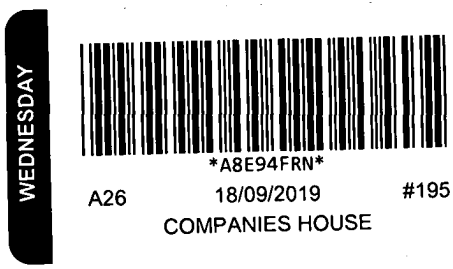
# GlaxoSmithKline Intellectual Property Development Limited
**(Registered number: 08283222)**

**Annual Report**
**for the year ended 31 December 2018**




**Registered office address:**
980 Great West Road
Brentford
Middlesex
TW8 9GS
England

**GlaxoSmithKline Intellectual Property Development Limited**
**(Registered number: 08283222)**

**Annual Report**
**for the year ended 31 December 2018**

| Contents | Pages |
|---|---|

**GlaxoSmithKline Intellectual Property Development Limited**
**(Registered number: 08283222)**

## Strategic report for the year ended 31 December 2018

The Directors present their Strategic report on GlaxoSmithKline Intellectual Property Development Limited (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 Company's principal activities are the development, enhancement, maintenance, protection and exploitation of intellectual property assets owned by the Company which may include but are not limited to, licensing out intellectual property rights relating to pharmaceutical products to the Group and carrying out research and development activities. The Directors do not envisage any change to the nature of the business in the foreseeable future.

The Company is a private company limited by shares and is incorporated and domiciled in the UK (England). The address of the registered office is 980 Great West Road, Brentford, Middlesex, TW8 9GS.

### Review of business

The Company made a loss for the financial year of £1,456,021,000 (2017: loss of £2,141,622,000). This is due to a significant portion of the portfolio being in development stage. The Directors are of the opinion that the portfolio will become profitable in the future and that the current level of activity is sustainable, and will improve in the future. Additionally, the Directors have also received confirmation that GlaxoSmithKline Finance plc intends to support the Company for the foreseeable future after these financial statements are signed. Therefore, the Directors are of the opinion that the Company remains a going concern.

The loss for the financial year of £1,456,021,000 will be transferred from reserves (2017: Loss of £2,141,622,000 transferred from reserves).

### Principal risks and uncertainties

The Directors of the Company manage the functions, assets and risks related to the intellectual property assets owned by the Company on a business sector, therapy area and stage of product life cycle basis. The principal functions, risks and uncertainties related to the development, enhancement, maintenance, protection and exploitation of intellectual property assets owned by the Group, which include those of the Company, are discussed in the Group's 2018 Annual Report. Please refer to the 2018 Group Report, which does not form part of this report, to ensure a complete understanding of the principal risks and uncertainties of the Group, and therefore the Company.

### Key performance indicators (KPIs)

The Directors of the Company manage the functions, assets and risks related to the intellectual property assets owned by the Company on a business sector, therapy area and stage of product life cycle basis. Therefore, 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.

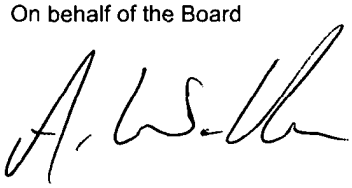
**GlaxoSmithKline Intellectual Property Development Limited**
**(Registered number: 08283222)**

## 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 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 includes that of the Company, are discussed in the Group's 2018 annual report which does not form part of this report.

On behalf of the Board



A Walker
Director
12 September 2019

## GlaxoSmithKline Intellectual Property Development Limited
## (Registered number: 08283222)

## Directors' report for the year ended 31 December 2018

The Directors present their report on the Company and the audited financial statements for the year ended 31 December 2018.

### Results and dividends

The Company's results for the financial year are shown in the statement of comprehensive income on page 8.

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

### Research and development

The Company is responsible for instigating research and development ("R&D") activities, which are carried out by GlaxoSmithKline Research & Development Limited and other Group undertakings. The expenses from these activities includes amounts re-charged from other Group undertakings. In addition, the Company has entered into a number of in-licensing initiatives that have strengthened the R&D pipeline.

### Directors

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:

Edinburgh Pharmaceutical Industries Limited
Glaxo Group Limited
Jerome Andries
Adam Walker
Kate Priestman
James Wheatcroft (appointed on 1 July 2019)
Simon Dingemans (resigned on 1 May 2019)

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' indemnity*

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.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report 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.

## Directors' report for the year ended 31 December 2018

### Statement of Directors' responsibilities (continued)

In preparing these 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 UK accounting standards, including 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 pages 1 and 2:

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

### 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 the 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 to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Going concern

The Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of another Group company, GlaxoSmithKline plc. The Directors have received confirmation that GlaxoSmithKline plc intends to support the Company for the foreseeable future after these financial statements are signed. There is also a significant portion of the portfolio being in development stage. The Directors are of the opinion that the portfolio will become profitable in the future and that the current level of activity is sustainable, and will improve in the future For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

### Independent auditor

PricewaterhouseCoopers LLP resigned during the year as the Company's auditor. Subsequently Deloitte LLP were appointed to act as the Company's auditor pursuant to section 485(3) Companies Act 2006.

