

GlaxoSmithKline Capital plc
(Registered number: 2258699)

Annual Report

for the year ended 31 December 2016



Registered office address:
980 Great West Road
Brentford
Middlesex
TW8 9GS

GlaxoSmithKline Capital plc
(Registered number: 2258699)

Annual Report

for the year ended 31 December 2016

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GlaxoSmithKline Capital plc
(Registered number: 2258699)

Strategic report for the year ended 31 December 2016

The Directors present their Strategic report on GlaxoSmithKline Capital plc (the "Company") for the year ended 31 December 2016.

Principal activities and future developments

The Company is a member of the GlaxoSmithKline Group (the "Group"). The Company's principal activity is the issuance of notes under the Group's European and US Medium Term Note programme and the provision of financial services to other companies within the Group.

The Directors do not envisage any change to the nature of the business in the foreseeable future.

Review of business

The Company made a profit for the financial year of £11,297k (2015: £8,749k), which will be transferred to reserves. 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.

At 31 December 2016, the Company had in issue £7,874,858k European Medium Term Notes and £3,214,961k US Medium Term Notes (2015: £7,333,953k and £2,708,366k respectively) which mature at dates between 2017 and 2045. All notes currently in issue pay interest on a fixed rate basis.

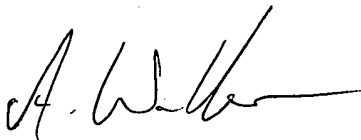
Principal risks and uncertainties

The Directors of GlaxoSmithKline plc manage the risks of the Group at a group level, rather than at an individual statutory entity level. For this reason, the Company's Directors believe that a discussion of the Group's risks would not be appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's 2016 Annual Report which does not form part of this report.

Key performance indicators (KPIs)

The Directors of the Group manage the Group's operations on an operating segment basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The development, performance and position of the Group are discussed in the Group's 2016 Annual Report which does not form part of this report.

By order of the Board



A Walker
For and on behalf of Glaxo Group Limited
Corporate Director
27 April 2017

GlaxoSmithKline Capital plc
(Registered number: 2258699)

Directors' report for the year ended 31 December 2016

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

Results and dividends

The Company's profit for the financial year is shown in the income statement on page 7.

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

Internal control framework

The Internal Control Framework is the means by which the Group ensures compliance with laws and regulations, the reliability of financial reporting and comprehensive risk management. The Directors of the Group are accountable for evaluating and approving the effectiveness of the internal controls, including financial, operational and compliance controls, and risk management processes operated by the Group.

To ensure effective governance and promote an ethical culture, the Group has in place the Risk Oversight and Compliance Council. This team of senior leaders is authorised by the Board to assist the Audit and Risk Committee in overseeing risk management and internal control activities. It also provides the business units with a framework for risk management and upward escalation of significant risks, of which the Company operates within. Further information on the Group's Internal Control Framework is discussed in the Group's 2016 Annual Report which does not form part of this report.

Financial risk management

The Company issues notes under the Group's European and US Medium Term Note programmes in order to meet anticipated funding requirements. The strategy is to diversify liquidity sources using a range of facilities and to maintain broad access to funding markets. Details of derivative financial instruments and hedging and further information on risk management policies, exposures to market, credit and liquidity risk are disclosed in Note 2(l) and 4 respectively.

Previously in 2012, the Company entered into US dollar Government treasury base rate Locks to manage interest rate risk on its forecasted 3, 7 and 30 year US dollar debt issued under the Group's European Medium Term Note programme.

At 31 December 2016, none of the Company's total debt issuances were exposed to floating interest rates and interest is paid on a fixed rate basis.

Directors and their interests

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

Mr S Dingemans
Edinburgh Pharmaceutical Industries Limited
Glaxo Group Limited

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 (Edinburgh Pharmaceutical Industries Limited and Glaxo Group Limited), where such an interest may arise in the ordinary course of business.

