GlaxoSmithKline Capital plc
(Registered number: 2258699)

Annual Report

for the year ended 31 December 2018

Registered office address:
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GlaxoSmithKline Capital plc
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Annual Report

for the year ended 31 December 2018

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Strategic report for the year ended 31 December 2018

The Directors present their Strategic report on GlaxoSmithKline Capital plc (the "Company") for the year ended 31 December 2018.

Principal activities and future developments

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 US shelf registration 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

At 31 December 2018, the Company had in issue £11,357,478,000 European Medium Term Notes and £3,137,588,000 US Medium Term Notes (2017: £9,026,788,000 and £1,473,973,000 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 (£676 million) 2020 European Medium Term Note and $750 million (£591 million) 2021 US Medium Term Note which are on a floating rate basis.

During May 2018, five new bonds totalling €2.5 billion and $2 billion were issued under the Group's European Medium Term Note programme and US shelf registration as follows:

- €750 million (£676 million) LIBOR + 0.200% European Medium Term Note 2020;
- €750 million (£676 million) 1.250% European Medium Term Note 2026;
- €1,000 million (£901 million) 1.750% European Medium Term Note 2030;
- $750 million (£591 million) LIBOR + 0.350% US Medium Term Note 2021; and
- $1,250 million (£984 million) 3.125% US Medium Term Note 2021.

The Company made a profit for the financial year of £24,520,000 (2017: £8,318,000), 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.

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. There are no additional risks which have not already been addressed by the Group's assessment.

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 2018 Annual Report which does not form part of this report.

Strategic report for the year ended 31 December 2018

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.

By order of the Board

Mr A Walker
For and on behalf of Glaxo Group Limited
Corporate Director
11 April 2019

GlaxoSmithKline Capital plc
(Registered number: 2258699)

Directors' report for the year ended 31 December 2018

The Directors present their report and the audited financial statements of GlaxoSmithKline Capital plc (the "Company") for the year ended 31 December 2018.

Results and dividends

The Company's profit for the financial year is shown in the income statement on page 14.

No dividend is proposed to the holders of ordinary shares in respect of the year ended 31 December 2018 (2017: £nil).

Internal control framework

The GlaxoSmithKline Board is 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. The Internal Control Framework is the means by which the Group ensures the reliability of financial reporting and compliance with laws and regulations.

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 mandated 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 2018 Annual Report which does not form part of this report.

Financial risk management

The Company issues notes under the Group's European Medium Term Note programme and US shelf registration in order to meet anticipated funding requirements for the Group. 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(m) and Note 4 respectively.

The Company manages its cash flow interest rate risk on its forecasted Euro and US Dollar denominated notes issued under the Group's European Medium Term Note programme and US shelf registration using treasury gilt locks and interest rate swaps. In addition, the Company carries a balance in reserves that arose from pre-hedging fluctuations in long-term interest rates when pricing bonds issued in prior years. The balance is reclassified to finance costs over the life of these bonds.

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, 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' report for the year ended 31 December 2018

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 in the shares of the ultimate parent undertaking, GlaxoSmithKline plc, at the year end have been notified to the Company.

		Ordinary Shares		
	At 31 Dec 2017	Acquired	Disposed	**At 31 Dec 2018**
Shares				
Mr S Dingemans	241,723	103,367	(83,441)	**261,649**
	At 31 Dec 2017	Granted	Exercised/ lapsed	**At 31 Dec 2018**
Options				
Mr S Dingemans	-	161,231	-	**161,231**
	At 31 Dec 2017	Granted	Exercised/ lapsed	**At 31 Dec 2018**
Share Save				
Mr S Dingemans	722	-	-	**722**
	At 31 Dec 2017	Granted	Exercised/ lapsed	**At 31 Dec 2018**
Performance Share Plans				
Mr S Dingemans	658,209	277,377	(224,294)	**711,292**
	At 31 Dec 2017	Granted	Exercised/ lapsed	**At 31 Dec 2018**
Deferred Annual Bonus Plan				
Mr S Dingemans	175,150	51,869	(34,868)	**192,151**

All share awards are over ordinary shares of GlaxoSmithKline plc.

Further details of the above-mentioned Plans are disclosed in the 2018 Annual Report of GlaxoSmithKline plc.

Directors' report for the year ended 31 December 2018

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 the 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 United Kingdom 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 page 1:

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

Governance

The Company's approach to the Modern Slavery Act 2015 is set by the Group. Each year, as part of their governance arrangements, the Group formally reviews and approves its approach to the Modern Slavery Act 2015 and has confirmed that the approach is still valid for 2018.

