

GlaxoSmithKline Capital plc
(Registered number: 02258699)

Interim Management Report

for the half year ended 30 June 2020

Registered office address:

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GlaxoSmithKline Capital plc
(Registered number: 02258699)

Interim Management Report

for the half year ended 30 June 2020

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GlaxoSmithKline Capital plc
(Registered number: 02258699)

Results announcement and interim management report for the half year ended 30 June 2020

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 2020 of £10,366,000 (2019: £7,229,000), 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 2020 (2019: £nil).

At 30 June 2020, the Company had in issue £12,764,934,000 European Medium Term Notes and £4,458,853,000 US Medium Term Notes (31 December 2019: £11,807,444,000 and £5,650,654,000, respectively), which mature at dates between 2020 and 2045. All notes currently in issue pay interest on a fixed rate basis, with the exception of the €1.5 billion (£1.4 billion) 2021 European Medium Term Note and \$750 million (£611 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 2019 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 2019.

Approach to Brexit

In preparing for the UK's exit from the EU (BREXIT), our overriding priority has been to maintain continuity of supply of our products to people in the UK and EU. As a result, we have taken a risk based approach to planning and mitigation, in conjunction and complete alignment with the Group, whilst the negotiations on future relationships between the UK and the European Union is negotiated.

We have significant experience of maintaining resilient supply chains and have used existing processes to develop a new supply model based on the UK leaving the EU. Uncertainty remains about the new operating environment after the transition ends on 31 December 2020, but all preparations are being taken to minimise disruption to the supply of our products to consumers.

GlaxoSmithKline Capital plc
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Results announcement and interim management report for the half year ended 30 June 2020

Directors' responsibility statement

The Board of Directors approved this document on 27 July 2020.

The Directors confirm that to the best of their knowledge this unaudited condensed financial information for the six months ended 30 June 2020 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.

Risks associated with the coronavirus outbreak

The potential impact of the coronavirus outbreak on the Company's access to capital and ability to lend remains uncertain. Up to the date of this Report, the outbreak has not had a material impact on the trading results of the Company. However, we continue to monitor the situation closely, including the potential impacts on trading results. The situation could change at any time and there can be no assurance that the coronavirus outbreak will not have a material adverse impact on the future results of the Company.

The Directors of the Company are:

Mr I Mackay
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
27 July 2020

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 2020

	Note	Period ended 30 June 2020 £'000	Period ended 30 June 2019 £'000
Other operating income / (expense)	2	1,626	(465)
Finance income	3	251,724	226,897
Finance expense	4	(240,553)	(217,507)
Operating profit		12,797	8,925
Profit before taxation		12,797	8,925
Tax on profit	5	(2,431)	(1,696)
Profit for the financial period		10,366	7,229

GlaxoSmithKline Capital plc

Statement of comprehensive income for the half year ended 30 June 2020

	Period ended 30 June 2020 £'000	Period ended 30 June 2019 £'000
Profit for the financial period	10,366	7,229
Items that may be subsequently reclassified to the income statement:		
Fair value movements on cash flow hedges	(5,480)	(12,159)
Reclassification of cash flow hedges to the income statement	1,879	1,368
Deferred tax on fair value movements on cash flow hedges	1,078	1,834
Other comprehensive income for the financial period	(2,523)	(8,957)
Total comprehensive income for the financial period	7,843	(1,728)

GlaxoSmithKline Capital plc

Balance sheet as at 30 June 2020

	Note	30 June 2020 £'000	31 December 2019 £'000
Non-current assets			
Deferred tax assets		4,421	3,343
Loans and receivables	6	17,139,924	15,725,293
Total non-current assets		17,144,345	15,728,636
Current assets			
Loans and receivables	6	2,882,068	1,804,015
Prepayments and accrued income	7	109,234	134,752
Cash and cash equivalents		5	4
Total current assets		2,991,307	1,938,771
Total assets		20,135,652	17,667,407
Current liabilities			
Other payables	8	(5,811)	(5,811)
Corporate tax	8	(5,853)	(3,421)
Accruals and deferred income	10	(98,272)	(128,073)
Short-term borrowings	9	(2,722,083)	(1,657,233)
Total current liabilities		(2,832,019)	(1,794,538)
Net current assets		159,288	144,233
Total assets less current liabilities		17,303,633	15,872,869
Non-current liabilities			
Long-term borrowings	9	(17,223,787)	(15,800,866)
Total non-current liabilities		(17,223,787)	(15,800,866)
Total liabilities		(20,055,806)	(17,595,404)
Net assets		79,846	72,003
Equity			
Called up share capital	13	100	100
Other reserves		(18,846)	(16,323)
Retained earnings		98,592	88,226
Total equity		79,846	72,003

