

Glaxo Group Limited
(Registered number: 00305979)

Annual Report

for the year ended 31 December 2018



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

Glaxo Group Limited
(Registered number: 00305979)

Annual Report

for the year ended 31 December 2018

Contents	Pages
Strategic report	1-2
Directors' report	3-4
Independent auditor's report	5-7
Income statement	8
Statement of other comprehensive income	9
Balance sheet	10
Statement of changes in equity	11
Notes to the financial statements	12-33

Glaxo Group Limited
(Registered number: 00305979)

Strategic report for the year ended 31 December 2018

The Directors present their strategic report on Glaxo Group 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 is a private company limited by shares and is incorporated and domiciled in the United Kingdom (England). The address of the registered office is 980 Great West Road, Brentford, Middlesex TW8 9GS.

The principal activities of the Company are:

- (a) the holding of shares and other investments in subsidiaries, associates and third party equity investments; and
- (b) the holding of a small portfolio of intellectual property rights and licensing out these rights to the Group and third parties.

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 financial year of £130,428,000 (2017: profit of £422,980,000). The Directors are of the opinion that the level of activity in the year is satisfactory and that the Company will remain profitable in the future due to the nature of its future activities. Furthermore, the Directors are of the opinion that the financial position at the year end is satisfactory. Due to this, the Directors believe the Company remains a going concern.

The profit for the year of £130,428,000 will be transferred to reserves (2017: profit for the year of £422,980,000 transferred to reserves).

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 is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's 2018 Annual Report which does not form part of this report.

Key performance indicators (KPIs)

The Directors of the Group manage the Group's operations on an operating segment basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The development, performance and position of the Group are discussed in the Group's 2018 Annual Report which does not form part of this report.

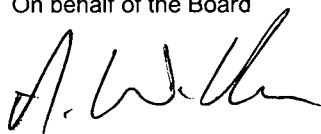
Glaxo Group Limited
(Registered number: 00305979)

Strategic report for the year ended 31 December 2018 (continued)

Approach to Brexit

In preparing for the UK's exit from the EU (Brexit), the Directors of the Group have taken a risk-based approach to maintain continuity of supply of our medicines, vaccines and consumer healthcare products to the people in the UK and EU at the Group level, rather than at an individual statutory entity level. For this reason, the Company's Directors believe that a discussion of the Group's approach to Brexit would not be appropriate for an understanding of the impact of Brexit to the position of the Company's business. The Group's approach to Brexit, which 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 handwritten signature in black ink, appearing to read 'A Walker', written over a horizontal line.

A Walker
Director
12 September 2019

Glaxo Group Limited
(Registered number: 00305979)

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 income statement on page 8.

No dividend is proposed to the holders of ordinary shares in respect of the year ended 31 December 2018.

For the year 2017, an interim ordinary dividend of £3.09 per ordinary share amounting to £5 billion was declared on 18 December 2017 and subsequently paid on 20 December 2017.

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. In addition the Company has entered into a number of in-licensing initiatives that have strengthened the R&D pipeline, particularly in the later stages.

Financial instruments

The Company has entered into a foreign currency forward contract to hedge a foreign exchange risk arising from its investment in subsidiary companies based overseas. Details on financial risk management are disclosed in Note 2(aa).

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
The Wellcome Foundation Limited
A Walker
S Dingemans (resigned on 1 May 2019)
I Mackay (appointed 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 benefits from an indemnity given by the Company under its articles of association. This indemnity is in respect of liabilities incurred by the Director in the execution and discharge of his, her or its duties. In addition, each of the Directors who is an individual benefits from an indemnity given by another Group undertaking, GlaxoSmithKline Services Unlimited. This indemnity is in respect of liabilities arising out of third party proceedings to which the Director is a party by reason 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.

Glaxo Group Limited
(Registered number: 00305979)

Directors' report for the year ended 31 December 2018 (continued)

Statement of Directors' responsibilities (continued)

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing 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, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to 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 to 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 auditor

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

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

Glaxo Group Limited
(Registered number: 00305979)

Independent auditor's report to the members of Glaxo Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, financial statements of Glaxo Group 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 profit 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 income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 28.

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.

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.

Glaxo Group Limited
(Registered number: 00305979)

Independent auditor's report to the members of Glaxo Group Limited (continued)

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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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.

