

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Annual Report

for the year ended 31 December 2020

Registered office address:

980 Great West Road
Brentford
Middlesex
TW8 9GS
England

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GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Annual report

for the year ended 31 December 2020

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GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Strategic report for the year ended 31 December 2020

The Directors present their strategic report on GlaxoSmithKline Services Unlimited (the "Company") for the year ended 31 December 2020.

Principal activities and future developments

The Company is a member of the GlaxoSmithKline Group (the "Group"). 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, England.

The principal activity of the Company is to act as 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 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 £27 million (2019: profit of £55 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 £27 million will be transferred to reserves (2019: £55 million 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 £221 million (2019: £186 million) was recognised during the year in respect of the loan receivable from the ESOP Trust.

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 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 2020 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 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 2020 annual report which does not form part of this report.

Impact of Brexit

The UK left the EU on 31 January 2020 and the Brexit transition period ended on 31 December 2020 with a Trade and Cooperation Agreement ('a deal') in place between the UK and EU. The Group's overriding priority in preparing for the UK's exit from the EU has been to maintain continuity of supply of our medicines and vaccines to people in the UK and EU.

GlaxoSmithKline Services Unlimited
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Strategic report for the year ended 31 December 2020 (continued)

Impact of Brexit (continued)

The Group's post-Brexit operating model has been implemented, and we continue to work closely with Governments in both the UK and EU, as well as our third parties, on the effective implementation of the deal and to ensure that our sector continues to thrive in both the UK and EU. Over the longer term, we continue to believe that Brexit will not have a material impact on our business.

Risks associated with COVID-19

The potential impact of the COVID-19 pandemic on the Group's performance and all its principal risks have been assessed with mitigation plans put in place. The Group continues to monitor the situation closely, as this continues to be a dynamic and an uncertain situation, with the ultimate severity, duration and impact unknown at this point including potential impacts on its activity.

Post balance sheet events

An intention to increase the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was announced in the UK Budget on 3 March 2021. Deferred taxes have been measured using appropriate rates substantively enacted at the balance sheet date. The overall effect of the proposed change to the UK corporation tax rate from 19% to 25%, if applied to the deferred tax balance at 31 December 2020, would be an increase in deferred tax assets/liabilities by approximately £60 million.

Section 172 Companies Act 2006 Statement

The Company's governance architecture and processes are operated to ensure that all relevant matters are considered by the Board in its principal decision-making, as a means of contributing to the delivery of the Company's long-term priorities of Innovation, Performance and Trust.

In the performance of its duty to promote the success of the Company and the long-term priorities, the Board has agreed to a number of matters, including listening to and considering the views of shareholders and the Company's other stakeholders to build trust and ensure it fully understands the potential impacts of the decisions it makes for our stakeholders, the environment and the communities in which we operate.

The Company has engaged with its main stakeholder groups, including our patients, shareholders, consumers, customers and Group employees, as further detailed in the stakeholder engagement statements in the Directors' Report and the feedback from the engagement has been considered by the Directors during the decision-making process.

Further disclosures detailing how, during the year, the Directors addressed the matters set out in Section 172(1) (a) to (f) of the Companies Act, can be found in the consolidated financial statements of the Group, of which the Company is a member and no additional considerations are deemed necessary for the Company as the relevant matters are all considered in the Group accounts. Copies of the consolidated financial statements can be obtained from the Company Secretary, GlaxoSmithKline plc, 980 Great West Road, Brentford, Middlesex, TW8 9GS.

On behalf of the Board



A Walker
Director
29 September 2021

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Directors' report for the year ended 31 December 2020

The Directors present their report on the Company and the audited financial statements for the year ended 31 December 2020.

Results and dividends

The Company's results for the financial year are shown in the income statement on page 11.

No dividend is proposed to the holders of ordinary shares in respect of the year ended 31 December 2020 (2019: £nil).

Directors

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

Edinburgh Pharmaceutical Industries Limited
Glaxo Group Limited
A Walker
I Mackay

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
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Directors' report for the year ended 31 December 2020 (continued)

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 become disabled while working for the Group.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual 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, 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 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. 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 pages 1 and 2:

- principal activities and future developments;
- review of business;
- principal risks and uncertainties;
- key performance indicators (KPIs);
- impact of Brexit;
- risks associated with COVID-19;
- post balance sheet events; and
- section 172 Companies Act 2006 Statement.

GlaxoSmithKline Services Unlimited
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Directors' report for the year ended 31 December 2020 (continued)

Modern Slavery

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 2020.

Corporate Governance

As a subsidiary company of a Group listed on the New York and London Stock Exchanges, the Company has developed governance practices and processes that are fit for purpose, and therefore the directors have chosen not to adopt a corporate governance code such as the FRC Corporate Governance Code or Wates Corporate Governance Principles.

The Directors have applied an undocumented system of governance by:

- (a) Promoting the purpose of the Group to deliver manufacturing and distribution of medicines through its subsidiaries' operations.
- (b) Regularly reviewing its composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and that individual Directors have sufficient capacity to make a valuable contribution.
- (c) To support effective decision-making Directors take into account the System of Internal Control and the Code of Conduct when acting in their capacity as a Director of the Company.
- (d) In accordance with the governance practices and processes that it adopts, the Board is supported by Systems of Internal Control to identify opportunities to create and preserve value.
- (e) Having regard to and fostering good stakeholder relationships.

