

GlaxoSmithKline Capital plc
(Registered number: 2258699)

Interim Management Report

for the half year ended 30 June 2017

Registered office address:
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GlaxoSmithKline Capital plc
(Registered number: 2258699)

Interim Management Report

for the half year ended 30 June 2017

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GlaxoSmithKline Capital plc
(Registered number: 2258699)

Results announcement and interim management report for the half year ended 30 June 2017

Performance

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 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 half year ended 30 June 2017 of £4,055,000 (2016: £5,691,000), which will be transferred to reserves. The Directors are of the opinion that the current level of activity and the period end financial position are satisfactory and will remain so in the foreseeable future.

No dividend is proposed to the holders of Ordinary Shares in respect of the period ended 30 June 2017 (2016: £nil).

At 30 June 2017, the Company had in issue £7,979,192,000 Euro Medium Term Notes and £1,529,764,000 US Medium Term Notes (31 December 2016: £7,874,858,000 and £3,214,961,000, 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 and Second Quarter 2017 Results Announcement which do not form part of this report.

Details of the Company's financial risk management is also disclosed in the Company's Directors' Report and Annual Report for the year ended 31 December 2016.

Directors' responsibility statement

The Board of Directors approved this document on 24 July 2017.

The Directors confirm that to the best of their knowledge this unaudited condensed financial information for the six months ended 30 June 2017 has been prepared in accordance with Financial Reporting Standard 104 "Interim Financial Reporting" and that the interim management report herein includes a true and fair view of the information required by Disclosure and Transparency Rules (DTR) 4.2.7.

The Directors of the Company are:

Mr S Dingemans
Edinburgh Pharmaceutical Industries Limited
Glaxo Group Limited

GlaxoSmithKline Capital plc
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Results announcement and interim management report for the half year ended 30 June 2017

By order of the Board

Mr A Walker
For and on behalf of Glaxo Group Limited
Corporate Director
24 July 2017

Internet

This Announcement and other information about the GSK Group are available on the website at:
<http://www.gsk.com>.

GlaxoSmithKline Capital plc

Income statement for the half year ended 30 June 2017

	Note	Period ended 30 June 2017 £'000	Period ended 30 June 2016 £'000
Other operating (expense) / income		(511)	1,527
Finance income	3	196,552	196,314
Finance expense	4	(191,019)	(190,729)
Operating profit	2	5,022	7,112
Profit before taxation		5,022	7,112
Tax on profit	5	(967)	(1,421)
Profit for the financial period		4,055	5,691

GlaxoSmithKline Capital plc

Statement of comprehensive income for the half year ended 30 June 2017

	Period ended 30 June 2017 £'000	Period ended 30 June 2016 £'000
Profit for the financial period	4,055	5,691
Items that may be subsequently reclassified to the income statement:		
Reclassification of cash flow hedges to the income statement	477	477
Deferred tax on cash flow hedges	(81)	(86)
Other comprehensive income for the financial period	396	391
Total comprehensive income for the financial period	4,451	6,082

GlaxoSmithKline Capital plc

Statement of financial position as at 30 June 2017

	Note	30 June 2017 £'000	31 December 2016 £'000
Non-current assets			
Deferred tax assets		1,812	1,893
Loans and receivables	6	8,351,495	8,353,138
Total non-current assets		8,353,307	8,355,031
Current assets			
Loans and receivables	6	1,187,321	2,767,682
Prepayments and accrued income	7	116,664	110,223
Cash and cash equivalents		2	2
Total current assets		1,303,987	2,877,907
Total assets		9,657,294	11,232,938
Current liabilities			
Other payables	8	(3,791)	(5,026)
Short-term borrowings	9	(1,096,128)	(2,679,716)
Accruals and deferred income	10	(108,434)	(106,431)
Total current liabilities		(1,208,353)	(2,791,173)
Net current assets		95,634	86,734
Total assets less current liabilities		8,448,941	8,441,765
Non-current liabilities			
Long-term borrowings	9	(8,412,828)	(8,410,103)
Total non-current liabilities		(8,412,828)	(8,410,103)
Total liabilities		(9,621,181)	(11,201,276)
Net assets		36,113	31,662
Equity			
Called up share capital	13	100	100
Other reserves		(8,847)	(9,243)
Retained earnings		44,860	40,805
Total equity		36,113	31,662