GlaxoSmithKline Capital plc
(Registered number: 2258699)

Directors' report for the year ended 31 December 2016

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 of the Directors, who is an individual, benefits from an indemnity given by another Group company, GlaxoSmithKline Services Unlimited. This indemnity is in respect of liabilities arising out of third party proceedings to which the Director is a party by virtue of his or her engagement in the business of the Company.

Directors' interests

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

	Ordinary Shares			
	At 31 Dec 2015	Acquired	Disposed	At 31 Dec 2016
Shares				
Mr S Dingemans	129,797	210,454	(153,817)	186,434
	At 31 Dec 2015	Granted	Exercised / Lapsed	At 31 Dec 2016
Options				
Mr S Dingemans	-	19,008	(19,008)	-
	At 31 Dec 2015	Granted	Exercised / Lapsed	At 31 Dec 2016
Share Save				
Mr S Dingemans	720	208	(216)	712
	At 31 Dec 2015	Granted	Exercised / Lapsed	At 31 Dec 2016
Performance Share Plan awards				
Mr S Dingemans	611,834	256,884	(225,372)	643,346
	At 31 Dec 2015	Granted	Exercised / Lapsed	At 31 Dec 2016
Deferred Annual Bonus Plan				
Mr S Dingemans	99,458	81,761	(27,597)	153,622

All share awards are over Ordinary Shares of GlaxoSmithKline plc.

Further details of the above-mentioned Plans are disclosed in the 2016 Annual Report of GlaxoSmithKline plc.

GlaxoSmithKline Capital plc
(Registered number: 2258699)

Directors' report for the year ended 31 December 2016

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 page 1:

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

Governance

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

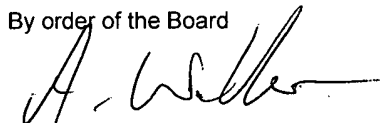
Disclosure of information to auditors

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

Independent auditors

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

By order of the Board



A Walker
For and on behalf of Glaxo Group Limited
Corporate Director
27 April 2017

GlaxoSmithKline Capital plc

Independent auditors' report to the members of GlaxoSmithKline Capital plc

Report on the financial statements

Our opinion

In our opinion, GlaxoSmithKline Capital plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

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

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

GlaxoSmithKline Capital plc

Independent auditors' report to the members of GlaxoSmithKline Capital plc

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

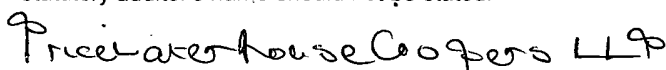
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements and evaluating the disclosures in the financial statements.

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

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

Other matter

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



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 April 2017

GlaxoSmithKline Capital plc

Income statement for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Other operating income		2,711	547
Finance income	8	399,340	394,271
Finance expense	9	(387,930)	(383,849)
Operating profit	6	14,121	10,969
Profit before taxation		14,121	10,969
Tax on profit	10	(2,824)	(2,220)
Profit for the financial year		11,297	8,749

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

The notes on pages 12 to 20 are an integral part of these financial statements.

GlaxoSmithKline Capital plc

**Statement of comprehensive income
for the year ended 31 December 2016**

	Note	2016 £'000	2015 £'000
Profit for the financial year		11,297	8,749
Items that may be subsequently reclassified to the income statement:			
Reclassification of cash flow hedges to the income statement		954	954
Deferred tax on cash flow hedges	10	(283)	(433)
Other comprehensive income for the year		671	521
Total comprehensive income for the year		11,968	9,270

The notes on pages 12 to 20 are an integral part of these financial statements.