GlaxoSmithKline Capital plc

Statement of changes in equity for the half year ended 30 June 2020

	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

	Called up share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2020	100	(16,323)	88,226	72,003
Profit for the financial period	-	-	10,366	10,366
Other comprehensive income for the financial period	-	(2,523)	-	(2,523)
At 30 June 2020	100	(18,846)	98,592	79,846

GlaxoSmithKline Capital plc

Cash flow statement for the half year ended 30 June 2020

	Note	Period ended 30 June 2020 £'000	Period ended 30 June 2019 £'000
Cash flows from operating activities			
Operating profit		12,797	8,925
Adjustments reconciling operating profit to operating cash flows	12	(166)	(13,983)
Net cash (outflow) / inflow from operating activities		12,631	(5,058)
Cash flows from financing activities			
Proceeds from borrowings		2,140,275	2,630,777
Repayment of borrowings		(674,483)	-
Loans provided to Group undertakings		(2,134,797)	(2,618,537)
Loan repayments received from Group undertakings		674,483	-
(Increase) / decrease in current accounts with Group undertakings		(18,109)	(3,027)
Net cash inflow / (outflow) from financing activities		(12,630)	9,213
Net movement in cash in the period		1	4,155
Cash at beginning of period		4	-
Movement in cash		1	4,155
Cash at end of period		5	4,155

GlaxoSmithKline Capital plc

Notes to the financial statements for the half year ended 30 June 2020

1 Accounting presentation and policies

This unaudited Results Announcement containing condensed financial information for the six months ended 30 June 2020 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. The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements.

2 Operating profit

	Period ended 30 June 2020 £'000	Period ended 30 June 2019 £'000
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The following items have been credited / (charged) in operating profit:

Exchange gains on foreign currency transactions	1,626	(465)
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3 Finance income

	Period ended 30 June 2020 £'000	Period ended 30 June 2019 £'000
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Interest income arising from loans with Group undertakings	251,724	226,897
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4 Finance expense

	Period ended 30 June 2020 £'000	Period ended 30 June 2019 £'000
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Interest expense arising on financial liabilities at amortised cost	(238,674)	(216,139)
Reclassification of cash flow hedge from other comprehensive income	(1,879)	(1,368)

Total finance expense	(240,553)	(217,507)
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5 Taxation

	Period ended 30 June 2020 £'000	Period ended 30 June 2019 £'000
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Income tax expense on ordinary activities

Current tax:		
UK corporation tax at 19% (2019: 19%)	(2,431)	(1,696)

Total current tax	(2,431)	(1,696)
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	Period ended 30 June 2020 £'000	Period ended 30 June 2019 £'000
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Total tax (expense) / credit included in other comprehensive income

Deferred tax:		
Fair value movements on cash flow hedges	1,078	1,834

Total tax (expense) / credit included in other comprehensive income	1,078	1,834
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6 Loans and other receivables

	30 June 2020 £'000	31 December 2019 £'000
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Amounts due within one year

Amounts owed by Group undertakings	2,882,068	1,804,015
	2,882,068	1,804,015

Amounts due after more than one year

Long term deposits	360	360
Amounts owed by Group undertakings - loans	17,139,564	15,724,933
	17,139,924	15,725,293

	20,021,992	17,529,308
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Amounts due within one year are call accounts with Group undertakings of £74,483,000 (2019: £72,268,000) 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 £92,960,000 (2019: £77,063,000) 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 £2,714,625,000 (2019: £1,654,684,000) 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 2021 and 2045.

GlaxoSmithKline Capital plc

Notes to the financial statements for the half year ended 30 June 2020

7 Prepayments and accrued income

	30 June 2019	31 December 2019
	£'000	£'000
Amounts due within one year	109,234	134,752

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

8 Other payables

	30 June 2020	31 December 2019
	£'000	£'000
Amounts falling due within one year		
Amounts owed to Group undertakings	(5,811)	(5,811)
Corporation tax	(5,853)	(3,421)
	(11,664)	(9,232)

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

9 Borrowings

	30 June 2020	31 December 2019
	£'000	£'000
Amounts falling due within one year		
Loans payable:		
€ European Medium Term Notes	(1,094,489)	(1,657,233)
US\$ Medium Term Notes	(1,627,594)	-
	(2,722,083)	(1,657,233)
Amounts falling due after more than one year		
Loans payable:		
€ European Medium Term Notes	(7,233,702)	(6,104,340)
£ European Medium Term Notes	(5,531,232)	(4,045,872)
US\$ Medium Term Notes	(4,458,853)	(5,650,654)
	(17,223,787)	(15,800,866)
Total borrowings	(19,945,870)	(17,458,099)

