credited/(charged) to net finance income	(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 losses	(165)	(13)	(178)

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

	Assets £m	Liabilities £m	Total pensions £m	Post retirement £m	Total £m
Reconciliation of scheme assets and liabilities:					
At 1 January 2016	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 (losses)/gains	2,088	(2,253)	(165)	(13)	(178)
At 31 December 2016	12,583	(12,884)	(301)	(88)	(389)
Charged to operating profit	-	(116)	(116)	-	(116)
Interest income	333	(340)	(7)	(3)	(10)
Expenses	(7)	-	(7)	-	(7)
Contributions by plan participants	4	(4)	-	-	-
Benefits paid	(544)	544	-	3	3
Employer contributions	225	-	225	-	225
Remeasurement gains/(losses)	560	(301)	259	-	259
At 31 December 2017	13,154	(13,101)	53	(88)	(35)

Notes to the Financial Statements for the year ended 31 December 2017

25 Pensions (continued)

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

	2017 £m	2016 £m
Active	1,669	1,713
Retired	7,528	7,183
Deferred	3,904	3,988
	13,101	12,884

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

	2017 £m	2016 £m
Active	6	6
Retired	82	82
	88	88

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

	2017 years	2016 years
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	571
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	16
Increase in pension obligation	504
Increase in post-retirement benefits obligation	4
A 1% increase in the rate of future healthcare inflation would have the following approximate effect:	
Increase in annual post-retirement benefits cost	-
Increase in post-retirement benefits obligation	14
A 0.25% increase in inflation would have the following approximate effect:	
Increase in annual pension cost	15
Increase in pension obligation	446

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 £98 million (2016: £95 million).

Notes to the Financial Statements for the year ended 31 December 2017

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:

	2017	2016
Risk-free rate	0.54%	0.32%
Dividend yield	5.9%	4.9%
Volatility	23%	23%
Expected life	3 years	3 years
Savings-related options grant price (including 20% discount)	£10.86	£12.95

Options Outstanding	Share option schemes - shares			Share option schemes - ADS		
	Number	Weighted exercise price	Weighted fair value	Number	Weighted exercise price	Weighted fair value
	'000			'000		
As at 1 January 2016	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	
Options exercised	(1,876)	£13.14		(3)	\$36.08	
Options adjusted	-	£0.00		-	\$0.00	
Options cancelled	(512)	£13.16		(135)	\$55.15	
As at 31 December 2017	3,497	£11.86		47	\$39.52	
Range of exercise prices	£11.47 - £12.21			\$33.42 - \$48.66		
Weighted average market price on exercise	£16.07			\$41.50		
Weighted average remaining contractual life	1.4 Years			1.0 Years		

Savings-related share option schemes

	Number	Weighted exercise price	Weighted fair value
	'000		
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	
Options granted	1,953	£10.86	£2.08
Options exercised	(793)	£11.34	
Options cancelled	(575)	£11.67	
As at 31 December 2017	6,852	£10.77	
Range of exercise prices	£10.13 - £12.95		
Weighted average market price on exercise	£14.28		
Weighted average remaining contractual life	2.1 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 2017

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 2015 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 116 to 141.

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 2017, awards were made of 3.9 million shares at a weighted fair value of £11.09. At 31 December 2017, there were outstanding awards over 12.9 million shares.

Number of shares issuable	Shares Number ('000)	Weighted fair value
At 31 December 2016	13,225	
Awards granted	4,418	£11.09
Awards exercised	(1,784)	
Awards cancelled	(2,938)	
At 31 December 2017	12,921	

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 4.8% (2016: 4.5%) over the duration of the award.

Number of shares issuable	Shares Number ('000)	Weighted fair value
At 31 December 2016	32,855	
Awards granted	13,018	£13.68
Awards exercised	(10,596)	
Awards cancelled	(1,352)	
At 31 December 2017	33,925	