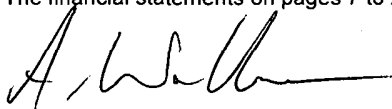
GlaxoSmithKline Capital plc

Balance sheet as at 31 December 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Deferred tax assets	10	1,893	2,176
Loans and receivables	11	8,353,138	9,984,314
Total non-current assets		8,355,031	9,986,490
Current assets			
Loans and receivables	11	2,767,682	74,346
Prepayments and accrued income	12	110,223	105,382
Cash and cash equivalents		2	2
Total current assets		2,877,907	179,730
Total assets		11,232,938	10,166,220
Current liabilities			
Other payables	13	(5,026)	(2,200)
Short-term borrowings	14	(2,679,716)	-
Accruals and deferred income	15	(106,431)	(102,007)
Creditors: amounts falling due within one year		(2,791,173)	(104,207)
Net current assets		86,734	75,523
Non-current liabilities			
Long-term borrowings	14	(8,410,103)	(10,042,319)
Creditors: amounts falling due after more than one year		(8,410,103)	(10,042,319)
Total liabilities		(11,201,276)	(10,146,526)
Net assets		31,662	19,694
Equity			
Called up share capital	20	100	100
Other reserves	21	(9,243)	(9,914)
Retained earnings		40,805	29,508
Total equity		31,662	19,694

The notes on pages 12 to 20 are an integral part of these financial statements.

The financial statements on pages 7 to 20 were approved by the Board of Directors on 27 April 2017 and signed on its behalf by:



A Walker
For and on behalf of Glaxo Group Limited
Corporate Director

GlaxoSmithKline Capital plc

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

	Called up share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2015	100	(10,435)	20,759	10,424
Profit for the financial year	-		8,749	8,749
Other comprehensive income for the financial year	-	521	-	521
At 31 December 2015	100	(9,914)	29,508	19,694
Profit for the financial year	-	-	11,297	11,297
Other comprehensive income for the financial year	-	671	-	671
At 31 December 2016	100	(9,243)	40,805	31,662

The notes on pages 12 to 20 are an integral part of these financial statements.

GlaxoSmithKline Capital plc

Cash flow statement for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Operating profit		14,121	10,969
Adjustments reconciling operating profit to operating cash flows	18	9,277	1,777,479
Net cash inflow from operating activities		23,398	1,788,448
Cash flows from financing activities			
Repayment of short-term borrowings		-	(1,780,815)
Decrease in loans with Group undertakings		(23,398)	(7,634)
Net cash outflow from financing activities		(23,398)	(1,788,449)
Net movement in cash in the year		-	(1)
Cash at beginning of year		2	3
Movement in cash		-	(1)
Cash at end of year		2	2

The notes on pages 12 to 20 are an integral part of these financial statements.

GlaxoSmithKline Capital plc

Notes to the financial statements for the year ended 31 December 2016

1 Presentation of the financial statements

General information

GlaxoSmithKline Capital plc (the "Company") is a member of the GlaxoSmithKline Group (the "Group"). The Company's principal activity is the issuance of notes under the Group's European and US Medium Term Note programmes and the provision of financial services to other companies within the Group.

The company is a public company limited by shares and is incorporated and domiciled in the UK (England). The address of the registered office is 980 Great West Road, Brentford, Middlesex TW8 9GS.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated. There have been no changes and no early adoptions of accounting policies during the year.

(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 as applicable to companies using FRS101.

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:

- Paragraph 38 of IAS 1 "Presentation of financial statements" comparative information requirements in respect of:
 - (i) paragraph 79(a) (iv) of IAS 1;
- The following paragraphs of IAS 1 "Presentation of financial statements":
 - 16 (statement of compliance with all IFRS); and
 - 38B-D (additional comparative information);
- Paragraph 30 and 31 of IAS 8 "Accounting policies, changes in accounting estimates and errors" (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24 "Related party disclosures" (key management compensation); and
- The requirements in IAS 24 "Related party disclosures" to disclose related party transactions entered into between two or more wholly owned members of a group.

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

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

(b) Ultimate and immediate parent undertaking

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

(c) Foreign currency transactions

Foreign currency transactions are booked in the functional currency of the Company at the exchange rate ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into 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) Other operating income

Management service fees are recognised in other operating income on an accruals basis.

(e) Finance income and expense

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

(f) Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables represents intercompany balances with other Group undertakings, which are carried at amortised cost using the effective interest method.