	30 June 2020	31 December 2019
	£'000	£'000
Maturity of borrowings		
In more than one year, but not more than two years		
LIBOR+0.30% € European Medium Term Note 2021	(1,372,786)	(1,280,755)
0% € European Medium Term Note 2021	(456,582)	(425,592)
3.125% US\$ US Medium Term Note 2021	-	(943,893)
LIBOR+0.35% US\$ US Medium Term Note 2021	-	(567,101)
2.850% US\$ US Medium Term Note 2022	(1,625,778)	-
2.875% US\$ US Medium Term Note 2022	(1,219,820)	-
	(4,674,966)	(3,217,341)
In more than two years, but not more than five years		
2.850% US\$ US Medium Term Note 2022	-	(1,509,382)
2.875% US\$ US Medium Term Note 2022	-	(1,132,641)
0% € European Medium Term Note 2023	(456,062)	(424,926)
0.125% € European Medium Term Note 2023	(682,410)	-
1.375% € European Medium Term Note 2024	(906,169)	(843,707)
3.000% US\$ US Medium Term Note 2024	(809,359)	(751,294)
4.000% € European Medium Term Note 2025	(679,555)	-
	(3,533,555)	(4,661,950)
In more than five years		
4.000% € European Medium Term Note 2025	-	(632,791)
1.000% € European Medium Term Note 2026	(636,855)	(593,265)
1.250% € European Medium Term Note 2026	(908,701)	(846,415)
3.375% £ European Medium Term Note 2027	(594,324)	(593,994)
1.25% £ European Medium Term Note 2028	(741,128)	-
1.375% € European Medium Term Note 2029	(453,103)	(422,037)
3.375% US\$ US Medium Term Note 2029	(803,896)	(746,343)
1.750% € European Medium Term Note 2030	(681,478)	(634,852)
5.250% £ European Medium Term Note 2033	(982,953)	(982,530)
1.625% £ European Medium Term Note 2035	(743,118)	-
6.375% £ European Medium Term Note 2039	(694,218)	(694,138)
5.250% £ European Medium Term Note 2042	(986,689)	(986,528)
4.250% £ European Medium Term Note 2045	(788,803)	(788,682)
	(9,015,266)	(7,921,575)
Total borrowings due after one year	(17,223,787)	(15,800,866)

GlaxoSmithKline Capital plc

Notes to the financial statements for the half year ended 30 June 2020

10 Accruals and deferred income

	30 June 2020	31 December 2019
	£'000	£'000
Amounts falling due within one year	(98,272)	(128,073)

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 2020 and 31 December 2019 are illustrated below.

	30 June 2020		31 December 2019	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Cash and cash equivalents	5	5	4	4
Loans and receivables:				
Other receivables	109,234	109,234	134,752	134,752
Amounts owed by Group undertakings	20,021,992	23,067,185	17,528,948	19,952,387
Total financial assets	20,131,231	23,176,424	17,663,704	20,087,143
Financial liabilities measured at amortised cost:				
£ European Medium Term Notes	(5,531,232)	(7,831,320)	(4,045,872)	(5,903,688)
€ European Medium Term Notes	(8,328,191)	(8,779,892)	(7,761,573)	(8,214,511)
US\$ US Medium Term Notes	(6,086,447)	(6,455,973)	(5,650,654)	(5,834,188)
	(19,945,870)	(23,067,185)	(17,458,099)	(19,952,387)
Other payables	(98,272)	(98,272)	(133,884)	(133,884)
Total financial liabilities	(20,044,142)	(23,165,457)	(17,591,983)	(20,086,271)
Net financial assets	87,089	10,967	71,721	872

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 £23,067,185,000 (31 December 2019: £19,952,387,000) 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 2020	Period ended 30 June 2019
	£'000	£'000
Operating profit	12,797	8,925
Adjustments:		
Decrease/ (increase) in other receivables	25,518	767
(Decrease) / increase in other payables	(29,800)	(11,012)
Exchange adjustments	2,608	307
Amortisation of bond costs	5,109	6,746
Fair value movements on cash flow hedges	(5,480)	(12,159)
Reclassification of cash flow hedges to the income statement	1,879	1,368
	(166)	(13,983)
Net cash (outflow) / inflow from operating activities	12,631	(5,058)

13 Called up share capital

	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	Number of shares	Number of shares	£'000	£'000
Authorised				
Ordinary shares of £1 each (31 December 2019: £1 each)	100,000	100,000	100	100
Issued and fully paid				
Ordinary shares of £1 each (31 December 2019: £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.