

GlaxoSmithKline Capital plc
(Registered number: 2258699)

Interim Management Report

for the half year ended 30 June 2019

Registered office address:

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GlaxoSmithKline Capital plc
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Interim Management Report

for the half year ended 30 June 2019

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GlaxoSmithKline Capital plc
(Registered number: 2258699)

Results announcement and interim management report for the half year ended 30 June 2019

Performance

GlaxoSmithKline Capital plc (the "Company") is a member of the GlaxoSmithKline Group (the "Group"). The principal activities of the Company during the financial year were the issuance of notes under the Group's European 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 2019 of £7,229,000 (2018: £16,814,000), 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 2019 (2018: £nil).

At 30 June 2019, the Company had in issue £11,321,857,000 European Medium Term Notes and £5,877,518,000 US Medium Term Notes (31 December 2018: £11,357,479,000 and £3,137,587,000, respectively), which mature at dates between 2019 and 2045. All notes currently in issue pay interest on a fixed rate basis, with the exception of the €750 million (£672 million) 2020 European Medium Term Note and \$750 million (£591 million) 2021 US Medium Term Note which are on a floating 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 2018 Annual Report which does not form part of this report.

Details of the Company's financial risk management is also disclosed in the Company's Annual Report for the year ended 31 December 2018.

Directors' responsibility statement

The Board of Directors approved this document on 22 July 2019.

The Directors confirm that to the best of their knowledge this unaudited condensed financial information for the six months ended 30 June 2019 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.

Approach to Brexit

In preparing for the UK's exit from the EU (Brexit), the Directors of the Group have taken a risk-based approach to maintain continuity of supply of our medicines, vaccines and consumer healthcare products to the people in the UK and EU at the 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 approach to Brexit would not be appropriate for an understanding of the impact of Brexit to the position of the Company's business. The Group's approach to Brexit, which include those of the Company, are discussed in the Group's 2018 annual report which does not form part of this report.

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Results announcement and interim management report for the half year ended 30 June 2019

The Directors of the Company are:

Mr S Dingemans (resigned on 1 May 2019)
Mr I Mackay (appointed on 1 May 2019)
Edinburgh Pharmaceutical Industries Limited
Glaxo Group Limited

By order of the Board

Mr A Walker
For and on behalf of Glaxo Group Limited
Corporate Director
22 July 2019

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 2019

	Note	Period ended 30 June 2019 £'000	Period ended 30 June 2018 £'000
Other operating income/(expense)		(465)	214
Finance income	3	226,897	172,296
Finance expense	4	(217,507)	(151,712)
Operating profit	2	8,925	20,798
Profit before taxation		8,925	20,798
Tax on profit	5	(1,696)	(3,984)
Profit for the financial period		7,229	16,814

GlaxoSmithKline Capital plc

Statement of comprehensive income for the half year ended 30 June 2019

	Period ended 30 June 2019 £'000	Period ended 30 June 2018 £'000
Profit for the financial period	7,229	16,814
Items that may be subsequently reclassified to the income statement:		
Fair value movements on cash flow hedges	(12,159)	1,288
Reclassification of cash flow hedges to the income statement	1,368	731
Deferred tax on cash flow hedges	1,834	(124)
Other comprehensive income for the financial period	(8,957)	1,895
Total comprehensive income for the financial period	(1,728)	18,709

GlaxoSmithKline Capital plc

Statement of financial position As at 30 June 2019

	Note	30 June 2019 £'000	31 December 2018 £'000
Non-current assets			
Deferred tax assets		3,738	1,904
Loans and receivables	6	15,107,976	13,087,653
Total non-current assets		15,111,714	13,089,557
Current assets			
Loans and receivables	6	2,139,171	1,471,451
Prepayments and accrued income	7	130,458	131,225
Cash and cash equivalents		4,155	-
Total current assets		2,273,784	1,602,676
Total assets		17,383,664	14,692,233
Current liabilities			
Other payables	8	(7,448)	(7,792)
Accruals and deferred income	10	(115,957)	(124,929)
Short-term borrowings		(2,016,271)	(1,349,459)
Total current liabilities		(2,139,676)	(1,482,180)
Net current assets		134,108	120,496
Total assets less current liabilities		15,243,988	13,210,053
Non-current liabilities			
Long-term borrowings	9	(15,183,104)	(13,145,607)
Total non-current liabilities		(15,183,104)	(13,145,607)
Total liabilities		(17,322,780)	(14,627,787)
Net assets		62,718	64,446
Equity			
Called up share capital	13	100	100
Other reserves		(18,254)	(9,297)
Retained earnings		80,872	73,643
Total equity		62,718	64,446

GlaxoSmithKline Capital plc

Statement of changes in equity for the half year ended 30 June 2019

	Called up share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2018	100	(11,588)	49,123	37,635
Profit for the financial period	-	-	16,814	16,814
Other comprehensive income for the financial period	-	1,895	-	1,895
At 30 June 2018	100	(9,693)	65,937	56,344