Disclosure of information to auditors

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

Directors' report for the year ended 31 December 2018

Going concern

The Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the intermediate parent, GlaxoSmithKline Finance plc. The Directors have received confirmation that GlaxoSmithKline Finance plc intends to support the Company for at least one year after these financial statements are signed. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Independent auditors

PricewaterhouseCoopers LLP resigned on 30 May 2018 as the Company's auditors. Deloitte LLP have been appointed to act as the Company's auditors by a resolution of the Board of Directors in accordance with s489(3) Companies Act 2006. A resolution of the members to appoint Deloitte LLP as auditors was passed at the Annual General Meeting of the Company in accordance with s489(4) Companies Act 2006.

By order of the Board

Mr A Walker
For and on behalf of Glaxo Group Limited
Corporate Director
11 April 2019

Independent auditors' report to the members of GlaxoSmithKline Capital plc

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of GlaxoSmithKline Capital plc (the "Company"):

- give a true and fair view of the state of the Company's affairs at 31 December 2018 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, 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:

- income statement for the year ended 31 December 2018;
- the statement of comprehensive income;
- balance sheet as at 31 December 2018;
- the statement of changes in equity;
- the cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 25 in the financial statements.

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" (United Kingdom Generally Accepted Accounting Practice).

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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters
The key audit matters that we identified in the current year were:

- Valuation of borrowings; and
- Valuation of intercompany loan receivables.

Key audit matters considered by the Company's auditor in the prior year were consistent with the items identified above.

Materiality
The materiality that we used in the current year was £145 million, which was determined on the basis of a blended measure considering total assets and external debt.

Independent auditors' report to the members of GlaxoSmithKline Capital plc

First year audit transition
This is the first year we have been appointed as auditors to the Company.

Conclusions regarding to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of borrowings

Key audit matter description

The Company issues external borrowings under its European Medium Term Note (EMTN) and US Shelf Programme on behalf of other GSK Group entities. This has resulted in the recognition of material borrowing amounts including:

- Short-term borrowings: £1.3 billion (2017: £nil); and
- Long-term borrowings; £13.1 billion (2017: £10.5 billion).

These are recognised as financial liabilities measured at amortised cost at the original effective interest rate, computed based on the bond proceeds, costs of issuance, coupon payments and redemption value.

There were new bond issuances in the year to fund the Consumer Healthcare transaction; the acquisition of Novartis' 36.5% stake in the Consumer Healthcare Joint Venture.

Due to the magnitude of the external debt held the Company, we have identified a key audit matter with respect to the calculation of the carrying value of the borrowings.

Borrowings are disclosed in Note 14 of the financial statements with fair value disclosure in Note 16. The accounting policy for borrowings is disclosed in Note 2.

Independent auditors' report to the members of GlaxoSmithKline Capital plc

How the scope of our audit responded to the key audit matter	We performed the following audit procedures: • Agreed bond proceeds, bond costs, coupon rate and redemption amounts to underlying agreements and term sheets; • Recalculated the effective interest rate and the carrying value of each bond using the key inputs outlined above per the underlying agreements; • Assessed the appropriateness of the accounting treatment applied for borrowings including the recognition at amortised cost in line with IFRS 9 requirements; • Validated the inputs used for the fair value disclosures in the notes to the financial statements to an independent source; and • Evaluated the disclosures in respect to these liabilities included in the notes to the financial statements.
Key observations	We are satisfied that the short-term and long-term borrowings balances have been accounted for appropriately, in accordance with IFRS 9
Valuation of intercompany loan receivables Key audit matter description	The bonds issued by the Company are subsequently loaned to GlaxoSmithKline Group companies. This is divided as follows: • Short-term intercompany loans and receivables: £1.5 billion (2017: £nil); and • Long-term intercompany loans and receivables: £13.1 billion (2017: £10.4 billion). These are recognised as financial assets measured at amortised cost at the original effective interest rate, computed based on the loan issued, coupon payments and redemption value. As such, we identified a key audit matter relating to the calculation of the carrying value of the intercompany loan receivables balance. Intercompany loan receivables are disclosed in Note 11 of the financial statements with the accounting policies disclosed in Note 2.
How the scope of our audit responded to the key observations.	We performed the following audit procedures: • Agreed loan amounts, coupon rate and redemption amounts to underlying agreements; • Recalculated the effective interest rate and the carrying value of each intercompany loan using the key inputs outlined above per the underlying agreements; • Reviewed board minutes for the completeness of all loans entered into in the period; • Assessed the appropriateness of the accounting treatment applied for intercompany loans including the recognition at amoritised cost in line with IFRS 9 requirements; and