On behalf of the Board

A Walker
Director
12 September 2019

**GlaxoSmithKline Intellectual Property Development Limited**
**(Registered number: 08283222)**

## Independent auditor's report to the members of GlaxoSmithKline Intellectual Property Development Limited

### Report on the audit of the financial statements

**Opinion**
In our opinion the financial statements of GlaxoSmithKline Intellectual Property Development Limited (the 'Company'):

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

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 21.

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".

**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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating 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.

## Independent auditor's report to the members of GlaxoSmithKline Intellectual Property Development Limited (continued)

### 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.

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.

### 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 directors report.

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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

Deloitte LLP
Statutory Auditor
Reading, United Kingdom
12 September 2019

**GlaxoSmithKline Intellectual Property Development Limited**
**(Registered number: 08283222)**

## Statement of comprehensive income
## for the year ended 31 December 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| Turnover | 4 | **911,754** | 91,845 |
| Cost of sales | | **(532,729)** | (411,057) |
| *Gross profit / (loss)* | | **379,025** | (319,212) |
| Administrative expenses | | **(185,089)** | (165,711) |
| Research and development expenditure | | **(2,026,060)** | (1,946,892) |
| Other operating expenses | | **(112,473)** | (174,287) |
| Gain on disposal of intangible assets | | **251,564** | 13,164 |
| **Operating loss** | 5 | **(1,693,033)** | (2,592,938) |
| **Loss before interest and taxation** | | **(1,693,033)** | (2,592,938) |
| Finance expense | 7 | **(86,774)** | (44,836) |
| **Loss before taxation** | | **(1,779,807)** | (2,637,774) |
| Taxation | 8 | **323,786** | 496,152 |
| **Loss for the year** | | **(1,456,021)** | (2,141,622) |

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

The Company has no other comprehensive income during either the current year or prior year and therefore no separate statement to present other comprehensive income has been prepared.

**GlaxoSmithKline Intellectual Property Development Limited**
**(Registered number: 08283222)**

## Balance sheet
## at 31 December 2018

| Non-current assets | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| Intangible assets | 9 | **395,381** | 437,545 |
| Financial assets at Fair Value through profit or loss | 10 | **26,969** | 20,800 |
| Deferred tax assets | 8 | **353,103** | 138,180 |
| Total non-current assets | | **775,453** | 596,525 |
| **Current assets** | | | |
| Trade and other receivables | 11 | **869,369** | 971,328 |
| Prepayments and accrued income | 12 | **6,075** | 5,056 |
| Cash and cash equivalents | | **42** | - |
| Total current assets | | **875,486** | 976,384 |
| **Total assets** | | **1,650,939** | 1,572,909 |
| **Current liabilities** | | | |
| Trade and other payables | 13 | **(11,586,231)** | (10,076,246) |
| Accruals and deferred income | 14 | **(101,211)** | (89,660) |
| Short-term borrowings | | **-** | (769) |
| Provisions for liabilities within one year | 15 | **(12,850)** | - |
| Total current liabilities | | **(11,700,292)** | (10,166,675) |
| **Net current liabilities** | | **(10,824,806)** | (9,190,291) |
| **Total assets less current liabilities** | | **(10,049,353)** | (8,593,766) |
| **Non-current liabilities** | | | |
| Provisions for liabilities | 15 | **(12,834)** | (12,400) |
| Total non-current liabilities | | **(12,834)** | (12,400) |
| **Total liabilities** | | **(11,713,126)** | (10,179,075) |
| **Net liabilities** | | **(10,062,187)** | (8,606,166) |
| **Equity** | | | |
| Share capital | 16 | **-** | - |
| Other reserves | 17 | **396,800** | 396,800 |
| Accumulated losses | | **(10,458,987)** | (9,002,966) |
| **Shareholders' deficit** | | **(10,062,187)** | (8,606,166) |

The financial statements on pages 8 to 30 were approved by the Board of Directors on 12 September 2019 and signed on its behalf by:

A Walker
Director

**GlaxoSmithKline Intellectual Property Development Limited**
**(Registered number: 08283222)**

## Statement of changes in equity
## for the year ended 31 December 2018

| | Share capital £'000 | Other reserves £'000 | Accumulated losses £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2017 | - | 396,800 | (6,861,344) | **(6,464,544)** |
| Loss for the year and total comprehensive loss for the year | - | - | (2,141,622) | **(2,141,622)** |
| **At 31 December 2017** | **-** | **396,800** | **(9,002,966)** | **(8,606,166)** |
| Loss for the year and total comprehensive loss for the year | - | - | (1,456,021) | **(1,456,021)** |
| **At 31 December 2018** | **-** | **396,800** | **(10,458,987)** | **(10,062,187)** |

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

### 1 Presentation of the financial statements

**General information**

The Company is a member of the Group. The Company's principal activities are the development, enhancement, maintenance, protection and exploitation of intellectual property assets owned by the Company which may include but are not limited to, licensing out intellectual property rights relating to pharmaceutical products to the Group and carrying out research and development activities.