GlaxoSmithKline Capital plc

Notes to the financial statements for the year ended 31 December 2016

2 Summary of significant accounting policies (continued)

(g) Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

(i) Other payables

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.

(j) Borrowings

All borrowings, which comprise European and US Medium Term Notes, are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

(k) 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.

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 probably 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.

(l) Derivative financial instruments and hedging

Derivative financial instruments can be used by the Company to manage exposure to market risks. The Company does not hold or issue derivative financial instruments for trading or speculative purposes and does not currently hold any derivative financial instruments.

Changes in the fair value of derivatives designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedges are effective. Ineffective portions are recognised in profit or loss immediately. Amounts deferred in other comprehensive income are reclassified to the income statement when the hedged item affects profit or loss.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

The Company carries a balance in other comprehensive income that arose from using US dollar Government Treasury base rate locks for pre-hedging fluctuations in long-term interest rates when pricing bonds issued in prior years.

3 Key accounting judgements and estimates

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

(a) Taxation

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

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

GlaxoSmithKline Capital plc

Notes to the financial statements for the year ended 31 December 2016

4 Financial risk management

Risk management is carried out by the Group's Corporate Treasury under policies and procedures approved annually by the Group's Board of Directors, and most recently on 21 July 2016. The role of Corporate Treasury is to monitor and manage the Group's external and internal funding requirements and financial risks, covering foreign exchange, interest rate, liquidity, and credit risks, in support of the Group's strategic objectives. A Treasury Management Group meeting, chaired by the Group's Chief Financial Officer, also takes place on a monthly basis to review treasury activities.

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Euro, in respect of bonds issued under the Group's European and US Medium Term Note programmes.

The net proceeds of bond issuances received are subsequently advanced as loans to other Group undertakings in the same currency which minimises the foreign translation exposure within the Company. On this basis, foreign exchange risk is not considered material and the Company has not prepared a sensitivity analysis.

(ii) Interest rate risk

The Group's objective is to minimise the effective net interest cost and to balance the mix of debt at fixed and floating interest rates over time. The policy on interest rate risk management limits the amount of floating interest payments to a prescribed percentage of operating profit.

The Company's interest rate risk arises mainly from deposits with Group undertakings and cash held at variable rates which expose the Company to interest rate risk. The Company has borrowings, comprising of European and US Medium Term Notes and amounts owed by Group undertakings, which are at fixed rates and expose the Company to fair value interest rate risk.

The table below hypothetically shows the Company's sensitivity to interest rates on its floating rate US dollar, Sterling, and Euro financial assets. The Company has considered movements in interest rates over the last three years and has concluded that a 1% (100 basis points) movement is a reasonable benchmark. If interest rates applicable to floating rate financial assets were to have increased by 1% (100 basis points), and assuming all other variables had remained constant, it is estimated that the Company's finance income for 2016 would have increased by approximately £1,064k (2015: £743k increase in finance income).

	2016 Increase in Income £'000	2015 Increase in Income £'000
1% (100 basis points) increase in US dollar interest rates (2015: 1%)	339	221
1% (100 basis points) increase in Sterling interest rates (2015: 1%)	350	291
1% (100 basis points) increase in Euro interest rates (2015: 1%)	375	231

The tables below illustrate the currency and interest rate profiles arising from the Company's borrowings and loans and receivable balances.

Currency and interest rate risk profile of borrowings

At 31 December 2016	Fixed rate		Total £'000
	Weighted average interest rate %	Average years for which rate is fixed	
Currency			
US dollars	2.2	3	(3,214,961)
Sterling	5.0	21	(4,050,413)
Euro	3.0	5	(3,824,445)
Total borrowings	3.4	10	(11,089,819)

At 31 December 2015	Fixed rate		Total £'000
	Weighted average interest rate %	Average years for which rate is fixed	
Currency			
US dollars	2.0	2	(2,708,366)
Sterling	5.0	22	(4,047,819)
Euro	3.0	5	(3,286,134)
Total borrowings	3.4	10	(10,042,319)

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Notes to the financial statements for the year ended 31 December 2016