Stakeholder engagement

The Company aims to build enduring relationships with all its stakeholders in the countries where it operates. The Company works with its business partners in an honest, respectful and responsible way and seeks to work with others who share the Company's commitments to safety, ethics and compliance.

On behalf of the Company, the Group participates in industry associations that offer opportunities to share good practices and collaborate on issues of importance. Additionally, the Group works with stakeholders on a range of issues that are relevant to its business and relating to regulatory compliance matters.

Employee engagement

Employees of the Company are informed of information on matters of concern to them as employees through the employee intranet and local sites, social media channels, town halls, site visits and webinars including topics such as quarterly results, strategy, business updates and diversity.

There are a number of employee share plans in place at Group level. The Group operates ShareSave and ShareReward plans. The Group also operates Group-wide discretionary share plans, which allow employee participation at different levels globally and is linked to the Group's performance.

Disclosure of information to auditor

As far as each of the Directors are aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

GlaxoSmithKline Services Unlimited
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Directors' report for the year ended 31 December 2020 (continued)

Going concern

Having assessed the principal risks and other matters, including the potential impact of the COVID-19 pandemic, the Directors are of the opinion that the current level of activity remains sustainable. In relation to the challenges that arise from the COVID-19 pandemic, the considerations have included potential risks related to services provided by the Company. The Directors have taken into account that as part of the Group, the Company has the ability to request support from the Group where necessary and can take actions to ensure business continuity through operational channels, as well as the ability to manage variable costs. On the basis of those considerations, the Directors believe that it remains appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Independent Auditor

Deloitte LLP were appointed to act as the Company's auditor pursuant to section 485(3) Companies Act 2006.

On behalf of the Board



A Walker
Director
29 September 2021

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Independent auditor's report to the members of GlaxoSmithKline Services Unlimited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of GlaxoSmithKline Services Unlimited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of other comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the assumptions on which management's assessment is based including the company's access to sources of internal and external financing and the potential impact of the Covid-19 pandemic on those sources of finance;
- Reading analyst reports, industry data and other external information to determine if it provided corroborative or contradictory evidence in relation to management's assumptions; and
- Evaluating the company's appropriateness of the going concern disclosures in line with the requirements of IAS 1.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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.

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

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**Independent auditor's report to the members of GlaxoSmithKline Services Unlimited
(continued)**

**Extent to which the audit was considered capable of detecting irregularities, including fraud
(continued)**

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included General Data Protection requirements, Anti-bribery and corruption policy and the Foreign Corrupt Practices Act.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

**Independent auditor's report to the members of GlaxoSmithKline Services Unlimited
(continued)**

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Deloitte LLP

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
30 September 2021

GlaxoSmithKline Services Unlimited
(Registered number: 01047315)

Income statement
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Turnover	4	3,320	3,167
Administrative expenses		(2,817)	(2,690)
Trading profit		503	477
Other operating expenses	5	(226)	(220)
Amounts written off loan receivable from ESOP Trust	5	(221)	(186)
Operating profit	5	56	71
Profit before interest and taxation		56	71
Finance income	7	3	31
Finance expense	8	(12)	(17)
Finance (expense)/ income - net		(9)	14
Profit before taxation		47	85
Taxation	9	(20)	(30)
Profit for the year		27	55

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

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Statement of other comprehensive income
for the year ended 31 December 2020

	2020	2019
	£m	£m
Profit for the year	27	55
Items that will not be reclassified to the income statement:		
Actuarial gain/(loss) on pension schemes	46	(898)
Deferred tax on defined benefit pension schemes (Note 9)	(1)	154
Other comprehensive income/ (expense) for the year	45	(744)
Total comprehensive income/ (expense) for the year	72	(689)

GlaxoSmithKline Services Unlimited
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Balance sheet
as at 31 December 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Property, plant and equipment	10	112	103
Right of use assets	11	-	1
Intangible assets	12	436	493
Deferred tax assets	9	190	161
Total non-current assets		738	758
Current assets			
Trade and other receivables	13	3,484	4,051
Corporation tax		-	12
Prepayments and accrued income	14	41	41
Cash and cash equivalents		3	-
Total current assets		3,528	4,104
Total assets		4,266	4,862
Current liabilities			
Trade and other payables	15	(1,859)	(2,655)
Short-term lease liabilities	16	(2)	(2)
Corporation Tax		(50)	-
Accruals and deferred income	17	(144)	(151)
Total current liabilities		(2,055)	(2,808)
Net current assets		1,473	1,296
Total assets less current liabilities		2,211	2,054
Non-current liabilities			
Long-term lease liabilities	16	(5)	(7)
Provisions for liabilities	18	(112)	(75)
Pensions and other post-employment benefits	25	(349)	(381)
Total non-current liabilities		(466)	(463)
Total liabilities		(2,521)	(3,271)
Net assets		1,745	1,591
Equity			
Share capital	19	713	713
Retained earnings		1,032	878
Shareholder's equity		1,745	1,591

The financial statements on pages 11 to 37 were approved by the Board of Directors on 29 September 2021 and were signed on its behalf by:



A Walker
Director

GlaxoSmithKline Services Unlimited
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Statement of changes in equity
for the year ended 31 December 2020

	Share capital £m	Retained earnings £m	Total £m
At 1 January 2019	713	1,486	2,199
Profit for the year	-	55	55
Other comprehensive expense for the year	-	(744)	(744)
Share based incentive plans	-	73	73
Tax on share-based incentive plans	-	8	8
At 31 December 2019	713	878	1,591
Profit for the year	-	27	27
Other comprehensive income for the year	-	45	45
Share based incentive plans	-	82	82
At 31 December 2020	713	1,032	1,745

GlaxoSmithKline Services Unlimited
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Notes to the financial statements for the year ended 31 December 2020

1 Presentation of the financial statements

General information

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, England.