Independent auditors' report to the members of GlaxoSmithKline Capital plc

	• Evaluated the disclosures in respect to these assets included in the notes to the financial statements.
Key observations	We are satisfied that the intercompany loan receivable balances have been accounted for appropriately, in accordance with IFRS 9.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£145 million
Basis for determining materiality	In determining our benchmark for materiality we considered the metrics used by the shareholders and other users of the financial statements. Given that the Company is a debt-financed entity, we considered total assets and external debt* as the most relevant benchmarks in our determination of materiality. Given the importance of these metrics, we concluded that a blended approach was most appropriate using 1% of total assets and 1% of total external debt. Using professional judgement, we have therefore determined materiality to be £145 million with reference to these benchmarks. * External debt is defined as short-term and long-term borrowings. The materiality used by the predecessor auditor in the audit of the Company's financial statements was £52.5 million on the basis of 0.5% of external debt.
Rationale for the benchmark applied	The Company is the main UK debt issuer of the GlaxoSmithKline Group. As such, total assets and external debt were determined to be the most appropriate benchmarks to apply as they relate to the primary focus of management, shareholders and lenders in assessing the performance on the entity.

We agreed with the Board of Directors that we would report all audit differences in excess of £7.25 million (2017: £2.6 million used by the predecessor auditor), as well as differences below the threshold, in our view, that warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit of the Company was scoped by obtaining an understanding of the entity and its environment, including relevant controls, and assessing the risk of material misstatement at the entity level.

The Company was subject to a full scope audit. There were no component audit teams involved in the audit of this entity, with the entire audit being conducted at GlaxoSmithKline's London Head Office by a central audit team.

Independent auditors' report to the members of GlaxoSmithKline Capital plc

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Independent auditors' report to the members of GlaxoSmithKline Capital plc

Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the Board of Directors, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team and involving relevant internal specialists, including tax regarding, how and where fraud might occur in the financial statements and any potential indicators of fraud; and
- obtaining an understanding of the legal and regulatory framework that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Company. The key laws and regulations that we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

Audit response to risks identified
As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non- compliance with laws and regulations.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Board of Directors and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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.

Independent auditors' report to the members of GlaxoSmithKline Capital plc

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
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 nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure
Following the recommendation of the Audit and Risk Committee, we were appointed by the Board of Directors on 30 May 2018 to audit the financial statements of the Company for the year ending 31 December 2018 and subsequent financial periods. The period of uninterrupted engagement including previous renewals and reappointments of the firm is accordingly one year.

Consistency of the audit report with the additional report to the Board of Directors
Our audit opinion is consistent with the additional report to the Board of Directors we are required to provide in accordance with ISAs (UK).

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 2006 that the senior statutory auditor's name should not be stated.

Deloitte LLP
Statutory Auditors
London, United Kingdom
11 April 2019

GlaxoSmithKline Capital plc

Income statement
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Other operating income/(loss)		**1,094**	(824)
Finance income	8	**377,474**	387,262
Finance expense	9	**(348,296)**	(376,137)
Operating profit	6	**30,272**	10,301
Profit before taxation		**30,272**	10,301
Tax on profit	10	**(5,752)**	(1,983)
Profit for the financial year		**24,520**	8,318

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

The notes on pages 19 to 32 are an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2018

	Note	**2018** **£'000**	2017 £'000
Profit for the financial year		**24,520**	8,318
Items that may be subsequently reclassified to the income statement:			
Fair value movements on cash flow hedges		**1,288**	(3,943)
Reclassification of cash flow hedges to the income statement		**1,472**	1,118
Deferred tax on fair value movements on cash flow hedges	10	**(469)**	480
Other comprehensive income/(loss) for the financial year		**2,291**	(2,345)
Total comprehensive income for the financial year		**26,811**	5,973

The notes on pages 19 to 32 are an integral part of these financial statements.