4 Financial risk management (continued)

(a) Market risk

Currency and interest rate risk profile of loans and receivables

At 31 December 2016	Fixed rate	Floating rate	Total
Currency	£'000	£'000	£'000
US dollars	3,196,145	33,887	3,230,032
Sterling	4,024,023	34,996	4,059,019
Euro	3,794,309	37,460	3,831,769
Total loans and receivables	11,014,477	106,343	11,120,820

At 31 December 2015	Fixed rate	Floating rate	Total
Currency	£'000	£'000	£'000
US dollars	2,696,069	22,109	2,718,178
Sterling	4,024,023	29,138	4,053,161
Euro	3,264,222	23,099	3,287,321
Total loans and receivables	9,984,314	74,346	10,058,660

Net currency exposure

	2016	2015
	£'000	£'000
US dollars	15,071	9,812
Euro	7,324	1,187
	22,395	10,999

(b) Credit risk

Credit risk is managed on a Group basis and arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Group sets global counterparty limits for each of its banking and investment counterparties based on long-term credit ratings from Standard and Poor's and Moody's Investor Services ("Moody's"). Usage of these limits is monitored daily and Corporate Treasury actively manages its exposure to credit risk, reducing surplus cash balances wherever possible.

There are no financial assets that are past due or impaired as at 31 December 2016 (2015: £nil).

The Company did not hold any collateral as security or obtained other credit enhancements as at 31 December 2016 (2015: £nil).

The Company considers its maximum exposure to credit risk at 31 December 2016, without taking into account any collateral held or other credit enhancements, to be £11,231,045k (2015: £10,164,044k) being the total of the Company's financial assets of which the balances are all held within the GlaxoSmithKline Group, see Note 16.

(c) Liquidity risk

Liquidity is managed centrally by the Group by borrowing in order to meet anticipated funding requirements and investing centrally managed liquid assets in bank deposits, Aaa/AAA rated US Treasury and Treasury repo only money market funds and Aaa/AAA rated liquidity funds. The Group's cash flow forecast and funding requirements are monitored on a monthly basis by the Treasury Management Group and the strategy is to have diversified liquidity sources using a range of facilities and to maintain broad access to funding markets.

5 Capital management

The Group's financial strategy supports its strategic priorities and is regularly reviewed by the Board. The capital structure of the Group is managed through an appropriate mix of debt and equity in order to optimise returns to shareholders whilst maintaining the Group's credit ratings that provide the Company with flexibility to access debt capital markets on attractive terms under the Group's European and US Medium Term Note programmes.

The capital structure of the Company consists of net debt of £11,089,817k (2015: £11,042,317k) and shareholders' funds of £31,662k (2015: £19,694k) (see Statement of changes in equity).

6 Operating profit

	2016	2015
	£'000	£'000
The following items have been credited / (charged) in operating profit:		
Exchange gains on foreign currency transactions	2,758	593
Management fee	(47)	(46)

GlaxoSmithKline Services Unlimited provides various services and facilities to the Company including finance and administrative services for which a management fee was charged of £47,085 in 2016 compared with £45,879 in 2015. Included in the management fee is a charge for auditors' remuneration of £35,945 (2015: £34,898).

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Notes to the financial statements for the year ended 31 December 2016

7 Employees

All of the Group's UK employees are remunerated by GlaxoSmithKline Services Unlimited and receive no remuneration from the Company. A management fee is charged by GlaxoSmithKline Services Unlimited for services provided to the Company (see Note 6). The Company has no employees.