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.

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.

The financial statements are presented in Pounds Sterling.

Going concern

Having assessed the principal risks and other matters, including the potential impact of the COVID-19 pandemic, the Directors are of the opinion that the current level of activity remains sustainable. In relation to the challenges that arise from the COVID-19 pandemic, the considerations have included potential risks related to services provided by the Company. The Directors have taken into account that as part of the Group, the Company has the ability to request support from the Group where necessary and can take actions to ensure business continuity through operational channels, as well as the ability to manage variable costs. On the basis of those considerations, the Directors believe that it remains appropriate to adopt the going concern basis of accounting in preparing the financial statements.

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 of share options, and how the fair value of goods or services received was determined);
- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3, 'Business Combinations';
- The requirements of paragraph 33(c) of IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations';
- IFRS 7, 'Financial instruments: disclosures';
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of 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;

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Notes to the financial statements for the year ended 31 December 2020

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Disclosure exemptions adopted (continued)

- (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'; and
- (v) paragraph 50 of IAS 41, 'Agriculture'.
- 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 reclassified 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';
- The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16, 'Leases';
- The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total;
- 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 and 18A 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; and
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of Assets'.

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.

(b) Ultimate and immediate parent undertaking

The Company is a wholly owned subsidiary of the ultimate parent company. GlaxoSmithKline plc, a company registered in United Kingdom (England), 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, England. The immediate parent undertaking is GlaxoSmithKline plc. These financial statements are separate financial statements.

Notes to the financial statements for the year ended 31 December 2020

2 Summary of significant accounting policies (continued)

(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

The Company recognises turnover for supply of integrated management services for combined output of overall management to other Group companies. The services provided are not separately identifiable and form a single performance obligation.

Turnover is recognised over time as the services are provided and corresponding costs incurred. The services are usually billed and paid on a quarterly basis and service turnover represents the value of services costs recharged at an agreed mark-up, excluding value-added tax and other sales taxes.

(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) Finance income and expense

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

(h) 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 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).

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Notes to the financial statements for the year ended 31 December 2020

2 Summary of significant accounting policies (continued)

(h) Share-based payments (continued)

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.

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 is treated as a cash-settled transaction.

(i) 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 cost in the U.S.) when they exercise their options or awards. The Company assesses the loan receivable at costs less allowance for expected credit loss. Expected credit losses are calculated in accordance with the approaches permitted by IFRS 9. The general approach is used where the Company recognises the losses that are expected to result from possible default events over the expected life of the loan receivable. The loan is classified within current assets in line with the repayment terms of the loan agreement.

(j) Property, plant and equipment

Property, plant and equipment is stated at the cost of purchase or construction less residual value and provisions for depreciation and impairment. Financing costs are capitalised within the cost of qualifying assets in construction.

Depreciation is calculated to write off the cost of property, plant and equipment, excluding freehold land, using the straight-line basis over their expected useful lives. The normal expected useful lives of the major categories of property, plant and equipment are:

Freehold buildings	20 to 50 years
Plant, equipment and vehicles	3 to 20 years

On disposal of the property, plant and equipment, the cost and related accumulated depreciation and impairment are removed from the financial statements and the net amount, less any proceeds, is taken to the income statement/statement of comprehensive income.

(k) Decommissioning provisions

Decommissioning provisions 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 decommissioning 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 decommissioning provision is depreciated along with the rest of the asset over the expected useful life.

Notes to the financial statements for the year ended 31 December 2020

2 Summary of significant accounting policies (continued)

(l) Intangible assets

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

Licences and patent rights separately acquired are amortised over their estimated useful lives, generally not exceeding 20 years, using the straight-line basis, from the time they are available for use. The estimated useful lives for determining the amortisation charge take into account patent lives, where applicable, as well as the value obtained from periods of non-exclusivity. Asset lives are reviewed, and where appropriate adjusted, annually. Contingent milestone payments are recognised at the point that the contingent event becomes probable. Any development costs incurred by the Company and associated with acquired licences, patents rights are written off to the income statement when incurred, unless the criteria for recognition of an internally generated intangible asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

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.

(m) 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.

(n) Impairment of non-current 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.

(o) Leases

The Company recognises right of use assets under lease arrangements in which it is the lessee. Rights to use assets owned by other parties under lease agreements are capitalised at the inception of the lease and recognised on the balance sheet. The corresponding liability to the lessor is recognised as a lease obligation within short and long-term borrowings. The carrying amount is subsequently increased to reflect interest on the lease liability and reduced by lease payments made. For calculating the discounted lease liability on material leases (leases with annual payments of £2 million or more), the implicit rate in the lease is used. If this is not available, the incremental borrowing rate with a lease specific adjustment is used. If neither of these is available, and for leases with immaterial annual payments, the incremental borrowing rate is used. The incremental borrowing rate is calculated at the rate of interest at which the Group would have been able to borrow for a similar term and with a similar security the funds necessary to obtain a similar asset in a similar market.

