3. Key accounting judgements and estimates continued

GSK continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments. At 31 December 2017, the Group had recognised provisions of £1,175 million in respect of uncertain tax positions (2016 – £1,892 million). Where open issues exist the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of negotiations with the relevant tax authorities or, if necessary, litigation proceedings.

Legal and other disputes

Legal costs for the year were £166 million (2016 – £162 million). At 31 December 2017 provisions for legal and other disputes amounted to £186 million (2016 – £344 million).

The Group provides for anticipated settlement costs where management makes a judgement that an outflow of resources is probable and a reliable estimate can be made of the likely outcome of the dispute and legal and other expenses arising from claims against the Group. The estimated provisions take into account the specific circumstances of each dispute and relevant external advice, are inherently judgemental and could change substantially over time as each dispute progresses and new facts emerge. Details of the status and various uncertainties involved in the significant unresolved disputes are set out in Note 45, 'Legal proceedings'.

The company's Directors, having taken legal advice, have established provisions after taking into account the relevant facts and circumstances of each matter and in accordance with accounting requirements. In respect of product liability claims related to certain products there is sufficient history of claims made and settlements to enable management to make a reliable estimate of the provision required to cover unasserted claims. The Group may become involved in legal proceedings, in respect of which it is not possible to make a reliable estimate of the expected financial effect, if any, that could result from ultimate resolution of the proceedings. In these cases, appropriate disclosure about such cases would be provided, but no provision would be made and no contingent liability can be quantified.

The ultimate liability for legal claims may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations. The position could change over time and, therefore, there can be no assurance that any losses that result from the outcome of any legal proceedings will not exceed the amount of the provisions reported in the Group's financial statements by a material amount.

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Intangible asset impairments

At 31 December 2017, intangible assets were £17,562 million (2016 – £18,776 million).

Impairment tests on intangible assets are undertaken if events occur which call into question the carrying values of the assets. In addition, intangible assets with indefinite useful lives, or which are not yet available for use, are subject to annual impairment tests.

Valuations for impairment tests are based on established market multiples or risk-adjusted future cash flows over the estimated useful life of the asset, where limited, discounted using appropriate discount rates as set out in Note 19, 'Other intangible assets'.

The assumptions relating to future cash flows, estimated useful lives and discount rates are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment tests to change with a consequent adverse effect on the future results of the Group.

e.g. Airbus has decided to stop production of A380 after customers cut orders: the impact on the useful economic life of related intangible asset would be significant, given the reduced useful life over which the development cost of $25bln would need to be amortized.

Contingent consideration and put option liabilities

The 2017 income statement charge for contingent consideration and put option liabilities was £2,134 million (2016 – £3,991 million).

At 31 December 2017, the liability for contingent consideration amounted to £6,172 million (2016 – £5,896 million). Of this amount, £5,542 million (2016 – £5,304 million) related to the acquisition of the former Shionogi-ViiV Healthcare joint venture in 2012 and £584 million (2016 – £545 million) related to the acquisition of the Vaccines business from Novartis in 2016.

Any contingent consideration included in the consideration payable for a business combination is recorded at fair value at the date of acquisition. These fair values are generally based on risk-adjusted future cash flows discounted using appropriate post-tax discount rates. The fair values are reviewed on a regular basis, at least annually, and any changes are reflected in the income statement. See Note 39, 'Contingent consideration liabilities'.

During 2015, the Group granted a put option to Novartis in respect of Novartis' shareholding in the Consumer Healthcare Joint Venture. In certain circumstances, Novartis has the right to require GSK to acquire its 36.5% shareholding in the Consumer Healthcare Joint Venture at a market-based valuation. This right is exercisable in certain windows from 2018 to 2035 and may be exercised either in respect of Novartis' entire shareholding or in up to four instalments. GSK has recognised a financial liability of £8,606 million at 31 December 2017 (2016 – £7,420 million). This represents the present value of the redemption value estimated by GSK in the event of full exercise of the right by Novartis and is calculated by applying relevant public company multiples, with no premium or discount, to forecast future profits in accordance with the shareholder agreements. Sensitivity analysis is given in Note 27, 'Trade and other payables'.