The Company is a private company limited by shares and is incorporated and domiciled in the UK (England). The address of the registered office is 980 Great West Road, Brentford, Middlesex, TW8 9GS.

### 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 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

The Company has received a letter of support from GlaxoSmithKline plc which confirms its intention to provide financial support for the foreseeable future from the date of signing off the financial statements. As a result of continued financial support, the Directors of the Company are satisfied that the going concern basis remains appropriate. There is also a significant portion of the portfolio being in development stage. The Directors are of the opinion that the portfolio will become profitable in the future and that the current level of activity is sustainable, and will improve in the future For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

These financial statements have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and in accordance with the Companies Act 2006.

The financial statements are presented in Pounds Sterling.

**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:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payments' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).
- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations.
- The requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
- IFRS 7, 'Financial instruments: disclosures'.
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a),114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).

**2 Summary of significant accounting policies**

**(a) Basis of preparation (continued)**

**Disclosure exemptions adopted (continued)**

- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  (i) paragraph 79(a) (iv) of IAS 1;
  (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
  (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period);
  (iv) paragraph 76 and 79(d) of IAS 40 Investment property; and
  (v) paragraph 50 of IAS 41 Agriculture.

- The following paragraphs of IAS 1,'Presentation of financial statements':
  - 10(d) (statement of cash flows),
  - 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or make a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirements for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 40A-D (requirements for a third balance sheet),
  - 111 (cash flow statement information), and
  - 134 - 136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- 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 and 18A of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group.
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of Assets'.

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.

**(b) Ultimate and immediate parent undertakings**

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 GlaxoSmithKline Intellectual Property Management Limited. These financial statements are separate financial statements.

**2 Summary of significant accounting policies (continued)**

**(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. Any difference between the previous carrying amount and the revised carrying amount at 1 January 2018 has been recognised as an adjustment to opening retained earnings at 1 January 2018.

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.

Certain of the Company's investment that were previously classified as available-for-sale financial assets under IAS 39 and measured at fair value have been classified as measured at fair value through profit or loss (FVTPL) under IFRS 9 as the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding.

The Company's trade and other receivables were all classified as financial assets measured at amortised cost under IAS 39. Under IFRS 9, the business model under which each portfolio of trade and other receivables held has been assessed. The Company has a portfolio in one of the business models under IFRS 9 to collect the contractual cash flows which is 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 required under IAS 39. The expected credit loss model requires the Group 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.

ECLs are applied to all net trade receivables using the simplified approach, and 12-month ECL are applied to all other receivables using the general approach. No ECL allowance for trade receivables was recognised on transition to IFRS 9.

**(d) Implementation of IFRS 15 'Revenue from contracts with customers'**

The Company has applied IFRS 15 'Revenue from contracts with customers' with effect from 1 January 2018. IFRS 15 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.

**2 Summary of significant accounting policies (continued)**

**(d) Implementation of IFRS 15 'Revenue from contracts with customers' (continued)**

The Company adopted IFRS 15 applying the modified retrospective approach. IFRS 15 did not have a material impact on the amount or timing of recognition of reported revenue. In accordance with the requirements of IFRS 15 where the modified retrospective approach is adopted, prior year results have not been restated.

**(e) 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 statement of comprehensive income. The functional and presentation currency of the Company is Pounds Sterling.

**(f) Turnover**

The Company recognises turnover on the residual amount after accounting for all external income and expenses and intercompany expenses related to the supply and management of the pharmaceutical products for which it owns the intellectual property rights, and license income from other Group undertakings and third parties. The Company has authorised the supply and management of the pharmaceutical products to other Group companies which act as principal in the overall process. The residual return is therefore recognised on a net basis. If the residual amount is an income, it is recorded in turnover. If the residual amount is a loss, it is recorded in cost of sales.

The residual return is a result of the overall supply and management of pharmaceutical products for combined output and not separately identifiable, hence it is considered a single performance obligation.

Turnover is recognised overtime as the supply and management of the pharmaceutical products is being performed, when the performance obligations are being fulfilled.

The Company enters into development and marketing collaborations and out-licenses of the Company's compounds or products to external parties or other Group companies. These contracts give rise to fixed and variable consideration from royalties. Sales-based royalties on a license of intellectual property are not recognised until the relevant product sale occurs. Royalty income is recognised in turnover and royalty expenses are recognised in cost of sales.

**(g) Expenditure**

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. A provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Advertising and promotion expenditure is charged to the income statement as incurred.

**(h) Research and development**

Research and development expenditure is charged to the statement of comprehensive income in the year in which it is incurred. Development expenditure is capitalised when the criteria for recognising an asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

2 Summary of significant accounting policies (continued)

**(i) Royalty income and expenses**

The Company enters into development and marketing collaborations and out-licenses of the Company's compounds or products to other parties or other Group subsidiaries. These contracts give rise to fixed and variable consideration from royalties. Sales-based royalties on a license of intellectual property are not recognised until the relevant product sale occurs. Royalty income is recognised in turnover and royalty expenses are recognised in cost of sales.