Finance expenses are charged to the income statement so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Notes to the financial statements for the year ended 31 December 2020

2 Summary of significant accounting policies (continued)

(o) Leases (continued)

Variable rents are not part of the lease liability and the right of use asset. These payments are charged to the income statement as incurred. Short-term and low value leases are not capitalised and lease rentals are also charged to the income statement as incurred.

Non-lease components are accounted for separately from the lease components in plant and equipment leases but are not separately accounted for in land and buildings or vehicle leases.

If modifications or reassessments occur, the lease liability and right of use asset are re-measured.

Right of use assets where title is expected to pass to the Company at a point in the future are depreciated on a basis consistent with similar owned assets. In other cases, right of use assets are depreciated over the shorter of the useful life of the asset or the lease term.

(p) Trade and other receivables

Trade and other receivables are carried at original invoice amount less allowance for expected credit losses. Expected credit losses are calculated in accordance with the approaches permitted by IFRS 9. For trade receivables, the simplified approach is used by using a provision matrix applying lifetime historical credit loss experience to the trade receivables. The expected credit loss rate varies depending on whether and the extent to which settlement of the trade receivables is overdue and it is also adjusted as appropriate to reflect current economic conditions and estimates of future conditions. For the purpose of determining credit loss rates, customers are classified into groupings that have similar loss patterns. The key drivers of the loss rate are the nature of the business unit and the location and type of customer.

For other receivables, the general approach is used where the entity recognises the losses that are expected to result from all possible default events over the expected life of the receivable, when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the receivable has not increased significantly since initial recognition, the entity measures the expected loss allowance based on losses that are expected to result from default events that are possible within 12 months after the reporting date. When a trade and other receivable is determined to be uncollectable it is written off, firstly against any expected credit loss allowance available and then to the income statement.

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

(q) 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.

(r) 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.

(s) Taxation

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

Notes to the financial statements for the year ended 31 December 2020

2 Summary of significant accounting policies (continued)

(s) Taxation (continued)

Deferred tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date.

(t) 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.

(u) 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.

(v) Share capital

Ordinary shares are classified as equity.

3 Critical accounting judgements and key sources of estimation uncertainty

In preparing the financial statements, the Directors are 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 critical accounting judgements and key sources of estimation uncertainty made.

Estimates

(a) 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, expected long-term rates of return on assets and mortality rates, and are disclosed in note 25.

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Notes to the financial statements for the year ended 31 December 2020

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

(a) Pensions and other post-employment benefits (continued)

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.

(b) Receivable from ESOP Trust

The Company makes an estimate of the recoverable amount of the loan to the ESOP Trust. When assessing the loan receivable at cost less allowance for expected credit loss, management consider factors including the number of shares and other assets held by the ESOP Trust. See note 13 for the net carrying amount of the loan receivable from the ESOP Trust.

4 Turnover

During the years ended 31 December 2020 and 2019, the Company operated in one geographical segment, the United Kingdom. Its principal activity was to act as the legal employer of Group employees in United Kingdom. Additionally, the Company provided management services to other Group companies.

5 Operating profit

	2020 £m	2019 £m
The following items have been charged in operating profit:		
Other operating expense	191	166
Depreciation of property, plant and equipment:		
Owned assets (Note 10)	15	12
Amortisation of intangible assets (Note 12)	89	93
Impairment of intangible assets (Note 12)	15	32
Impairment of property, plant and equipment (Note 10)	3	2
Exchange losses on foreign currency transactions	5	7
Restructuring costs	189	163
Amounts written off loan receivable from ESOP Trust	221	186
Lease rentals	15	15
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 of professional fees and contract charges of £158 million (2019: £146 million) and general business and sundry expenditure of £33 million (2019: £20 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 6 for further details).

The restructuring costs consists of severance costs of £136 million and restructuring provision for £53 million.

Included within audit fees above is a fee of £36,100 (2019: £36,100) relating to the audit of the Company and £11.7 million (2019: £10.6 million) relating to the audit of other Group companies which is recharged to other Group companies through management services.

Notes to the financial statements for the year ended 31 December 2020

5 Operating profit (continued)

The Company has made an appropriate charge for management services provided to other Group companies, including an element for auditor's remuneration. The Company made special funding contributions to the UK pension schemes of £76 million (2019: £78 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 £221 million (2019: £186 million) was recognised in respect of the loan receivable from the ESOP Trust.

6 Employees

	2020	2019
Employee costs	£m	£m
Wages and salaries	815	830
Social security costs	112	108
Pension and other post retirement cost	255	183
Severance costs arising from integration, restructuring and other non operational excellence activities	136	125
Share based payments	131	101
	1,449	1,347

UK employees of the Group providing services to the Company 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 borne by the Company and are charged to other Group companies based on a percentage of salaries. The Company also incurred £116 million (2019: £155 million) relating to the use of temporary and contract staff.