GlaxoSmithKline Capital plc

Balance Sheet
as at 31 December 2018

	Note	**2018** **£'000**	2017 £'000
Non-current assets			
Deferred tax assets	10	**1,904**	2,373
Trade and other receivables	11	**13,087,653**	10,434,878
Total non-current assets		**13,089,557**	10,437,251
Current assets			
Trade and other receivables	11	**1,471,451**	101,855
Prepayment and accrued income	12	**131,225**	107,833
Cash and cash equivalents		**-**	1
Total current assets		**1,602,676**	209,689
Total assets		**14,692,233**	10,646,940
Current liabilities			
Other payables	13	**(7,792)**	(4,864)
Short-term borrowings	14	**(1,349,459)**	-
Accruals and deferred income	15	**(124,929)**	(103,680)
Total current liabilities		**(1,482,180)**	(108,544)
Net current assets		**120,496**	101,145
Total assets less current liabilities		**13,210,053**	10,538,396
Non-current liabilities			
Long-term borrowings	14	**(13,145,607)**	(10,500,761)
Total non-current liabilities		**(13,145,607)**	(10,500,761)
Total liabilities		**(14,627,787)**	(10,609,305)
Net assets		**64,446**	37,635
Equity			
Called up share capital	20	**100**	100
Other reserves	21	**(9,297)**	(11,588)
Retained earnings		**73,643**	49,123
Total equity		**64,446**	37,635

The notes on pages 19 to 32 are an integral part of these financial statements.

The financial statements on pages 14 to 32 were approved by the Board of Directors on 11 April 2019 and signed on its behalf by:

Mr 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 2018

	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 year	-	-	8,318	8,318
Other comprehensive loss for the financial year	-	(2,345)	-	(2,345)
At 31 December 2017	100	(11,588)	49,123	37,635
Profit for the year	-	-	24,520	24,520
Other comprehensive income for the financial year	-	2,291	-	2,291
At 31 December 2018	**100**	**(9,297)**	**73,643**	**64,446**

The notes on pages 19 to 32 are an integral part of these financial statements.

GlaxoSmithKline Capital plc

Cash flow statement
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flow from operating activities			
Operating profit		**30,272**	10,301
Adjustments reconciling operating profit to operating cash flows		**(6,270)**	5,775
Net cash inflow from operating activities	18	**24,002**	16,076
Cash flow from financing activities			
Proceeds from borrowings		**3,650,522**	2,183,800
Repayment of borrowings		**-**	(2,639,347)
Loans provided to Group undertakings		**(3,648,326)**	(2,183,800)
Loan repayments received from Group undertakings		**-**	2,619,680
(Increase)/decrease in other receivables with Group undertakings		**(26,199)**	3,590
Net cash outflow from financing activities		**(24,003)**	(16,077)
Net movement in cash in the year		**(1)**	(1)
Cash at beginning of year		**1**	2
Movement in cash		**(1)**	(1)
Cash at end of year		**-**	1

The notes on pages 19 to 32 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2018

1 Presentation of the financial statements

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

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 Medium Term Note programme and US shelf registration and the provision of financial services to other companies within the Group.

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 101 "Reduced Disclosure Framework" ("FRS 101").

Going concern

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:
  - 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.

2 Summary of significant accounting policies (continued)

(b) Ultimate and immediate parent undertaking

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

(c) Implementation of IFRS 9 “Financial instruments”

The Company has applied IFRS 9 "Financial instruments" with effect from 1 January 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairments for financial assets and general hedge accounting. Details of these new requirements as well as their impact on the Company's financial statements are described below. The Company has adopted IFRS 9 retrospectively but with certain permitted exceptions as detailed below.

Classification and measurement of financial assets

The date of initial application was 1 January 2018. The Company has not applied the requirements of IFRS 9 to instruments that were derecognised prior to 1 January 2018 and has not restated prior years.

All financial assets that are within the scope of IFRS 9 are required to be measured at amortised cost or fair value with movements through other comprehensive income or the income statement on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Company's trade and other receivables were all previously classified as financial assets measured at amortised cost. Under IFRS 9, as the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, the amounts receivable are measured at amortised cost.

There were no material changes in the carrying value of the financial assets as a result of these changes in measurement basis.

Impairment of financial assets

IFRS 9 requires an expected credit loss ("ECL") model to be applied to financial assets rather than the incurred credit loss model. The expected credit loss model requires the Company to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date.

12-month ECLs are applied to all financial assets not measured at fair value through profit or loss. There were no other transition adjustments arising from the change in impairment basis.

(d) 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.

(e) Other operating income

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

(f) Finance income and expense

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

2 Summary of significant accounting policies (continued)

(g) 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 represent intercompany balances with other Group undertakings, which are carried at amortised cost using the effective interest method.

(h) Impairment of financial assets

Expected credit losses are recognised in the income statement on financial assets measured at amortised cost.

For financial assets a 12-month expected credit loss ("ECL") allowance is recorded on initial recognition. If there is evidence of a significant increase in the credit risk of an asset, the allowance is increased to reflect the full lifetime ECL. If there is no realistic prospect of recovery, the asset is written off.