8 Finance income

	2016 £'000	2015 £'000
Interest income arising from loans and receivables	399,340	394,271

9 Finance expense

	2016 £'000	2015 £'000
Interest expense arising on financial liabilities at amortised cost	(386,976)	(382,895)
Reclassification of cash flow hedge from other comprehensive income	(954)	(954)
Total finance expense	(387,930)	(383,849)

10 Taxation

	2016 £'000	2015 £'000
Income tax expense on ordinary activities		
Current tax:		
UK corporation tax at 20.00% (2015: 20.25%)	2,824	2,133
Total current tax	2,824	2,133
Deferred tax:		
Origination and reversal of timing differences	-	78
Adjustments in respect of previous years	-	-
Change in tax rate - impact on deferred tax	-	9
Total deferred tax	-	87
Total tax charge for the year	2,824	2,220

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

	2016 £'000	2015 £'000
Tax expense included in other comprehensive income		
Deferred tax:		
Fair value movements on cash flow hedges	162	172
change in tax rates	121	261
Total tax expense included in other comprehensive income	283	433
Reconciliation of total tax charge		
Profit on ordinary activities before taxation	14,121	10,969
Profit on ordinary activities at the UK statutory rate of 20.00% (2015: 20.25%)	2,824	2,221
Effects of:		
Permanent disallowables - interest treated as paid by ultimate parent	77,369	77,569
Permanent deductions - Group relief received for no payment	(77,369)	(77,569)
Effects of changes in tax rates	-	(1)
Total tax charge for the year	2,824	2,220

Factors that may affect future tax charges:

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

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Notes to the financial statements for the year ended 31 December 2016

10 Taxation (continued)

Movement in deferred tax assets and liabilities

	Other net temporary differences £'000	Total £'000
At 1 January 2016	2,176	2,176
Charge to income statement	-	-
Charge to comprehensive income	(283)	(283)
At 31 December 2016	1,893	1,893
After offsetting deferred tax assets and liabilities where appropriate, the net deferred tax asset comprises:		
	2016 £'000	2015 £'000
Deferred tax assets	1,893	2,176
Deferred tax liabilities	-	-
	1,893	2,176

11 Loans and receivables

	2016 £'000	2015 £'000
Amounts due within one year		
Amounts owed by Group undertakings	2,767,682	74,346
Amounts due after more than one year		
Amounts owed by Group undertakings	8,353,138	9,984,314
	11,120,820	10,058,660

Amounts owed by Group undertakings include the net proceeds of bond issuances that have been advanced as loans totalling £11,014,477,000 (2015: £9,984,314k), which are unsecured with interest charged at between 1.05% and 6.50% per annum and repayable at maturity dates between 2017 and 2045. In addition, there are deposits with Group undertakings totalling £106,343k (2015: £74,346k), which are unsecured, interest bearing and repayable on demand.

12 Prepayments and accrued income

	2016 £'000	2015 £'000
Amounts due within one year	110,223	105,382

Accrued income relates to interest on amounts owed by Group undertakings (see Note 11).

13 Other payables

	2016 £'000	2015 £'000
Amounts falling due within one year		
Amounts owed to Group undertakings	(2,202)	(67)
Corporation tax	(2,824)	(2,133)
	(5,026)	(2,200)

Amounts owed to Group undertakings are unsecured and repayable on demand.

The corporation tax creditor contains amounts which will be paid to fellow Group companies.

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Notes to the financial statements for the year ended 31 December 2016

14 Borrowings

	2016 £'000	2015 £'000
Amounts falling due within one year		
Loans payable:		
€ European Medium Term Notes	(1,067,597)	-
US\$ Medium Term Notes	(1,612,119)	-
	(2,679,716)	-
Amounts falling due after more than one year		
Loans payable:		
€ European Medium Term Notes	(2,756,848)	(3,286,134)
£ European Medium Term Notes	(4,050,413)	(4,047,819)
US\$ Medium Term Notes	(1,602,842)	(2,708,366)
	(8,410,103)	(10,042,319)
Total borrowings	(11,089,819)	(10,042,319)
Maturity of borrowings	£'000	£'000
In one year or less, or on demand		
1.50% US\$ Medium Term Note 2017	(1,612,119)	-
5.625% € European Medium Term Note 2017	(1,067,597)	-
	(2,679,716)	-
In more than one year, but not more than two years		
1.50% US\$ US Medium Term Note 2017	-	(1,357,900)
5.625% € European Medium Term Note 2017	-	(917,715)
	-	(2,275,615)
In more than two years, but not more than five years		
0.6250% € European Medium Term Note 2019	(1,276,450)	(1,096,470)
	(1,276,450)	(1,096,470)
In more than five years		
2.85% US\$ US Medium Term Note 2022	(1,602,842)	(1,350,466)
1.3750% € European Medium Term Note 2024	(844,930)	(725,827)
4.0% € European Medium Term Note 2025	(635,468)	(546,122)
3.375% £ European Medium Term Note 2027	(592,734)	(592,069)
5.25% £ European Medium Term Note 2033	(985,626)	(984,776)
6.375% £ European Medium Term Note 2039	(695,110)	(694,809)
5.25% £ European Medium Term Note 2042	(988,133)	(987,662)
4.25% £ European Medium Term Note 2045	(788,810)	(788,423)
	(7,133,653)	(6,670,234)
Total borrowings	(11,089,819)	(10,042,319)