**(j) Finance expense**

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

**(k) Intangible assets**

Intangible assets are stated at cost less a provision for amortisation and impairment.

Licences and patent rights separately acquired are amortised over their estimated useful lives generally not exceeding 20 years, using the straight-line basis, from the time they are available for use. The estimated useful lives for determining the amortisation charge take into account patent lives, where applicable, as well as the value obtained from periods of non-exclusivity. Asset lives are reviewed, and where appropriate adjusted, annually. Contingent milestone payments are recognised at the point that the contingent event becomes probable. Any development costs incurred by the Company and associated with acquired licences, patent rights, are written off to the statement of comprehensive income when incurred, unless the criteria for recognition of an internally generated intangible asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

**(l) Financial assets**

Financial assets are measured at amortised cost, fair value through other comprehensive income ('FVTOCI') or fair value through profit or loss ('FVTPL'). The measurement basis is determined by reference to both the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

**(m) Impairment of financial assets**

Expected credit losses are recognised in the income statement on financial assets measured at amortised cost and at fair value through other comprehensive income apart from equity investments.

For financial assets other than trade receivables 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.

**(n) Impairment of non-current assets**

The carrying values of all non-financial assets are reviewed for impairment, either on a standalone basis or as part of a larger cash generating unit, when there is an indication that the assets might be impaired. Additionally, intangible assets with indefinite useful lives and intangible assets which are not yet available for use are tested for impairment annually. Any provision for impairment is charged to the statement of comprehensive income in the year concerned.

Impairment losses on non-financial assets are only reversed if there has been a change in estimates used to determine recoverable amounts and only to the extent that the revised recoverable amounts do not exceed the carrying values that would have existed, net of depreciation or amortisation, had no impairments been recognised.

**2 Summary of significant accounting policies (continued)**

**(o) Trade and other receivables**

Trade and other receivables are carried at original invoice amount less allowance for expected credit losses. Expected credit losses are calculated in accordance with the approaches permitted by IFRS 9. For trade receivables, the simplified approach is used by using a provision matrix applying lifetime historical credit loss experience to the trade receivables. The expected credit loss rate varies depending on whether and the extent to which settlement of the trade receivables is overdue and it is also adjusted as appropriate to reflect current economic conditions and estimates of future conditions. For the purpose of determining credit loss rates, customers are classified into groupings that have similar loss patterns. The key drivers of the loss rate are the nature of the business unit and the location and type of customer.

For other receivables, the general approach is used where the Company entity recognises the losses that are expected to result from all possible default events over the expected life of the receivable, when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the receivable has not increased significantly since initial recognition, the entity measures the expected loss allowance based on losses that are expected to result from default events that are possible within 12 months after the reporting date. When a trade and other receivable is determined to be uncollectable it is written off, firstly against any expected credit loss allowance available and then to the statement of comprehensive income.

Subsequent recoveries of amounts previously provided for are credited to statement of comprehensive income.

**(p) Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions and highly liquid investments with maturities of three months or less. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value. In the balance sheet, bank overdrafts are shown with in borrowings in current liabilities.

**(q) Trade and other payables**

Trade and 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.

**(r) Taxation**

Current tax is provided at the amounts expected to be paid applying tax rates that have been enacted or substantively enacted at 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 using rates of tax that have been enacted or substantively enacted by the balance sheet date.

**(s) Provisions for liabilities**

Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, it is probable that outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

2 *Summary of significant accounting policies (continued)*

**(t) Legal and other disputes**

Provision is made for the anticipated settlement costs of legal or other disputes against the Company where an outflow of resources is considered probable and a reliable estimate can be made of the likely outcome. In addition, provision is made for legal or other expenses arising from claims received or other disputes. 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. In certain cases, an incurred but not reported (IBNR) actuarial technique is used to determine this estimate.

The Company 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 included but no provision would be made. Costs associated with claims made by the Company against third parties are charged to the statement of comprehensive income as they are incurred.

**(u) Share capital**

Ordinary shares are classified as equity.

**(v) *Turnover for periods up to and including 31 December 2017***

Turnover relates to the receipt of a distribution return from the manufacture and distribution of pharmaceutical product for which it owns the intellectual property rights, and license income from other Group undertakings and third parties. Whereby the distribution return is an income, it is categorised as Turnover. Distribution losses are recorded in Cost of Sales.

Turnover is recognised when the third party or intercompany revenue, and associated expenses of the product cause the title and risk of loss to pass to the customer and/or intercompany counterparty. Reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete.

**(w) Financial assets for periods up to and including 31 December 2017**

**Classification**
The Company classifies its financial assets in the following categories: at fair value through profit or loss, available-for-sale investments and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**Financial assets at fair value through profit or loss**
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current investments.

**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 comprise trade and other receivables and cash and cash equivalents in the balance sheet.