Severance costs of £136 million (2019: £125 million) have 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

	2020	2019
Manufacturing	4,188	4,611
Selling, general and administration	3,148	3,183
Research and development	2,968	3,050
	10,304	10,844

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

7 Finance income

	2020	2019
	£m	£m
On loans with Group undertakings	3	14
Other finance income (Note 25)	-	17
Total finance income	3	31

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Notes to the financial statements for the year ended 31 December 2020

8 Finance expense

	2020 £m	2019 £m
On loans with Group undertakings	(8)	(16)
Other finance expense (Note 25)	(4)	(1)
Total finance expense	(12)	(17)

9 Taxation

Income tax charge on profit	2020 £m	2019 £m
Current tax:		
UK corporation tax at 19.00% (2019: 19.00%)	64	45
Adjustments in respect of previous years	(9)	(5)
Total current tax	55	40
	2020 £m	2019 £m
Deferred tax:		
Origination and reversal of timing differences	(35)	(7)
Adjustments in respect of previous years	-	(3)
Total deferred tax	(35)	(10)
Total tax charge for the year	20	30

The tax assessed for the year is higher (2019: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2020 of 19.00% (2019: 19.00%). The differences are explained below:

Reconciliation of total tax charge	2020 £m	2019 £m
Profit on ordinary activities before tax	47	85
Profit on ordinary activities at the UK statutory rate 19.00% (2019: 19.00%)	9	16
Effects of:		
Expenses not deductible for tax purposes	28	21
Remeasurement of deferred tax - change in tax rate	(8)	1
Adjustment to tax charge in respect of previous years	(9)	(8)
Total tax charge for the year	20	30

Factors that may affect future tax charges:

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax charge accordingly. The deferred tax at 31 December 2020 has been calculated at 19% (2019: 17%).

An increase in the UK corporation tax rate from 19% to 25% (effective from 1 April 2023) was substantively enacted on 24 May 2021. This change had not yet been substantively enacted at the balance sheet date and is not reflected in the figures above. The effect of the increase from 19% to 25%, if this applied to the deferred tax balance at 31 December 2020, would be to increase the deferred tax asset by approximately £60 million.

Notes to the financial statements for the year ended 31 December 2020

9 Taxation (continued)

	2020 £m	2019 £m
Tax (credit)/charge included in other comprehensive income		
Current tax:		
Defined benefit plans	-	(16)
Deferred tax:		
Defined benefit plans	1	(137)
Total tax (credit)/charge included in other comprehensive income	1	(153)
	2020 £m	2019 £m
Tax (credit)/charge included in equity		
Current tax:		
share based incentive plans	(5)	(4)
Deferred tax:		
share based incentive plans	5	(4)
Total tax credit included in equity	-	(8)

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 2019	50	(73)	32	9
Credit/(charge) to income statement	16	-	(5)	11
Credit to equity	-	-	4	4
Credit to other comprehensive income	-	137	-	137
At 31 December 2019	66	64	31	161
Credit to other comprehensive income	21	3	11	35
Charge to equity	-	-	(5)	(5)
(Charge) to other comprehensive income	-	(1)	-	(1)
At 31 December 2020	87	66	37	190

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

	2020 £m	2019 £m
Deferred tax assets classified as non-current assets	190	161

10 Property, plant and equipment

	Plant, equipment and vehicles £m	Assets in construction £m	Total £m
Cost			
At 1 January 2020	269	73	342
Additions	-	34	34
Disposals and write-offs	(54)	(6)	(60)
Reclassifications	31	(32)	(1)
At 31 December 2020	246	69	315

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Notes to the financial statements for the year ended 31 December 2020

10 Property, plant and equipment (continued)

	Plant, equipment and vehicles £m	Assets in construction £m	Total £m
Accumulated depreciation			
At 1 January 2020	(235)	-	(235)
Charge for the year	(15)	-	(15)
Retirement of assets	48	-	48
At 31 December 2020	(202)	-	(202)
Accumulated impairment			
At 1 January 2020	(4)	-	(4)
Impairment charge for the year	(3)	-	(3)
Retirement of assets	6	-	6
At 31 December 2020	(1)	-	(1)
Total depreciation and impairment at 31 December 2020	(203)	-	(203)
Net book value at 31 December 2019	30	73	103
Net book value at 31 December 2020	43	69	112

11 Right of use assets

	Land and buildings £m
Net book value	
At 1 January 2020	1
Additions	5
Depreciation	(6)
At 31 December 2020	-

The total cash outflow for leases amounted to £4,688,000.

There were no significant lease commitments for leases which had not commenced at the year-end.

12 Intangible assets

	Computer software £m
Cost	
At 1 January 2020	880
Additions	77
Disposals and asset write-offs	(94)
Reclassifications	1
At 31 December 2020	864
Accumulated amortisation	
At 1 January 2020	(363)
Charge for the year	(89)
Disposals and asset write-offs	39
At 31 December 2020	(413)

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Notes to the financial statements for the year ended 31 December 2020

12 Intangible assets (continued)

	Computer software £m
Accumulated impairment	
At 1 January 2020	(24)
Impairment charge for the year	(15)
Disposals and asset write-offs	24
At 31 December 2020	(15)
Total amortisation and impairment at 31 December 2020	(428)
Net book value at 31 December 2019	493
Net book value at 31 December 2020	436

13 Trade and other receivables

	2020 £m	2019 £m
Amounts due within one year		
Amounts owed by Group undertakings	3,160	3,657
Loan receivable from ESOP Trust	317	368
Other receivables	7	26
	3,484	4,051

Amounts owed by Group undertakings include loan account balances with GlaxoSmithKline Finance plc of £2,574 million (2019: £2,651 million) which are unsecured with interest received at LIBOR rate less 0.125% (2019: 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.

14 Prepayments and accrued income

	2020 £m	2019 £m
Amounts due within one year	41	41

15 Trade and other payables

	2020 £m	2019 £m
Amounts falling due within one year		
Trade payables	247	308
Amounts owed to Group undertakings	1,565	2,306
Other payables	47	41
	1,859	2,655

Amounts owed to Group undertakings include loan balances with GlaxoSmithKline IHC Limited of £1,063 million (2019: £1,962 million) which is unsecured with interest paid at LIBOR rate plus 0.25% (2019: LIBOR rate plus 0.25%) per annum and repayable on demand.