(i) 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.

(j) 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.

(k) Borrowings

All borrowings, which comprise notes issued under the Group’s European Medium Term Note programme and US shelf registration, 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.

(l) 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 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.

(m) 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.

Derivative financial assets and liabilities are classified as held-for trading and are measured at fair value. 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 treasury gilt locks and forward starting interest rate swaps for pre-hedging fluctuations in long-term interest rates when pricing bonds issued in prior and current 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. There are no required estimates or assumptions made in the valuation of intercompany loans and borrowings.

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, most recently on 18 October 2018. 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.

As part of the Group's risk assessment, the potential effects of Brexit have been considered and are not expected to be material.

(a) Market risk

(i) *Foreign exchange risk*

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

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 net amount of floating rate debt to a specific cap, reviewed and agreed no less than annually by the GlaxoSmithKline Board.

The Company's interest rate risk arises mainly from deposits with Group undertakings and cash held at floating rates which expose the Company to interest rate risk. The Company has unsecured borrowings, comprised of notes issued under the Group's European Medium Term Note programme and US shelf registration, the majority of 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 changes in interest rates in relation to Euro, Sterling and US dollar floating rate financial assets. 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 2018 would have increased by approximately £1,282,000 (2017: £1,018,000 increase in finance income).

	2018 Increase in income £'000	2017 Increase in income £'000
1% (100 basis points) increase in Euro interest rates (2017: 1%)	**533**	398
1% (100 basis points) increase in Sterling interest rates (2017: 1%)	**516**	450
1% (100 basis points) increase in US dollar interest rates (2017: 1%)	**233**	170

Notes to the financial statements for the year ended 31 December 2018

4 Financial risk management (continued)

(a) Market risk (continued)

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

Currency and interest rate risk profile of borrowings

	Fixed rate		
At 31 December 2018	**Weighted average interest rate**	**Average years for which rate is fixed**	**Total**
Currency	**%**		**£'000**
US dollar	**3.9**	**3**	**(3,137,587)**
Sterling	**5.0**	**19**	**(4,043,711)**
Euro	**1.9**	**7**	**(7,313,768)**
Total borrowings	**3.6**	**10**	**(14,495,066)**

	Fixed rate		
At 31 December 2017	Weighted average interest rate	Average years for which rate is fixed	Total
Currency	%		£'000
US dollar	3.0	2	(1,473,973)
Sterling	5.0	20	(4,053,006)
Euro	1.5	7	(4,973,782)
Total borrowings	3.2	10	(10,500,761)

Currency and interest rate risk profile of loans and receivables

At 31 December 2018	**Fixed rate**	**Floating rate**	**Total**
Currency	**£'000**	**£'000**	**£'000**
US dollar	**2,536,151**	**612,730**	**3,148,881**
Sterling	**4,024,022**	**51,647**	**4,075,669**
Euro	**6,603,959**	**730,595**	**7,334,554**
Total loans and receivables	**13,164,132**	**1,394,972**	**14,559,104**

At 31 December 2017	Fixed rate	Floating rate	Total
Currency	£'000	£'000	£'000
US dollar	1,464,741	17,003	1,481,744
Sterling	4,024,022	45,025	4,069,047
Euro	4,946,115	39,827	4,985,942
Total loans and receivables	10,434,878	101,855	10,536,733

4 Financial risk management (continued)

(a) Market Risk (continued)

Net currency exposure

	2018	2017
	£'000	£'000
US dollar	**11,294**	7,771
Euro	**20,786**	12,160
	32,080	19,931

(b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and arises from cash and cash equivalents, favourable derivative financial instruments and deposits held with banks and financial institutions, and outstanding loans and receivables. 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 2018 (2017: £nil).

The Company did not hold any collateral as security or obtained other credit enhancements as at 31 December 2018 (2017: £nil).

The Company considers its maximum exposure to credit risk at 31 December 2018, without taking into account any collateral held or other credit enhancements, to be £14,690,329,000 (2017: £10,644,567,000) being the total of the Company's financial assets of which the balances are all held within the GlaxoSmithKline Group.

(c) Liquidity risk

Liquidity is managed centrally by the Group by borrowing in order to meet anticipated funding requirements. 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 Medium Term Note programme and US shelf registration.

The capital structure of the Company consists of net debt of £14,495,066,000 (2017: £10,500,761,000) and shareholders' funds of £64,446,000 (2017: £37,635,000) (see Statement of changes in equity).