2 *Summary of significant accounting policies (continued)*

**(w) Financial assets for periods up to and including 31 December 2017 (continued)**

**Recognition and measurement**
Regular way purchases and sales of financial assets are recognised on the trade-date, being the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investment have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within finance income or expense in the period in which they arise.

Available-for-sale investments are initially recorded at fair value plus transaction costs and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses on available-for-sale investments are recognised directly in other comprehensive income.

On disposal or impairment of the investments, any gains and losses that have been deferred in other comprehensive income are reclassified to the income statement. Dividends on equity investments are recognised in the income statement when the Company's right to receive payment is established.

Interest on available-for-sale investments calculated using the effective interest method is recognised in the income statement/statement of comprehensive income as part of finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Company's right to receive payment is established.

Purchases and sales of equity investments are accounted for on the trade date and purchases and sales of other available-for-sale investments are accounted for on settlement date.

**(x) Impairment of financial assets for periods up to and including 31 December 2017**

**Assets at amortised cost**
The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 Summary of significant accounting policies (continued)

(x) Impairment of financial assets for periods up to and including 31 December 2017 (continued)

**Assets at amortised cost (continued)**
For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

**Assets classified as available-for-sale**
The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss- measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in profit or loss- is removed from equity and recognised in profit or loss. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(y) Trade and other receivables for periods up to and including 31 December 2017
Trade and other receivables are carried at original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When a trade or other receivable is determined to be uncollectable it is written off, firstly against any provisions available and then to the statement of comprehensive income.

Subsequent recoveries of amounts previously provided for are credited to the statement of comprehensive income. Long-term receivables are discounted where the effect is material.

3 Critical accounting judgements and key sources of estimation uncertainty

In preparing the financial statements, the Directors are 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. The following are considered to be the key accounting judgements and estimates made.

(a) Legal and other disputes

**Judgement**
Management makes a judgement of whether there is sufficient information to be able to make a reliable estimate of the likely outcome of the dispute and legal and other expenses arising from claims against the Company. If insufficient information is available, no provision is made and disclosure of the claim is given.

## 3 Critical accounting judgements and key sources of estimation uncertainty (continued)

### (a) Legal and other disputes (continued)

**Estimates**

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 15 "Provisions on liabilities".

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 Company 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 Company's financial statements by a material amount.

## 4 Turnover

Analysis of turnover by category:

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Royalties and licence income | **911,754** | 91,845 |

Analysis of turnover by geography:

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| UK | **911,754** | 91,845 |

Turnover relates to the receipt of a distribution return from the manufacture and distribution of pharmaceutical product for which the Company owns the intellectual property rights, and license income from other Group undertakings and third parties. Where the distribution return is an income, it is categorised as turnover. Distribution losses are recorded in Cost of Sales.

## 5 Operating loss

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **The following items have been charged / (credited) in operating loss:** | | |
| Amortisation of intangible assets (Note 9) | **33,697** | 29,634 |
| *Research and development expenditure* | **2,026,060** | 1,946,892 |
| Distribution loss from manufacture and distribution of pharmaceutical products | **303,448** | 183,801 |
| Exchange losses / (gains) on foreign currency transactions | **3,846** | (2,325) |
| Net charge of provisions (Note 15) | **14,825** | 29,610 |
| Management fee | **21** | 21 |
| Impairment of intangible fixed assets (Note 9) | **22,750** | 112,283 |
| Gain on disposal of Intellectual Property | **(251,564)** | (13,164) |

GlaxoSmithKline Services Unlimited provides various services and facilities to the Company including finance and administrative services which are recharged at cost plus an appropriate arm's length mark up where relevant. Included in the management fee is a charge for auditors' remuneration £11,500 (2017: £11,041).

The Company recognised a gain of £251,564,000 (2017: £13,164,000) from the disposal of certain intellectual property rights.

The impairment charge of £22,750,000 (2017: £112,283,000) relates to the adjustment in the carrying value of the intellectual property following either a failure in clinical trials, the abandonment of the underlying asset and/or changes in the profitability forecasts for the underlying asset.

In previous years, a certain intellectual property asset was transferred to a fellow Group company as part of a Group wide exercise to centralise certain intellectual property ownership. The original intellectual property owner of that asset had entered into a royalty contract with third parties, and the contract was re-assigned to the Company when the transfer of the asset took place. As a result, the Company has been bearing the contractual obligation for the asset from the year ended 31 December 2013 to the year ended 31 December 2017 and recorded royalty expenses in Costs of Sales in the Company totalling £123 million, despite the Company not being the intellectual property owner.

As a result of the difference between the intellectual property ownership and the royalty contract ownership, the actual owner of the obligation the royalty expenses is therefore judgemental. During the year ended 31 December 2018, the Company made the judgemental change to align the royalty contractual obligation to the intellectual property owner, and the royalty expense in previous years of £123 millioin, and in the current year of £43 million is recognised in the follow Group company, which is the intellectual property owner.

## 6 Employees

GlaxoSmithKline Services Unlimited is the legal employer of all UK Group employees providing service to the Company. It charges the costs of employees at cost to the economic employers of the employees across the UK Group (2017: nil).