Pfizer may request an IPO of ViiV Healthcare at any time and if either GSK does not consent to such IPO or an offering is not completed within nine months, Pfizer could require GSK to acquire its shareholding. A liability for the put option was recognised on the Group's balance sheet during 2016 at an initial value of £1,070 million. GSK also recognised liabilities for the future preferential dividends anticipated to become payable to Pfizer and Shionogi on the Group's balance sheet during 2016. The liability for the Pfizer put option, which is derived from an internal valuation of the ViiV Healthcare business, utilising both discounted forecast future cash flow and multiples-based methodologies amounted to £1,304 million at 31 December 2017 (2016 – £1,319 million). Sensitivity analysis is also given in Note 27, 'Trade and other payables'.

Notes to the financial statements continued

3. Key accounting judgements and estimates continued

Pensions and other post-employment benefits

The costs of providing pensions and other post-employment benefits are assessed on the basis of assumptions selected by management. These assumptions include future earnings and pension increases, discount rates, expected long-term rates of return on assets and mortality rates, and are disclosed in Note 28, 'Pensions and other post-employment benefits'. Where a surplus on a defined benefit scheme arises, or there is potential for a surplus to arise from committed future contributions, the rights of the Trustees to prevent the Group obtaining a refund of that surplus in the future are considered in determining whether it is necessary to restrict the amount of the surplus that is recognised.

Discount rates are derived from AA rated corporate bond yields except in countries where there is no deep market in corporate bonds where government bond yields are used. A sensitivity analysis is provided in Note 28, 'Pensions and other post-employment benefits', but a 0.25% reduction in the discount rate would lead to an increase in the net pension deficit of approximately £800 million and an increase in the annual pension cost of approximately £29 million. The selection of different assumptions could affect the future results of the Group.

4. New accounting requirements

The following new and amended accounting standards have been issued by the IASB and are likely to affect future Annual Reports.

IFRS 15 'Revenue from contracts with customers' was issued in May 2014 and has been implemented by the Group from 1 January 2018. The Standard provides a single, principles-based approach to the recognition of revenue from all contracts with customers. It focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations are satisfied.

The new Standard is not expected to have a material impact on the amount or timing of recognition of reported revenue. In its financial statements for 2018, GSK will adopt IFRS 15 applying the modified retrospective approach, with a cumulative adjustment to decrease equity at 1 January 2018 by approximately £4 million. In accordance with the requirements of the Standard where the modified retrospective approach is adopted, prior year results will not be restated.

IFRS 9 'Financial instruments' was issued in its final form in July 2014 and has been implemented by the Group from 1 January 2018. The Standard replaces the majority of IAS 39 and covers the classification, measurement and de-recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets based on expected losses rather than incurred losses and provides a new hedge accounting model.

The new Standard is not expected to have a material impact on reported results. In its financial statements for 2018, GSK will adopt IFRS 9 retrospectively, but with certain permitted exceptions. As a result, prior year results will not be restated, but there will be a cumulative adjustment to decrease equity at 1 January 2018 by approximately £11 million.

IFRS 16 'Leases' was issued in January 2016 and will be implemented by the Group from 1 January 2019. The Standard will replace IAS 17 'Leases' and will require lease liabilities and 'right of use' assets to be recognised on the balance sheet for almost all leases. This is expected to result in a significant increase in both assets and liabilities recognised. The costs of operating leases currently included within operating costs will be split and the financing element of the charge will be reported within finance expense. Finance lease obligations at 31 December 2017 are set out in Note 31, 'Net debt' and the undiscounted commitments under non-cancellable operating leases are set out in Note 41, 'Commitments'.

The Group is assessing the potential impact of IFRS 16.

IFRIC 23 'Uncertainty over income tax treatments' was issued in June 2017 and will be implemented by the Group from 1 January 2019. The Interpretation clarifies that if it is considered probable that a tax authority will accept an uncertain tax treatment, the tax charge should be calculated on that basis. If it is not considered probable, the effect of the uncertainty should be estimated and reflected in the tax charge. In assessing the uncertainty, it is assumed that the tax authority will have full knowledge of all information related to the matter.

The Group is continuing to assess the potential impact of the new Interpretation.

5. Exchange rates

The Group uses the average of exchange rates prevailing during the period to translate the results and cash flows of overseas subsidiaries, joint ventures and associates into Sterling and period end rates to translate the net assets of those entities. The currencies which most influence these translations and the relevant exchange rates were as follows:

	2017	2016	2015
Average rates:			
US$/£	1.30	1.36	1.53
Euro/£	1.15	1.23	1.37
Yen/£	145	149	185
Period end rates:			
US$/£	1.35	1.24	1.47
Euro/£	1.13	1.17	1.36
Yen/£	152	144	177