6 Operating profit

	2018	2017
	£'000	£'000
The following items have been credited/(charged) in operating profit:		
Exchange gains/(losses) on foreign currency transactions	**1,151**	(768)
Management fee	**(57)**	(56)

Notes to the financial statements for the year ended 31 December 2018

6 Operating profit (continued)

GlaxoSmithKline Services Unlimited provides various services and facilities to the Company including finance and administrative services for which a management fee was charged. Included in the management fee is a charge for auditors' remuneration of £36,100 (2017: £35,575).

The disclosure of fees payable to the auditor and its associates for other (non-audit) services has not been made and has been disclosed in the Group's 2018 Annual Report which does not form part of this report.

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

	2018	2017
	£'000	£'000
Interest income arising from loans and receivables	**377,474**	387,262

9 Finance expense

	2018	2017
	£'000	£'000
Interest expense arising on financial liabilities at amortised cost	**(346,824)**	(375,019)
Reclassification of cash flow hedge from other comprehensive income	**(1,472)**	(1,118)
Total finance expense	**(348,296)**	(376,137)

10 Taxation

	2018	2017
Income tax expense on ordinary activities	**£'000**	£'000
Current tax:		
UK Corporation tax at 19.00% (2017: 19.25%)	**(5,752)**	(1,983)
Total current tax	**(5,752)**	(1,983)

The tax assessed for the year is no different (2017: no different) than the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19.00% (2017: 19.25%). The offsetting differences are explained below:

	2018	2017
Reconciliation of total tax charge	**£'000**	£'000
Profit on ordinary activities before taxation	**30,272**	10,301
Profit on ordinary activities at the UK statutory rate of 19.00% (2017: 19.25%)	**(5,752)**	(1,983)
Effects of:		
Permanent disallowables - interest treated as paid by ultimate parent	**65,884**	72,134
Permanent deductions - Group relief received for no payment	**(65,884)**	(72,134)
Total tax charge for the year	**(5,752)**	(1,983)

10 Taxation (continued)

Factors that may affect future tax charges:

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015, and a further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred taxes at balance sheet date have been calculated based on these rates and reflected in these financial statements.

Total tax (expense)/credit included in other comprehensive income	**2018 £'000**	2017 £'000
Deferred tax:		
Fair value movements on cash flow hedges	**(469)**	480
Total tax (expense)/credit included in other comprehensive income	**(469)**	480

Movement in deferred tax assets and liabilities	Other net temporary differences £'000	**Total £'000**
At 1 January 2018	2,373	**2,373**
Expense to comprehensive income	(469)	**(469)**
At 31 December 2018	1,904	**1,904**

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

	2018 £'000	2017 £'000
Deferred tax assets classified as non-current assets	**1,904**	2,373
Deferred tax liabilities classified as non-current liabilities	**-**	-
	1,904	2,373

11 Trade and other receivables

	2018 £'000	2017 £'000
Amounts due within one year		
Amounts owed by Group undertakings	**1,471,451**	101,855
Amounts due after more than one year		
Amounts owed by Group undertakings	**13,087,653**	10,434,878
	14,559,104	10,536,733

Amounts due within one year include call accounts with Group undertakings of £51,647,000 (2017: £45,025,000) 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 also includes deposits with Group undertakings of £78,574,000 (2017: £56,830,000) 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 £1,341,230,000 (2017: £nil) which is unsecured with interest charged at 1.05% per annum.

Notes to the financial statements for the year ended 31 December 2018

11 Loans and receivables (continued)

Amounts due after more than one year include the net proceeds of bond issuances that have been advanced as loans to Group undertakings totalling £13,087,653,000 (2017: £10,434,878,000), which are unsecured with interest charged at between 0.21% and 6.50% per annum and repayable at maturity dates between 2020 and 2045.

12 Prepayments and accrued income

	2018	2017
	£'000	£'000
Amounts due within one year	**131,225**	107,833

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

13 Other payables

	2018	2017
	£'000	£'000
Amounts falling due within one year		
Amounts owed to Group undertakings	**(2,040)**	(2,881)
Corporation tax	**(5,752)**	(1,983)
	(7,792)	(4,864)

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.