GlaxoSmithKline Capital plc

Statement of changes in equity for the half year ended 30 June 2017

	Called up share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2016	100	(9,914)	29,508	19,694
Profit for the financial period	-	-	5,691	5,691
Other comprehensive income for the financial period	-	477	-	477
At 30 June 2016	100	(9,437)	35,199	25,862

	Called up share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2017	100	(9,243)	40,805	31,662
Profit for the financial period	-	-	4,055	4,055
Other comprehensive income for the financial period	-	396	-	396
At 30 June 2017	100	(8,847)	44,860	36,113

GlaxoSmithKline Capital plc

Cash flow statement for the half year ended 30 June 2017

	Note	Period ended 30 June 2017 £'000	Period ended 30 June 2016 £'000
Cash flows from operating activities			
Operating profit		5,022	7,112
Adjustments reconciling operating profit to operating cash flows	12	(312)	(759)
Net cash inflow from operating activities		4,710	6,353
Cash flows from financing activities			
Repayment of short-term borrowings		(1,543,721)	-
Loan repayments received from Group undertakings		1,532,776	-
Decrease / (increase) in current accounts with Group undertakings		6,235	(6,354)
Net cash outflow from financing activities		(4,710)	(6,354)
Net movement in cash in the period		-	(1)
Cash at beginning of period		2	3
Movement in cash		-	(1)
Cash at end of period		2	2

GlaxoSmithKline Capital plc

Notes to the financial statements for the half year ended 30 June 2017

1 Accounting presentation and policies

This unaudited Results Announcement containing condensed financial information for the six months ended 30 June 2017 is prepared in accordance with Financial Reporting Standard 104 "Interim Financial Reporting" using the recognition and measurement requirements of Financial Reporting Standard 101 "Reduced Disclosure Framework" and in accordance with the Listing Rules of the UK Listing Authority.

2 Operating profit

	Period ended 30 June 2017 £'000	Period ended 30 June 2016 £'000
The following items have been (charged) / credited in operating profit:		
Exchange gains on foreign currency transactions	(511)	1,527

3 Finance income

	Period ended 30 June 2017 £'000	Period ended 30 June 2016 £'000
Interest income arising from loans with Group undertakings	196,552	196,314

4 Finance expense

	Period ended 30 June 2017 £'000	Period ended 30 June 2016 £'000
Interest expense arising on financial liabilities at amortised cost	(190,542)	(190,252)
Reclassification of cash flow hedge from other comprehensive income	(477)	(477)
Total finance expense	(191,019)	(190,729)

5 Tax on profit

	Period ended 30 June 2017 £'000	Period ended 30 June 2016 £'000
Income tax expense on ordinary activities	£'000	£'000
Current tax:		
UK corporation tax at 19.25% (2016: 20%)	(967)	(1,421)
Total current tax	(967)	(1,421)

6 Loans and receivables

	30 June 2017 £'000	31 December 2016 £'000
Amounts due within one year		
Amounts owed by Group undertakings - loans	1,087,763	2,661,340
Amounts owed by Group undertakings - current accounts	99,558	106,342
	1,187,321	2,767,682
Amounts due after more than one year		
Amounts owed by Group undertakings - loans	8,351,495	8,353,138
	8,351,495	8,353,138
	9,538,816	11,120,820

Amounts due within one year are the net proceeds of bond issuances that have been advanced as loans to Group undertakings totalling £1,087,763,000 (31 December 2016: £2,661,340,000), which are unsecured with interest charged at 5.76% per annum and repayable at maturity in December 2017.

In addition, there are balances with Group undertakings totalling £99,558,000 (31 December 2016: £106,342,000) that are unsecured and repayable on demand and earn a market rate of interest (based on one week LIBOR minus 0.125%) that is consistent with the Group's policy.

Amounts due after more than one year are the net proceeds of bond issuances that have been advanced as loans to Group undertakings, which are unsecured with interest charged between 1.05% and 6.50% per annum and repayable at maturity dates between 2017 and 2045.

GlaxoSmithKline Capital plc

Notes to the financial statements for the half year ended 30 June 2017

7 Prepayments and accrued income

	30 June 2017 £'000	31 December 2016 £'000
Amounts due within one year	116,664	110,223

Accrued income relates to interest on amounts owed by Group undertakings (see Note 6).

8 Other payables

	30 June 2017 £'000	31 December 2016 £'000
Amounts falling due within one year		
Amounts owed to Group undertakings	-	(2,202)
Corporation tax	(3,791)	(2,824)
	(3,791)	(5,026)

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.