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Notes to the financial statements for the year ended 31 December 2020

16 Lease liabilities

	2020 £m	2019 £m
Amounts falling due within one year		
Lease liabilities	2	2
Amounts falling due after more than one year		
Lease liabilities	5	7

17 Accruals and deferred income

	2020 £m	2019 £m
Amounts falling due within one year	144	151

18 Provisions for liabilities

The Company had the following provisions during the year:

	Restructuring provisions £m	Provision for payroll tax on exercise of options £m	Other provisions £m	Total £m
At 1 January 2019	50	25	13	88
Charge for the year	22	19	7	48
Utilised	(28)	(16)	2	(42)
Reversed	(12)	-	-	(12)
Reclassifications and other movements	(7)	-	-	(7)
At 31 December 2019	25	28	22	75
Charge for the year	75	9	6	90
Utilised	(7)	(17)	(11)	(35)
Reversed	(15)	-	(3)	(18)
Reclassifications and other movements	-	-	-	-
At 31 December 2020	78	20	14	112

Restructuring provisions are expected to be utilised in 2021. Provision for payroll taxes is created for National Insurance contribution costs on exercise of share options. Other provisions include asset retirement obligation provision, miscellaneous severance cost provision and a share option matching provision for certain employees, expected to be utilised in 2021.

19 Share capital

	2020 Number of shares	2019 Number of shares	2020 £m	2019 £m
Issued and fully paid				
Ordinary Shares of 25p each (2019: 25p each)	2,852,000,000	2,852,000,000	713	713

Notes to the financial statements for the year ended 31 December 2020

20 Capital and other commitments

The Company had the following capital commitments:

	2020 £m	2019 £m
Capital Commitments		
Contracted but not provided for in the financial statements:		
Property, plant and equipment	16	9

The Company had the following Lease commitments:

Lease can be terminated by either party at six months' notice. Based on a non-cancellable lease term of six months, the future minimum lease rental cost on this lease are:

	2020 £m	2019 £m
Not later than one year	7	7

21 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 2020 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 (2019: £nil).

22 Events after the end of reporting period

An intention to increase the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was announced in the UK Budget on 3 March 2021. Deferred taxes have been measured using appropriate rates substantively enacted at the balance sheet date. The overall effect of the proposed change to the UK corporation tax rate from 19% to 25%, if applied to the deferred tax balance at 31 December 2020, would be an increase in deferred tax assets/liabilities by approximately £60 million.

23 Directors' remuneration

One of the Directors of the Company is remunerated as an executive of the Group and received no remuneration in respect of their services to the Company for 2020 (2019: £nil). The costs of the individual are recharged to other Group companies with no mark up. The costs of the other individual Director are recharged at cost to the economic employers as appropriate with an additional management fee applied. Pension and other post-retirement costs are borne by the Company and are charged to other Group companies based on a percentage of salaries. Therefore, it is not deemed practical to make apportionment of the remuneration for the company. Corporate Directors received no remuneration during the year, either as executives of the Group or in respect of their services to the Company (2019: £nil).

24 Related party transactions

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

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24 Related party transactions (continued)

The Group has a 78.3% equity interest in the ViiV Healthcare Limited group ("ViiV Group") and 100% equity interest in the GlaxoSmithKline Consumer Healthcare Holdings Limited group. Transactions with members of the ViiV Group are disclosed below.

Related party transactions included in the income statement	ViiV Group	
	2020	2019
	£m	£m
Turnover	23	30
Administrative expenses	10	-

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

Balances outstanding with related parties as at 31 December are as follows:	ViiV Group	
	2020	2019
	£m	£m
Trade and other receivables	18	43

25 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. The physical asset allocation strategy for three of the four plans has been adjusted from 45% in return-seeking assets and 55% in liability-matching assets to 42.5% in return-seeking assets and 57.5% in liability-matching assets. During 2019, a buy-in insurance contract was purchased to cover substantially all of the obligations of the other UK plan. At 31 December 2020, the value of the insurance contract was £620 million (2019 - £607 million).

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.

Notes to the financial statements for the year ended 31 December 2020

25 Pensions (continued)

Pension costs of defined benefit schemes for accounting purposes have been calculated using the projected unit method. 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 2019 projections with a long-term rate of improvement of 1.25% per year for both males and females.

During 2020, the Company made special funding contributions to the UK pension schemes of £76 million (2019: £78 million). In 2018, the Company reached a revised agreement with the trustees of the UK defined benefit pension schemes to make additional contributions to eliminate the pension deficit identified within the schemes at the 31 December 2017 actuarial funding valuation. Based on these funding agreements, the additional contributions to eliminate the pension deficit are expected to be £44 million in 2021 and 2022.

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 contributions for 2021, including special funding contributions and contributions in respect of redundancies, are estimated to be approximately £225 million in respect of defined benefit schemes.

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.

Following a period of consultation with impacted employees, it was announced on 17 December 2020 that the UK defined benefit plans would be closed to future accrual effective from 31 March 2022. As a result, post closure the accrued benefits of active participants will be revalued in line with inflation (RPI for the legacy Glaxo Wellcome plans and CPI for the legacy SmithKline Beecham plans subject to the relevant caps for each arrangement) rather than capped pay increases. In addition, all defined benefit plan participants who are still active at 1 April 2022 will receive a defined benefit pension contribution of £10,000 each. The effect of closure and the defined contribution enhancement together result in a one off cost of £74 million.