15 Accruals and deferred income

	2016 £'000	2015 £'000
Amounts falling due within one year	(106,431)	(102,007)

Accruals relates to interest payable on borrowings (see Note 14).

16 Fair value of financial assets and liabilities

The fair values of the financial assets and liabilities are included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents – approximates to the carrying amount;
- Borrowings (European and US Medium Term Notes) – based on quoted market prices (a level 1 fair value measurement);
- Intercompany loans – approximates to the fair value of borrowings (European and US Medium Term Notes); and
- Receivables and payables – approximates to the carrying amount.

The carrying amounts and the fair values of the Company's financial assets and liabilities at 31 December 2016 and 31 December 2015 are illustrated below.

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Notes to the financial statements for the year ended 31 December 2016

16 Fair value of financial assets and liabilities (continued)

	2016		2015	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Cash and cash equivalents	2	2	2	2
Loans and receivables:				
Other receivables	110,223	110,223	105,382	105,382
Amounts owed by Group undertakings	11,120,820	13,151,640	10,058,660	11,180,812
Total financial assets	11,231,045	13,261,865	10,164,044	11,286,196
Financial liabilities measured at amortised cost:				
£ European Medium Term Notes	(4,050,413)	(5,762,307)	(4,047,819)	(4,895,199)
€ European Medium Term Notes	(3,824,445)	(4,147,107)	(3,286,134)	(3,549,695)
US\$ US Medium Term Notes	(3,214,961)	(3,242,226)	(2,708,366)	(2,735,918)
	(11,089,819)	(13,151,640)	(10,042,319)	(11,180,812)
Other payables	(108,633)	(108,633)	(102,074)	(102,074)
Total financial liabilities	(11,198,452)	(13,260,273)	(10,144,393)	(11,282,886)
Net financial assets and liabilities	32,593	1,592	19,651	3,310

The Company has no financial assets or liabilities measured at fair value through profit and loss.

Financial liabilities measured at amortised cost for which the fair value of £13,151,640k (2015: £11,180,812k) is disclosed in the table above are categorised as Level 1, where quoted prices in active markets are used. Similarly, amounts owed by Group undertakings, which include the net proceeds of bond issuances advanced as loans, also approximate to the fair value of these financial liabilities. All other assets and liabilities approximate to the carrying amount.

17 Contractual cash flows for non-derivative financial liabilities

The following table provides an analysis of the anticipated contractual cash flows including interest payable for the Company's non-derivative financial liabilities on an undiscounted basis. Interest is calculated based on debt held at 31 December without taking account of future issuance.