To enable the Directors of the Company to develop, enhance, maintain, protect and exploit the intellectual property assets owned by the Company, delegated authority is given to a number of strategic and operational Boards and teams across the Group in the UK by the Directors. A proportion of the employee costs relating to these Boards and teams are recharged from GlaxoSmithKline Services Unlimited at cost to the intellectual property owners in the Group, including the Company.

## 7 Finance expense

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| On loans with Group undertakings | **(86,774)** | (44,836) |

## 8 Taxation

| **Income tax credit on loss** | **2018** **£'000** | 2017 £'000 |
|---|---|---|
| Current tax: | | |
| UK corporation tax | **(211,857)** | (507,899) |
| Adjustments in respect of previous years | **102,994** | 66,373 |
| Total current tax | **(108,863)** | (441,526) |
| Deferred tax: | | |
| Origination and reversal of timing differences | **(133,941)** | - |
| Adjustments in respect of previous years | **(80,982)** | (54,626) |
| Total Deferred tax | **(214,923)** | (54,626) |
| Total tax credit for the year | **(323,786)** | (496,152) |

## 8 Taxation (continued)

The tax credit assessed for the year is lower than (2017: lower than) the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19.00% (2017: 19.25%). The differences are explained below:

| Reconciliation of total tax credit | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Loss before taxation | **(1,779,807)** | (2,637,774) |
| Loss on ordinary activities at the UK standard rate 19.00% (2017: 19.25%) | **(338,163)** | (507,681) |
| Effects of: | | |
| Non-taxable income | **(23,391)** | (218) |
| Adjustments to tax change in respect of previous years | **22,012** | 11,747 |
| Impact of tax rate difference | **15,756** | - |
| Total tax credit for the year | **(323,786)** | (496,152) |

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 tax asset at 31 December 2018 has been calculated based on these rates.

**Movement in deferred tax assets/(liabilities)**

| | Total £'000 |
|---|---|
| At 1 January 2017 | **83,554** |
| Credit for the year | **54,626** |
| At 31 December 2017 | **138,180** |
| Credit for the year | **214,923** |
| At 31 December 2018 | **353,103** |

Recognised tax losses relate to trading losses in 2013, 2014, 2015, 2016, 2017 and 2018.

After offsetting deferred tax assets and liabilities where appropriate, the net deferred tax asset/(liability) comprises:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Deferred tax assets | **353,103** | 138,180 |

The Company is loss making and is recognising a deferred tax asset on accumulated losses.

The Company is currently loss making and is recognising a net deferred tax asset. The Company is expected to generate future taxable profits from the future commercialisation of its intellectual property portfolio which is currently under development.

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

### 9 Intangible assets

| | Licences and patents £'000 |
|---|---|
| **Cost** | |
| At 1 January 2018 | **955,059** |
| Additions | **84,307** |
| Disposals | **(70,023)** |
| At 31 December 2018 | **969,342** |
| **Accumulated amortisation** | |
| At 1 January 2018 | **(141,215)** |
| Charge for the year (Note 5) | **(33,697)** |
| At 31 December 2018 | **(174,912)** |
| **Accumulated impairment** | |
| At 1 January 2018 | **(376,299)** |
| Charge for the year (Note 5) | **(22,750)** |
| At 31 December 2018 | **(399,049)** |
| Total amortisation and impairment at 31 December 2018 | **(573,961)** |
| Net book value at 1 January 2018 | **437,545** |
| Net book value at 31 December 2018 | **395,381** |

The additions include £59 million (2017: £92 million) additions from third parties outside of the Group.

Development costs capitalised from internal research and development expenditure during the year are £25 million (2017: £42 million). The period over which these costs are to be written down is the estimated useful life of the asset. The costs have been capitalised as the probability of obtaining regulatory approval for successful product launch on a territory specific basis is highly probable.

The impairment charge of £22,750,000 (2017: £112,283,000) relates to the adjustment in the carrying value of intellectual property following either a failure in clinical trials, the abandonment of the underlying asset and/or changes in the profitability forecasts for the underlying assets.

Intangible asset impairments are recorded within the statement of comprehensive income.

Intangible assets amortisation is included in Other operating expenses in the statement of comprehensive income.

### 10 Financial Asset at Fair Value through profit or loss

| | Financial assets £'000 |
|---|---|
| **Cost** | |
| At 1 January 2018 | **20,800** |
| Additions | **6,169** |
| At 31 December 2018 | **26,969** |

Financial assets comprise unlisted investments of £27m.

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

### 11 Trade and other receivables

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Amounts due within one year** | | |
| Other receivables | **4,226** | 4,006 |
| Amounts owed by Group undertakings | **579,443** | 386,515 |
| Corporation tax | **285,700** | 580,807 |
| | **869,369** | 971,328 |

The amounts owed by Group undertakings are unsecured, interest free and are repayable on demand.

The corporation tax receivable contains amounts which will be received from fellow Group companies.

### 12 Prepayments and accrued income

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Amounts due within one year | **6,075** | 5,056 |

Prepayments falling due within one year relate to royalties and clinical trail expenditure paid in advance to third parties on in-licensed products.