	Called up share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2019	100	(9,297)	73,643	64,446
Profit for the financial period	-	-	7,229	7,229
Other comprehensive income for the financial period	-	(8,957)	-	(8,957)
At 30 June 2019	100	(18,254)	80,872	62,718

GlaxoSmithKline Capital plc

Cash flow statement for the half year ended 30 June 2019

	Note	Period ended 30 June 2019 £'000	Period ended 30 June 2018 £'000
Cash flows from operating activities			
Operating profit		8,925	20,798
Adjustments reconciling operating profit to operating cash flows	12	(13,983)	(20,852)
Net cash (outflow)/inflow from operating activities		(5,058)	(54)
Cash flows from financing activities			
Proceeds from borrowings		2,630,777	3,650,522
Repayment of borrowings		-	-
Loans provided to Group undertakings		(2,618,537)	(3,648,326)
Loan repayments received from Group undertakings		-	-
(Increase)/decrease in current accounts with Group undertakings		(3,027)	(2,142)
Net cash inflow/(outflow) from financing activities		9,213	54
Net movement in cash in the period		4,155	-
Cash at beginning of period		-	1
Movement in cash		4,155	-
Cash at end of period		4,155	1

GlaxoSmithKline Capital plc

Notes to the financial statements for the half year ended 30 June 2019

1 Accounting presentation and policies

This unaudited Results Announcement containing condensed financial information for the six months ended 30 June 2019 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 2019 £'000	Period ended 30 June 2018 £'000
The following items have been (charged) / credited in operating profit:		
Exchange gains/(losses) on foreign currency transactions	(465)	214

3 Finance income

	Period ended 30 June 2019 £'000	Period ended 30 June 2018 £'000
Interest income arising from loans with Group undertakings	226,897	172,296

4 Finance expense

	Period ended 30 June 2019 £'000	Period ended 30 June 2018 £'000
Interest expense arising on financial liabilities at amortised cost	(216,139)	(150,981)
Reclassification of cash flow hedge from other comprehensive income	(1,368)	(731)
Total finance expense	(217,507)	(151,712)

5 Taxation

	Period ended 30 June 2019 £'000	Period ended 30 June 2018 £'000
Income tax expense on ordinary activities		
Current tax:		
UK corporation tax at 19% (2018: 19%)	(1,696)	(3,984)
Total current tax	(1,696)	(3,984)
Total tax (expense) / credit included in other comprehensive income		
Deferred tax:		
Fair value movements on cash flow hedges	1,834	(124)
Total tax (expense) / credit included in other comprehensive income	1,834	(124)

GlaxoSmithKline Capital plc

Notes to the financial statements for the half year ended 30 June 2019

6 Loans and receivables

	30 June 2019 £'000	31 December 2018 £'000
Amounts due within one year		
Amounts owed by Group undertakings	2,139,171	1,471,451
	2,139,171	1,471,451
Amounts due after more than one year		
Amounts owed by Group undertakings	15,107,976	13,087,653
	15,107,976	13,087,653
	17,247,147	14,559,104

Amounts due within one year are call accounts with Group undertakings of £51,360,000 (2018: £51,647,000) which are unsecured, repayable on demand and earn a market rate of interest (based on 1 week LIBOR minus 0.125%) that is consistent with the Group's policy, and includes deposits with Group undertakings of £81,749,000 (2018: £78,574,000) which are unsecured, repayable on demand and earn a market rate of interest (based on LIBOR minus 0.125%) that is consistent with the Group's policy.

Amounts due within one year also include the net proceeds of bond issuances that have been advanced as loans to Group undertakings of £2,006,062,000 (2018: £1,341,230,000) which are unsecured with a fixed interest rate of 1.05% and a floating interest rate of EURIBOR+ 20bps per annum.

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 fixed interest charged between 0.21% and 6.50% per annum and floating interest charged at LIBOR plus 56bps and repayable at maturity dates between 2020 and 2045.

7 Prepayments and accrued income

	30 June 2019 £'000	31 December 2018 £'000
Amounts due within one year	130,458	131,225

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

8 Other payables

	30 June 2019 £'000	31 December 2018 £'000
Amounts falling due within one year		
Amounts owed to Group undertakings	-	(2,040)
Corporation tax	(7,448)	(5,752)
	(7,448)	(7,792)