9 Borrowings

	30 June 2017 £'000	31 December 2016 £'000
Amounts falling due within one year		
Loans payable:		
€ European Medium Term Notes	(1,096,128)	(1,067,597)
US\$ Medium Term Notes	-	(1,612,119)
	(1,096,128)	(2,679,716)

Amounts falling due after more than one year

Loans payable:		
€ European Medium Term Notes	(2,831,355)	(2,756,848)
£ European Medium Term Notes	(4,051,709)	(4,050,413)
US\$ Medium Term Notes	(1,529,764)	(1,602,842)
	(8,412,828)	(8,410,103)

Total borrowings	(9,508,956)	(11,089,819)
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	30 June 2017 £'000	31 December 2016 £'000
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Maturity of borrowings

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	(1,096,128)	(1,067,597)
	(1,096,128)	(2,679,716)

In more than two years, but not more than five years

0.6250% € European Medium Term Note 2019	(1,311,026)	(1,276,450)
2.85% US\$ US Medium Term Note 2022	(1,529,764)	-
	(2,840,790)	(1,276,450)

In more than five years

2.85% US\$ US Medium Term Note 2022	-	(1,602,842)
1.375% € European Medium Term Note 2024	(867,799)	(844,930)
4.00% € European Medium Term Note 2025	(652,530)	(635,468)
3.375% £ European Medium Term Note 2027	(593,067)	(592,734)
5.25% £ European Medium Term Note 2033	(986,051)	(985,626)
6.375% £ European Medium Term Note 2039	(695,220)	(695,110)
5.25% £ European Medium Term Note 2042	(988,367)	(988,133)
4.25% £ European Medium Term Note 2045	(789,004)	(788,810)
	(5,572,038)	(7,133,653)

Total borrowings	(9,508,956)	(11,089,819)
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GlaxoSmithKline Capital plc

Notes to the financial statements for the half year ended 30 June 2017

10 Accruals and deferred income

	30 June 2017 £'000	31 December 2016 £'000
Amounts falling due within one year	(108,434)	(106,431)

Accruals relates to interest payable on borrowings (see Note 9).

11 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);
- Intercompany current accounts – approximates to the carrying amount; 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 30 June 2017 and 31 December 2016 are illustrated below.

	30 June 2017		31 December 2016	
	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	116,664	116,664	110,223	110,223
Amounts owed by Group undertakings - current accounts	99,558	99,558	106,342	106,342
Amounts owed by Group undertakings	9,439,258	11,388,004	11,014,478	13,045,298
Total financial assets	9,655,482	11,604,228	11,231,045	13,261,865
Financial liabilities measured at amortised cost:				
£ European Medium Term Notes	(4,051,709)	(5,640,387)	(4,050,413)	(5,762,307)
€ European Medium Term Notes	(3,927,483)	(4,174,371)	(3,824,445)	(4,147,107)
US\$ US Medium Term Notes	(1,529,764)	(1,573,246)	(3,214,961)	(3,242,226)
	(9,508,956)	(11,388,004)	(11,089,819)	(13,151,640)
Other payables	(108,434)	(108,434)	(108,633)	(108,633)
Total financial liabilities	(9,617,390)	(11,496,438)	(11,198,452)	(13,260,273)
Net financial assets and liabilities	38,092	107,790	32,593	1,592

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

Financial liabilities measured at amortised cost for which the fair value of £11,388,004,000 (31 December 2016: £13,151,640,000) 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.

12 Adjustments reconciling operating profit to operating cash flows

	Period ended 30 June 2017 £'000	Period ended 30 June 2016 £'000
Operating profit	5,022	7,112
Increase in other receivables	(6,441)	(12,590)
(Decrease) / increase in other payables	(199)	7,335
Exchange adjustments	511	(1,527)
Amortisation of bond costs	5,340	5,546
Reclassification of cash flow hedges to the income statement	477	477
	(312)	(759)
Net cash inflow from operating activities	4,710	6,353

GlaxoSmithKline Capital plc

Notes to the financial statements for the half year ended 30 June 2017

13 Called up share capital

	30 June 2017	31 December 2016	30 June 2017	31 December 2016
	Number of	Number of	£'000	£'000
	shares	shares		
Authorised				
Ordinary Shares of £1 each (31 December 2016: £1 each)	100,000	100,000	100	100
Issued and fully paid				
Ordinary Shares of £1 each (31 December 2016: £1 each)	100,000	100,000	100	100

14 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.