14 Borrowings

	2018	2017
	£'000	£'000
Amounts falling due within one year		
Loans payable:		
€ European Medium Term Notes	**(1,349,459)**	-
	(1,349,459)	-
Amounts falling due after more than one year		
Loans payable:		
€ European Medium Term Notes	**(5,964,309)**	(4,973,782)
£ European Medium Term Notes	**(4,043,711)**	(4,053,006)
US$ US Medium Term Notes	**(3,137,587)**	(1,473,973)
	(13,145,607)	(10,500,761)
Total borrowings	**(14,495,066)**	(10,500,761)

14 Borrowings (continued)

Maturity of borrowings	2018 £'000	2017 £'000
In one year or less, or on demand		
0.625% € European Medium Term Note 2019	**(1,349,459)**	-
	(1,349,459)	-
In more than one year, but not more than two years		
0.625% € European Medium Term Note 2019	**-**	(1,323,623)
EURIBOR+0.20% € European Medium Term Note 2020	**(677,246)**	-
0.000% € European Medium Term Note 2020	**(1,079,415)**	-
	(1,756,661)	(1,323,623)
In more than two years, but not more than five years		
0.000% € European Medium Term Note 2020	**-**	(1,059,379)
3.125% US$ US Medium Term Note 2021	**(980,151)**	-
LIBOR+0.35% US$ US Medium Term Note 2021	**(589,385)**	-
2.850% US$ US Medium Term Note 2022	**(1,568,052)**	(1,473,973)
	(3,137,588)	(2,533,352)
In more than five years		
1.375% € European Medium Term Note 2024	**(892,962)**	(876,117)
4.000% € European Medium Term Note 2025	**(669,903)**	(658,647)
1.000% € European Medium Term Note 2026	**(628,546)**	(617,178)
1.250% € European Medium Term Note 2026	**(896,568)**	-
3.375% £ European Medium Term Note 2027	**(593,351)**	(593,400)
1.375% € European Medium Term Note 2029	**(447,022)**	(438,838)
1.750% € European Medium Term Note 2030	**(672,647)**	-
5.250% £ European Medium Term Note 2033	**(981,711)**	(986,476)
6.375% £ European Medium Term Note 2039	**(693,984)**	(695,330)
5.250% £ European Medium Term Note 2042	**(986,216)**	(988,603)
4.250% £ European Medium Term Note 2045	**(788,448)**	(789,197)
	(8,251,358)	(6,643,786)
Total borrowings	**(14,495,066)**	(10,500,761)

15 Accruals and deferred income

	2018 £'000	2017 £'000
Amounts falling due within one year	**(124,929)**	(103,680)

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;

16 Fair value of financial assets and liabilities (continued)

- 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 2018 and 31 December 2017 are illustrated below.

	2018		2017	
	Carrying value	**Fair value**	Carrying value	Fair value
	£'000	**£'000**	£'000	£'000
Cash and cash equivalents	**-**	**-**	1	1
Trade and other receivables:				
Other receivables	**131,225**	**131,225**	107,833	107,833
Amounts owed by Group undertakings	**14,559,104**	**16,387,153**	10,536,733	12,413,202
Total financial assets	**14,690,329**	**16,518,378**	10,644,567	12,521,036
Financial liabilities measured at amortised cost:				
£ European Medium Term Notes	**(4,043,711)**	**(4,088,154)**	(4,053,006)	(5,688,556)
€ European Medium Term Notes	**(7,313,768)**	**(8,627,556)**	(4,973,782)	(5,221,979)
US$ US Medium Term Notes	**(3,137,587)**	**(3,671,443)**	(1,473,973)	(1,502,667)
	(14,495,066)	**(16,387,153)**	(10,500,761)	(12,413,202)
Other payables	**(126,969)**	**(126,969)**	(106,561)	(106,561)
Total financial liabilities	**(14,622,035)**	**(16,514,122)**	(10,607,322)	(12,519,763)
Net financial assets and liabilities	**68,294**	**4,256**	37,245	1,273

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 £16,387,153,000 (2017: £12,413,202,000) 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.

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.

Notes to the financial statements for the year ended 31 December 2018

17 Contractual cash flows for non-derivative financial liabilities (continued)

	2018 Debt £'000	2018 Interest on debt £'000	2017 Debt £'000	2017 Interest on debt £'000
Due in less than one year	**(1,327,434)**	**(394,427)**	-	(305,389)
Between one and two years	**(1,725,664)**	**(390,015)**	(1,327,434)	(305,389)
Between two and three years	**(1,481,481)**	**(356,350)**	(1,061,947)	(297,094)
Between three and four years	**(1,481,481)**	**(301,316)**	-	(297,091)
Between four and five years	**-**	**(278,875)**	(1,481,481)	(275,982)
Between five and ten years	**(3,653,097)**	**(1,208,359)**	(2,768,142)	(1,178,556)
Greater than 10 years	**(4,606,195)**	**(2,096,217)**	(3,942,478)	(2,262,168)
Gross contractual cash flows	**(14,275,352)**	**(5,025,559)**	(10,581,482)	(4,921,669)