### 13 Trade and other payables

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade payables | **7,371** | 12,297 |
| Amounts owed to Group undertakings | **11,578,343** | 10,063,949 |
| Other payables | **517** | - |
| | **11,586,231** | 10,076,246 |

The amounts owed to Group undertakings are unsecured, interest free and repayable on demand except for a call account balance with GlaxoSmithKline Finance plc of £11,195 million (2017: £9,747 million) which is unsecured with interest charged at LIBOR rate plus 0.25% per annum (2017: LIBOR rate plus 0.25% per annum) and repayable on demand.

### 14 Accruals and deferred income

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Amounts falling due within one year | **101,211** | 89,660 |

Accruals falling due within one year relate to royalties payable to third parties.

## 15 Provisions for liabilities

The Company had the following provisions during the year:

| | Other provision £'000 |
|---|---|
| At 1 January 2018 | **12,400** |
| Charge for the year | **25,693** |
| Utilised | **(1,541)** |
| Reversal | **(10,868)** |
| At 31 December 2018 | **25,684** |

Included in other provisions is the provision made for the obligation to pay a third party on the reimbursement cost for potentially utilising a purchase review voucher granted to the Company by the Food and Drugs Authority in the United States. The balance is expected to be fully utilised in the periods below.

Reversal during the year relates to reversal of the onerous provision made in previous year for unavoidable clinical trial and research and development costs for termination of the development of certain asset, as the future costs were deemed immaterial upon review.

| | |
|---|---|
| *To be settled with in one year* | **12,850** |
| To be settled after one year | **12,834** |
| At 31 December 2018 | **25,684** |

## 16 Share capital

| | 2018 Number of shares | 2017 Number of shares | 2018 £ | 2017 £ |
|---|---|---|---|---|
| **Issued and fully paid** | | | | |
| Ordinary Shares of £1 each (2017: £1 each) | **100** | 100 | **100** | 100 |

## 17 Other reserves

| | Capital contribution reserve £'000 |
|---|---|
| At 1 January 2017, 31 December 2017 and 31 December 2018 | **396,800** |

Other reserves of £396,800,000 relate to a capital contribution reserve arising on the transfer of various intangibles and related product liabilities.

## 18 Commitments

| Capital commitments | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Contracted for but not provided in the financial statements | | |
| Intangible assets | **4,209,014** | 4,752,219 |

A number of commitments were made in 2018 and in prior years under licensing and other agreements. The commitments related to intangible assets include milestone payments, which are dependent on successful clinical development or on meeting specified sales targets, and which represent the maximum that would be paid if all milestones, however unlikely, are achieved. As some of these agreements relate to compounds in the early stages of development, milestone payments will continue for a number of years if the compounds move successfully through the development process. Generally, the closer the product is to marketing approval, the greater the possibility of success.

## 19 Contingent liabilities

### Legal proceedings

The Company is involved in significant legal and administrative proceedings, principally product liability, intellectual property, tax, anti-trust and governmental investigations, as well as related private litigation. The most significant of these matters, other than tax matters, are described below. The Company makes provision for these proceedings on a regular basis as summarised in Note 2, 'Summary of significant accounting policies' and Note 15, 'Provisions for liabilities'. The Company may become involved in significant 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 disclosures about such cases would be included in this note, but no provision would be made for the cases.

With respect to each of the legal proceedings described below, other than those for which a provision has been made, the Company is unable to make a reliable estimate of the expected financial effect at this stage. the Company does not believe that information about the amount sought by the plaintiffs, if that is known, would be meaningful with respect to those legal proceedings. This is due to a number of factors, including, but not limited to, the stage of proceedings, the entitlement of parties to appeal a decision and clarity as to theories of liability, damages and governing law.

Legal expenses incurred and provisions related to legal claims are charged to selling, general and administration costs. Provisions are made, after taking appropriate legal and other specialist advice, where an outflow of resources is considered probable and a reliable estimate can be made of the likely outcome of the dispute. For certain product liability claims, the Company will make a provision where 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 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 Company's 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 by a material amount the amount of the provisions reported in the Group's financial statements. If this were to happen, it could have a material adverse impact on the results of operations of the Group in the reporting period in which the judgements are incurred or the settlements entered into.

**19 Contingent liabilities (continued)**

**Intellectual property**

Intellectual property claims include challenges to the validity and enforceability of the Company's patents on various products or processes as well as assertions of non-infringement of those patents. A loss in any of these cases could result in loss of patent protection for the product at issue. The consequences of any such loss could be a significant decrease in sales of that product and could materially affect future results of operations for the Company.

***Sales and marketing and regulation***

The Company's marketing and promotion of its Pharmaceutical products are the subject of certain governmental investigations and private lawsuits brought by litigants under various theories of law. The Company has been able to make a reliable estimate of the expected financial effect of the matters discussed in this category, and has included a provision for such matters in the provision for legal and other disputes, except as noted below.