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

GlaxoSmithKline Capital plc

Notes to the financial statements for the half year ended 30 June 2019

9 Borrowings

	30 June 2019 £'000	31 December 2018 £'000
Amounts falling due within one year		
Loans payable:		
€ European Medium Term Notes	(2,016,271)	(1,349,459)
	(2,016,271)	(1,349,459)
Amounts falling due after more than one year		
Loans payable:		
€ European Medium Term Notes	(5,260,810)	(5,964,309)
£ European Medium Term Notes	(4,044,776)	(4,043,711)
US\$ Medium Term Notes	(5,877,518)	(3,137,587)
	(15,183,104)	(13,145,607)
Total borrowings	(17,199,375)	(14,495,066)
	30 June 2019 £'000	31 December 2018 £'000
Maturity of borrowings		
In more than one year, but not more than two years		
0.625% € European Medium Term Note 2019	-	(1,349,459)
LIBOR + 20bps € European Medium Term Note 2020	-	(677,246)
0.000% € European Medium Term Note 2020	(1,074,095)	(1,079,415)
LIBOR + 35bps US\$ US Medium Term Note 2021	(589,998)	-
3.125% US\$ Medium Term Note 2021	(981,576)	-
	(2,645,669)	(3,106,120)
In more than two years, but not more than five years		
LIBOR + 35bps US\$ US Medium Term Note 2021	-	(589,385)
3.125% US\$ Medium Term Note 2021	-	(980,151)
2.85% US\$ Medium Term Note 2022	(1,570,005)	(1,568,052)
2.875% US\$ Medium Term Note 2022	(1,178,283)	-
3.000% US\$ US Medium Term Note 2024	(781,340)	-
	(3,529,628)	(3,137,588)
In more than five years		
1.375% € European Medium Term Note 2024	(888,797)	(892,962)
4.000% € European Medium Term Note 2025	(666,688)	(669,903)
1.000% € European Medium Term Note 2026	(625,295)	(628,546)
1.250% € European Medium Term Note 2026	(892,021)	(896,568)
3.375% £ European Medium Term Note 2027	(593,669)	(593,351)
3.375% US\$ US Medium Term Note 2029	(776,316)	-
1.375% € European Medium Term Note 2029	(444,766)	(447,022)
1.750% € European Medium Term Note 2030	(669,148)	(672,647)
5.250% £ European Medium Term Note 2033	(982,114)	(981,711)
6.375% £ European Medium Term Note 2039	(694,060)	(693,984)
5.250% £ European Medium Term Note 2042	(986,369)	(986,216)
4.250% £ European Medium Term Note 2045	(788,564)	(788,448)
	(9,007,807)	(8,251,358)
Total borrowings due after one year	(15,183,104)	(14,495,066)

GlaxoSmithKline Capital plc

Notes to the financial statements for the half year ended 30 June 2019

10 Accruals and deferred income

	30 June 2019 £'000	31 December 2018 £'000
Amounts falling due within one year	(115,957)	(124,929)

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); 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 2019 and 31 December 2018 are illustrated below.

	Carrying value £'000	30 June 2019 Fair value £'000	Carrying value £'000	31 December 2018 Fair value £'000
Cash and cash equivalents	4,155	4,155	-	-
Loans and receivables:				
Other receivables	130,458	130,458	131,225	131,225
Amounts owed by Group undertakings	17,247,147	19,467,188	14,559,104	16,387,153
Total financial assets	17,381,760	19,601,801	14,690,329	16,518,378
Financial liabilities measured at amortised cost:				
£ European Medium Term Notes	(4,044,776)	(5,697,927)	(4,043,711)	(4,088,154)
€ European Medium Term Notes	(7,277,081)	(7,724,089)	(7,313,768)	(8,627,556)
US\$ US Medium Term Notes	(5,877,518)	(6,045,172)	(3,137,587)	(3,671,443)
	(17,199,375)	(19,467,188)	(14,495,066)	(16,387,153)
Other payables	(115,957)	(115,957)	(126,969)	(126,969)
Total financial liabilities	(17,315,332)	(19,583,145)	(14,622,035)	(16,514,122)
Net financial assets	66,428	18,656	68,294	4,256

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

GlaxoSmithKline Capital plc

Notes to the financial statements for the half year ended 30 June 2019

11 Fair value of financial assets and liabilities (continued)

Financial liabilities measured at amortised cost for which the fair value of £19,467,188,000 (31 December 2018: £16,387,153,000) as 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 are approximate to the carrying amount.

12 Adjustments reconciling operating profit to operating cash flows

	Period ended 30 June 2019 £'000	Period ended 30 June 2018 £'000
Operating profit	8,925	20,798
Adjustments:		
Decrease/(increase) in other receivables	767	3,317
(Decrease)/increase in other payables	(11,012)	(13,836)
Exchange adjustments	307	(3,565)
Amortisation of bond costs	6,746	(8,787)
Fair value movements on cash flow hedges	(12,159)	1,288
Reclassification of cash flow hedges to the income statement	1,368	731
	(13,983)	(20,852)
Net cash (outflow)/inflow from operating activities	(5,058)	(54)

13 Called up share capital

	30 June 2019 Number of shares	31 December 2018 Number of shares	30 June 2019 £'000	31 December 2018 £'000
Authorised				
Ordinary Shares of £1 each (31 December 2018: £1 each)	100,000	100,000	100	100
Issued and fully paid				
Ordinary Shares of £1 each (31 December 2018: £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.