18 Adjustments reconciling operating profit to operating cash flows

	2018 £'000	2017 £'000
Operating profit for the year	**30,272**	10,301
(Increase) / decrease in other receivables	**(23,392)**	2,390
Increase / (decrease) in other payables	**18,425**	(4,896)
Exchange adjustments	**(1,088)**	768
Amortisation of bond costs	**(2,975)**	10,338
Fair value movements on cash flow hedges	**1,288**	(3,943)
Reclassification of cash flow hedges to the income statement	**1,472**	1,118
Net cash inflow from operating activities	**24,002**	16,076

19 Reconciliation of net cash flow to movement in net (debt)/surplus

	Other assets	Liabilities from financing activities			
	Cash and cash equivalents £'000	Amounts owed by Group undertakings £'000	Borrowings – due within 1 year £'000	Borrowings – due after 1 year £'000	Total £'000
Net surplus as at 1 January 2017	2	11,120,820	(2,679,716)	(8,410,103)	31,003
Cash flows	(1)	(439,470)	2,639,347	(2,183,800)	16,076
Foreign exchange adjustments	-	(144,617)	41,918	101,931	(768)
Other non-cash adjustments:					
Amortisation	-	-	(1,549)	(8,789)	(10,338)
Net surplus as at 31 December 2017	1	10,536,733	-	(10,500,761)	35,973
Net surplus as at 1 January 2018	**1**	**10,536,733**	**-**	**(10,500,761)**	**35,973**
Cash flows	**(1)**	**3,674,525**	**-**	**(3,650,522)**	**24,002**
Foreign exchange adjustments	**-**	**347,846**	**(23,849)**	**(322,909)**	**1,008**
Other non-cash adjustments:					
Re-classification (long-term to short-term)	**-**	**-**	**(1,323,622)**	**1,323,622**	**-**
Amortisation	**-**	**-**	**(1,988)**	**4,963**	**2,975**
Net surplus as at 31 December 2018	**-**	**14,559,104**	**(1,349,459)**	**(13,145,607)**	**64,038**

20 Called up share capital

	2018 Number of shares	2017 Number of shares	**2018 £'000**	2017 £'000
Authorised				
Ordinary shares of £1 each (2017: £1 each)	**100,000**	100,000	**100**	100
Issued and fully paid				
Ordinary shares of £1 each (2017: £1 each)	**100,000**	100,000	**100**	100

21 Other reserves

	Other reserves £'000	Retained earnings £'000	**Total reserves £'000**
At 1 January 2018	(11,588)	49,123	**37,535**
Transferred from income and expense in the year	-	24,520	**24,520**
Fair value movements on cash flow hedges	1,288	-	**1,288**
Reclassification of cash flow hedges to the income statement	1,472	-	**1,472**
Deferred tax effect of cash flow hedges	(469)	-	**(469)**
At 31 December 2018	(9,297)	73,643	**64,346**

The cash flow hedge reserve relates to the cumulative fair value changes of derivatives that arose from pre-hedging fluctuations in long-term interest rates when pricing bonds issued in prior and current years. The balance is reclassified to finance costs over the life of the subsequently issued bonds.

		Amount reclassified to profit or loss		
	Hedging gains/ (losses) recognised in reserves £'000	**Hedged future cash flows no longer expected to occur £'000**	**As hedged item affects profit or loss £'000**	**Line item in which reclassification adjustment is included £'000**
Pre-hedging of long-term interest rates	**(9,297)**	**-**	**1,472**	Finance income /(expense)

22 Contingent liabilities/assets

Group bank 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 2018 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 (2017: £nil). Corporate Directors received no remuneration during the year, either as executives of the Group or in respect of their services to the Company (2017: £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.

25 Events after the end of the reporting year

On 25 March 2019, three new bonds totalling \$3.5 billion were issued under the Group's US shelf registration as follows:

- \$1,500 million (£1.1 billion) 2.875% US Medium Term Note 2022;
- \$1,000 million (£763 million) 3.000% US Medium Term Note 2024; and
- \$1,000 million (£763 million) 3.375% US Medium Term Note 2029.

Net proceeds of the bond issue were applied in full towards the repayment of further outstanding amounts under the acquisition facility (\$5bn drawn under a bank facility, which was used to fund the acquisition of Tesaro Inc. in January 2019).