For defined benefit schemes, the fair values of pension scheme assets at 31 December 2020 are compared with the future pension liabilities calculated under the projected unit method applying the following assumptions:

Principal financial assumptions

	2020 % pa	2019 % pa	2018 % pa	2017 % pa
Rate of increase of future earnings	2.00	2.00	2.00	2.00
Discount rate	1.40	2.00	2.90	2.50
Expected pension increases	2.80	3.00	3.20	3.20
Inflation rate	2.80	3.00	3.20	3.20

Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 27.4 years if they are male and for a further 29.0 years if they are female. For a member who retires in 2040 at age 60 the assumptions are that they will live on average for a further 28.8 years after retirement if they are male and for a further 30.5 years after retirement if they are female.

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

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25 Pensions (continued)

At 31 December 2020		Fair value £m
Equities	- listed	2,686
Multi-asset funds		2,075
Property	- unlisted	447
Corporate bonds	- listed	1,113
	- unlisted	-
Government bonds	- listed	6,055
Insurance contracts		1,409
Other liabilities		(203)
Fair value of assets		13,582
Present value of funded scheme obligations		(13,602)
Present value of unfunded scheme obligations		(256)
Net pension deficit recognised on the balance sheet		(276)
Value of schemes in surplus		77
Value of schemes in deficit		(353)
Net pension deficit recognised on the balance sheet		(276)
Actual return on scheme assets		1,092

The multi-asset funds comprise investments in pooled investment vehicles that are invested across a range of asset classes, increasing diversification within the growth portfolio. The value of funds in this asset class with a quoted market price is £847 million (2019: £861 million). The 'Other assets' category comprises cash and mark to market values of derivative positions.

Index-linked gilts held as part of a UK repo programme are included in government bonds. The related loan of £650 million at 31 December 2020 (2019: £243 million) is deducted within 'Other assets'.

At 31 December 2019		Fair value £m
Equities	- listed	2,904
Multi-asset funds		2,700
Property	- unlisted	460
Corporate bonds	- listed	297
	- unlisted	326
Government bonds	- listed	4,923
Insurance contracts		1,406
Other liabilities		(35)
Fair value of assets		12,981
Present value of funded scheme obligations		(13,055)
Present value of unfunded scheme obligations		(238)
Net pension deficit recognised on the balance sheet		(312)
At 31 December 2019		Fair value £m
Value of schemes in surplus		70
Value of schemes in deficit		(382)
Net pension deficit recognised on the balance sheet		(312)
Actual return on scheme assets		787

Notes to the financial statements for the year ended 31 December 2020

25 Pensions (continued)

The total deficit of pensions and post-retirement benefits at 31 December 2020 amounts to £353 million (2019: £381 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 5% in 2021 and 4.7% after. On this basis, the liability for the scheme has been assessed at £71 million (2019: £68 million).

The following amounts representing both defined benefit 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 2020.

2020

	Pensions	Post retirement benefits	Total £m
Amounts charged to operating profit			
Current service cost	(61)	-	(61)
Past service cost	(98)	-	(98)
Expenses	(9)	-	(9)
Total charged to operating profit (Note 5)	(168)	-	(168)
Amounts (charged)/credited to net finance costs			
Interest income	256	-	256
Interest on scheme liabilities	(259)	(1)	(260)
Total credited/(charged) to net interest (Note 8)	(3)	(1)	(4)
Amounts recorded in statement of other comprehensive income			
Returns on plan assets, excluding amounts included in interest	836	-	836
Gain from change in demographic assumptions	28	-	28
Loss from change in financial assumptions	(934)	(5)	(939)
Experience gains	121	-	121
Remeasurement losses	51	(5)	46

2019

	Pensions	Post retirement benefits	Total £m
Amounts charged to operating profit			
Current service cost	(62)	-	(62)
Past service cost	(49)	-	(49)
Expenses	(7)	-	(7)
Total charged to operating profit (Note 5)	(118)	-	(118)
Amounts (charged)/credited to net finance costs			
Interest income	360	-	360
Interest on scheme liabilities	(341)	(2)	(343)
Total credited/(charged) to net finance income (Note 7)	19	(2)	17
Amounts recorded in statement of other comprehensive income			
Returns on plan assets, excluding amounts included in interest	427	-	427
Gain from change in demographic assumptions	71	-	71
Loss from change in financial assumptions	(1,110)	(4)	(1,444)
Experience gains	48	-	48
Remeasurement losses	(894)	(4)	(898)

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

Notes to the financial statements for the year ended 31 December 2020

25 Pensions (continued)

	Assets £m	Liabilities £m	Total pensions £m	Post retirement £m	Total £m
Reconciliation of scheme assets and liabilities:					
At 1 January 2019	12,581	(12,087)	493	(62)	431
Charged to operating profit	-	(111)	(111)	-	(111)
Interest Income/(expense)	360	(341)	19	(2)	17
Expenses	(7)	-	(7)	-	(7)
Contributions by plan participants	3	(3)	-	-	-
Benefits paid	(570)	570	-	-	-
Employer contributions	187	-	187	-	187
Remeasurement (losses)/gains	427	(1,321)	(894)	(4)	(898)
At 31 December 2019	12,981	(13,293)	(312)	(68)	(381)
Charged to operating profit	-	(159)	(159)	-	(159)
Interest income/(expense)	256	(259)	(3)	(1)	(4)
Expenses	(9)	-	(9)	-	(9)
Contributions by plan participants	3	(3)	-	-	-
Benefits paid	(641)	641	-	-	-
Employer contributions	156	-	155	3	158
Remeasurement gains/(losses)	836	(785)	51	(5)	46
At 31 December 2020	13,582	(13,858)	(277)	(71)	(349)