**SEC/DOJ and SFO Anti-corruption enquiries**

On 27 May 2014, the UK Serious Fraud Office (SFO) began a formal criminal investigation into the Group's (including the Company) commercial operations in a number of countries, including China. The Group is co-operating with and responding to these requests. The SFO inquiry followed investigations initiated by China's Ministry of Public Security in June 2013 (the "China Investigations") which resulted in a ruling in 2014 that, according to Chinese law, GSK China Investment Co. Ltd. ("GSKCI") had offered money or property to non-government personnel in order to obtain improper commercial gains and GSKCI being found guilty of bribing non-government personnel.

On 30 September 2016, the Group reached a global resolution with the US Securities and Exchange Commission (SEC) regarding the SEC's investigation under the US Foreign Corrupt Practices Act (FCPA) into the Group's commercial practices in countries outside of the US, including China. As part of the resolution, the Group agreed to pay a civil penalty of $20 million to the US Government. The US Department of Justice (DOJ) confirmed that it had concluded its investigation into the Group's commercial practices and would take no action against the Group. As part of the resolution with the SEC, the Group agreed to certain undertakings, including a period of self-monitoring and reporting. The Group's obligations under that resolution continued through 30 September 2018 and have now concluded.

In the course of its inquiry, the SFO had requested additional information from the Group regarding third-party advisers engaged by the company in the course of the China Investigations. The SEC and DOJ are also investigating these matters following the Group's reporting of the SFO's inquiries. The Group is co-operating and responding to these requests. In 2019, the SFO announced that it would be closing its investigation and confirmed that it would be taking no further action against the Group. The SEC and DOJ investigations into these issues continue.

The Group is unable to make a reliable estimate of the expected financial effect of these investigations, and no provisions have been made for them.

19 Contingent liabilities (continued)

**Average wholesale price**

The Attorney General in Illinois filed suit against the Group and a number of other pharmaceutical companies claiming damages and restitution due to average wholesale price (AWP) and/or wholesale acquisition cost (WAC) price reporting for pharmaceutical products covered by the state's Medicaid programmes. The case alleges that the Group reported or caused to be reported false AWP and WAC prices, which, in turn, allegedly caused the state Medicaid agency to reimburse providers more money for covered medicines than the agency intended. The state has sought recovery on behalf of itself as payer and on behalf of in-state patients as consumers. The case is ongoing, and no trial date has yet been set as to the Group.

**Anti-trust/competition**

Certain governmental actions and private lawsuits have been brought against the Group alleging violation of competition or anti-trust laws. The Group has been able to make a reliable estimate of the expected financial effect of the matters discussed in this category and has included a provision for such matters in the provision for legal and other disputes, except as noted below.

**UK Competition and Markets Authority investigation**

On 12 February 2016, the UK Competition and Markets Authority (CMA) issued a decision fining the Group and two other pharmaceutical companies for infringement of the Competition Act. The CMA imposed a fine of £37.6 million on the Group, as well as fines totalling £7.4 million against the other companies. This relates to agreements to settle patent disputes between the Group and potential suppliers of generic paroxetine formulations, entered into between 2001 and 2003. The Group terminated the agreements at issue in 2004. The Group believes it has strong grounds for its appeal of the CMA's finding to the Competition Appeal Tribunal (CAT) in order to overturn the fine or substantially reduce it. The appeal concluded in April 2017. The CAT delivered its initial judgement on the appeal on 8 March 2018, referring all the principle points at issue to the Court of Justice of the EU for a preliminary ruling. The matter will then return to the CAT for final judgement. No provision has been made for this matter.

**Commercial and corporate**

The Group, including the Company, is a defendant in certain cases which allege violation of US federal securities and ERISA laws. The Group has been able to make a reliable estimate of the expected financial effect of the matters discussed in this category and has included a provision for such matters in the provision for legal and other disputes.

***Environmental matters***

The Group has been notified of its potential responsibility relating to past operations and its past waste disposal practices at certain sites, primarily in the US. Some of these matters are the subject of litigation, including proceedings initiated by the US federal or state governments for waste disposal, site remediation costs and tort actions brought by private parties.

The Group has been advised that it may be a responsible party at approximately 16 sites, of which nine appear on the National Priority List created by the Comprehensive Environmental Response Compensation and Liability Act (Superfund). These proceedings seek to require the operators of hazardous waste facilities, transporters of waste to the sites and generators of hazardous waste disposed of at the sites to clean up the sites or to reimburse the US Government for cleanup costs. In most instances, the Group is involved as an alleged generator of hazardous waste.

**19 Contingent liabilities (continued)**

**Environmental matters (continued)**

Although Superfund provides that the defendants are jointly and severally liable for cleanup costs, these proceedings are frequently resolved on the basis of the nature and quantity of waste disposed of by the generator at the site. The Group's proportionate liability for cleanup costs has been substantially determined for 18 of the sites referred to above.

The Group's potential liability varies greatly from site to site. The cost of investigation, study and remediation at such sites could, over time, be significant.

**Group banking 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.

**20 *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).

**21 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. There are no other related party transactions.