	2016		2015	
	Debt £'000	Interest on debt £'000	Debt £'000	Interest on debt £'000
Due in less than one year	(2,681,279)	(367,440)	-	(353,823)
Between one and two years	-	(295,249)	(2,279,662)	(343,616)
Between two and three years	(1,282,051)	(295,249)	-	(281,713)
Between three and four years	-	(287,238)	(1,102,941)	(281,713)
Between four and five years	-	(287,234)	-	(274,821)
Between five and ten years	(3,108,630)	(1,180,179)	(2,647,309)	(1,228,272)
Greater than 10 years	(4,100,000)	(2,453,875)	(4,100,000)	(2,657,750)
Gross contractual cash flows	(11,171,960)	(5,166,464)	(10,129,912)	(5,421,708)

18 Adjustments reconciling operating profit to operating cash flows

	2016 £'000	2015 £'000
Operating profit for the year	14,121	10,969
(Increase)/decrease in other receivables	(4,831)	26,660
Increase/(decrease) in other payables	4,416	(28,198)
Exchange adjustments	(2,758)	(593)
Amortisation of bond costs	11,496	11,410
Reclassification of cash flow hedges to the income statement	954	954
Loan repayments received from Group undertakings	-	1,767,246
Net cash inflow from operating activities	23,398	1,788,448

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Notes to the financial statements for the year ended 31 December 2016

19 Reconciliation of net cash flow to movement in net debt

As at 31 December 2016	At 1 Jan 2016 £'000	Re-classification (long-term to short-term) £'000	Cash flows £'000	Amortisation £'000	Exchange movements £'000	At 31 Dec 2016 £'000
Cash at bank and in hand	2	-	-	-	-	2
Amounts owed by Group undertakings	10,058,660	-	23,398	-	1,038,762	11,120,820
	10,058,662	-	23,398	-	1,038,762	11,120,822
Short-term borrowings	-	(2,275,615)	-	(3,201)	(400,900)	(2,679,716)
Long-term borrowings	(10,042,319)	2,275,615	-	(8,295)	(635,104)	(8,410,103)
Total borrowings	(10,042,319)	-	-	(11,496)	(1,036,004)	(11,089,819)
Net surplus	16,343	-	23,398	(11,496)	2,758	31,003

As at 31 December 2015	At 1 Jan 2015 £'000	Re-classification (long term to short term) £'000	Cash flows £'000	Amortisation £'000	Exchange movements £'000	At 31 Dec 2015 £'000
Cash at bank and in hand	3	-	(1)	-	-	2
Amounts owed by Group undertakings	11,940,181	-	(1,759,613)	-	(121,908)	10,058,660
	11,940,184	-	(1,759,614)	-	(121,908)	10,058,662
Short-term borrowings	(1,880,033)	-	1,780,815	(1,229)	100,447	-
Long-term borrowings	(10,054,192)	-	-	(10,181)	22,054	(10,042,319)
Total borrowings	(11,934,225)	-	1,780,815	(11,410)	122,501	(10,042,319)
Net surplus	5,959	-	21,201	(11,410)	593	16,343

20 Called up share capital

	2016 Number of shares	2015 Number of shares	2016 £'000	2015 £'000
Authorised				
Ordinary Shares of £1 each (2015: £1 each)	100,000	100,000	100	100
Issued and fully paid				
Ordinary Shares of £1 each (2015: £1 each)	100,000	100,000	100	100

21 Other reserves

	Other reserves £'000	Retained earnings £'000	Total reserves £'000
At 1 January 2016	(9,914)	29,508	19,594
Transferred from income and expense in the year	-	11,297	11,297
Reclassification of cash flow hedges to the income statement	954	-	954
Deferred tax effect of cash flow hedges	(283)	-	(283)
At 31 December 2016	(9,243)	40,805	31,562

The cash flow hedge reserve relates to the cumulative fair value changes of derivatives representing the pre-hedging of debt issuances. The reserve is amortised over the life of the subsequently issued bonds.

22 Contingent liabilities/assets

Group banking arrangement

The Company, together with fellow Group undertakings, has entered into a Group banking arrangement with the Company's principal bank. The bank holds the right to pay and apply funds from any account of the Company to settle any indebtedness to the bank of any other party to this agreement. The Company's maximum potential liability as at 31 December 2016 is limited to the amount held on its accounts with the bank. No loss is expected to accrue to the Company from the agreement.

23 Directors' remuneration

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

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 within the Group. There are no other related party transactions.