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

	2020 £m	2019 £m
Active	1,460	1,494
Retired	8,764	8,155
Deferred	3,634	3,644
	13,858	13,293

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

	2020 £m	2019 £m
Active	2	2
Retired	69	66
	71	68

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

	2020 years	2019 years
Pension benefits	17	16
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		10
Increase in pension obligation		585
Increase in post-retirement benefits obligation		3

Notes to the financial statements for the year ended 31 December 2020

25 Pensions (continued)

Sensitivity analysis (continued)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:	£m
A 0.5% decrease in discount rate would have the following approximate effect:	
Increase in annual pension cost	17
Increase in pension obligation	1,212
Increase in post-retirement benefits obligation	5
A one year increase in life expectancy would have the following approximate effect:	
Increase in annual pension cost	12
Increase in pension obligation	653
Increase in post-retirement benefits obligation	3
A 1% increase in the rate of future healthcare inflation would have the following approximate effect:	
Increase in annual post-retirement benefits cost	-
Increase in post-retirement benefits obligation	11
A 0.25% decrease in inflation would have the following approximate effect:	
Decrease in annual pension cost	(10)
Decrease in pension obligation	(491)

26 Employee Share Schemes

The Group 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 restricted share awards has replaced the granting of options to employees as the cost of the schemes more readily equates to the potential gain to be made by the employee. The Group also operates savings related share option schemes, whereby options are granted to employees to acquire shares in GlaxoSmithKline plc at a discounted price.

Grants of restricted share awards are normally exercisable at the end of the three year vesting or performance period. Awards are normally granted to employees to acquire shares or ADS in GlaxoSmithKline plc but in some circumstances may be settled in cash. Grants under savings-related share option schemes are normally exercisable after three years' saving. In accordance with UK practice, the majority of options under the savings-related share option schemes are granted at a price 20% below the market price ruling at the date of grant. Options under historical share option schemes were granted at the market price ruling at the date of grant.

The share based compensation charge has been recorded in the income statement as administrative expenses of £131 million (2019: £101 million).

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:

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

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26 Employee Share Schemes (continued)

Options Outstanding	Share option schemes - shares		Share option schemes - ADS	
	Number	Weighted exercise price	Number	Weighted exercise price
	'000		'000	
As at 1 January 2019	1,746	£11.96	29	\$35.04
Options exercised	(1,328)	£11.95	(19)	\$35.11
Options cancelled	(89)	£11.79	-	\$33.42
As at 31 December 2019	329	£12.04	10	\$37.30
Options exercised	(254)	£12.04	(10)	\$37.30
Options cancelled	(75)	£12.04	-	\$37.32
As at 31 December 2020	-	-	-	-
Range of exercise prices	NA		NA	
Weighted average market price on exercise	£16.52		\$42.41	
Weighted average remaining contractual life	NA		NA	

Savings-related share option schemes

	Number	Weighted exercise price	Weighted fair value
	'000		
As at 1 January 2019	5,929	£11.70	
Options granted	989	£14.15	£3.00
Options exercised	(482)	£10.48	
Options cancelled	(420)	£11.59	
As at 31 December 2019	6,016	£12.21	
Options granted	3,057	£10.34	£2.12
Options exercised	(902)	£12.68	
Options cancelled	(839)	£12.71	
As at 31 December 2020	7,332	£11.32	
Range of exercise prices	£10.34	-	£14.15
Weighted average market price on exercise			£16.29
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. Options over 3.1 million shares were granted during the year under the savings-related share option scheme at a weighted average fair value of £2.12. All of the other share options and ADS options were exercised or expired if not exercised on or before 22 July 2020.

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 2019, the performance conditions were based on three equally weighted measures over a three year period. These were adjusted free cash flow, TSR and R&D new product performance. For awards granted from 2020, the performance conditions are based on four measures over a three-year performance period. These are adjusted free cash flow (30%), TSR (30%), R&D new product performance (20%) and pipeline progress (20%).

Notes to the financial statements for the year ended 31 December 2020

26 Employee Share Schemes (continued)

Performance Share Plan (continued)

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 2020, awards were made of 4.2 million shares at a weighted fair value of £13.92. Apart from the said awards so declared, in case of PSP awards employees are eligible to dividend reinvestment, and due to dividend reinvestment 0.6 million shares were granted. At 31 December 2020, there were outstanding awards over 12.4 million shares.

Number of shares issuable	Shares Number ('000)	Weighted fair value
At 1 January 2020	12,018	
Awards granted	4,848	£13.92
Awards exercised	(2,846)	
Awards cancelled	(1,579)	
At 31 December 2020	12,441	

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 5.0% (2019 – 4.2%) over the duration of the award.

Number of shares issuable	Shares Number ('000)	Weighted fair value
At 1 January 2020	33,469	
Awards granted	13,223	£13.60
Awards exercised	(11,402)	
Awards cancelled	(1,418)	
At 31 December 2020	33,872	