Glaxo Group Limited
(Registered number: 00305979)

Independent auditor's report to the members of Glaxo Group Limited (continued)

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

Deloitte LLP
Statutory Auditor
London, United Kingdom
12 September 2019

Glaxo Group Limited
(Registered number: 00305979)

Income statement
for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Turnover	4	17,479	27,319
Cost of sales		(1,340)	(657)
Gross profit		16,139	26,662
Administrative expenses		286	(1,963)
Research and development expenditure		(4,912)	(2,009)
Other operating (expenses) / income		(130,454)	17,076
Income from subsidiaries, associates and equity investments	7	245,032	197,798
Operating profit	5	126,091	237,564
Profit before interest and taxation		126,091	237,564
Finance income	8	4,683	9,279
Finance expense	9	(361)	(103)
Finance income - net		4,322	9,176
Profit before taxation		130,413	246,740
Taxation	10	15	176,240
Profit for the year		130,428	422,980

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

Glaxo Group Limited
(Registered number: 00305979)

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

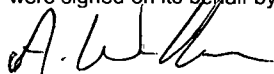
	2018 £'000	2017 £'000
Profit for the year	130,428	422,980
Items that may be subsequently reclassified to the income statement:		
Fair value movements on financial assets at fair value through other comprehensive income / (expense)	116,069	(67,289)
Fair value movements on forward foreign exchange contracts and currency swap	158	80
Deferred tax on fair value movements on forward foreign exchange contracts and currency swap	(27)	(14)
Other comprehensive income / (expense) for the year	116,200	(67,223)
Total comprehensive income for the year	246,628	355,757

Glaxo Group Limited
(Registered number: 00305979)

Balance sheet
at 31 December 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	11	1,387	1,385
Goodwill	12	-	34,443
Intangible assets	12	14,178	15,480
Investments in subsidiaries	13	9,661,767	9,694,602
Investments in associates	14	316,877	308,189
Equity investments	15	709,217	361,407
Investment properties	16	6,462	6,860
Deferred tax assets	10	4,801	4,497
Total non-current assets		10,714,689	10,426,863
Current assets			
Trade and other receivables	17	969,635	1,336,495
Prepayments and accrued income		5,310	295
Derivative financial instruments	18	-	539
Cash and cash equivalents		455	3,474
Assets held for sale	19	-	8,769
Total current assets		975,400	1,349,572
Total assets		11,690,089	11,776,435
Current liabilities			
Trade and other payables	20	(160,456)	(463,941)
Short-term borrowings	21	-	(66)
Derivative financial instruments	18	(51)	-
Accruals and deferred income	22	(10,864)	(38,688)
Provisions for liabilities	23	(82)	(115)
Total current liabilities		(171,453)	(502,810)
Net current assets		803,947	846,762
Total assets less current liabilities		11,518,636	11,273,625
Non-current liabilities			
Accruals and deferred income	22	(16,045)	(17,662)
Total liabilities		(187,498)	(520,472)
Net assets		11,502,591	11,255,963
Equity			
Share capital	24	808,994	808,994
Share premium		2,730,743	2,730,743
Other reserves		5,103,277	5,131,416
Retained earnings		2,859,577	2,584,810
Shareholders' equity		11,502,591	11,255,963

The financial statements on pages 8 to 33 were approved by the Board of Directors on 12 September 2019 and were signed on its behalf by:



A Walker
Director

Glaxo Group Limited
(Registered number: 00305979)

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

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2017	808,994	2,730,743	5,198,639	7,161,830	15,900,206
Profit for the year	-	-	-	422,980	422,980
Other comprehensive expense	-	-	(67,223)	-	(67,223)
Total comprehensive income for the year	-	-	(67,223)	422,980	355,757
Dividends to shareholders	-	-	-	(5,000,000)	(5,000,000)
At 31 December 2017	808,994	2,730,743	5,131,416	2,584,810	11,255,963
Implementation of IFRS 9	-	-	(156,176)	156,176	-
At 31 December 2017, as adjusted	808,994	2,730,743	4,975,240	2,740,986	11,255,963
Profit for the year	-	-	-	130,428	130,428
Transfer to retained earnings on disposal of equity investments	-	-	11,837	(11,837)	-
Other comprehensive income	-	-	116,200	-	116,200
Total comprehensive income for the year	-	-	128,037	118,591	246,628
At 31 December 2018	808,994	2,730,743	5,103,277	2,859,577	11,502,591

Other reserves are non-distributable and relate to the fair value movements of assets that have subsequently been reorganised within the Group.

Glaxo Group Limited
(Registered number: 00305979)

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

Glaxo Group Limited's (the "Company") principal activities are:

- (a) the holding of shares and other investments in subsidiaries, associates and third party equity investments; and
- (b) the holding of a small portfolio of intellectual property rights and licensing out these rights to the Group and third parties.

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").

These financial statements have been prepared on the going concern basis, under the historical cost convention as modified by the revaluation of derivative financial assets and liabilities at fair value through the profit and loss, financial assets at fair value through other comprehensive income and equity investments.

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).
- 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 at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);

Glaxo Group Limited
(Registered number: 00305979)

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

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- 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' (key management compensation).
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group.
- The 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) Consolidation

The Company is a wholly owned subsidiary of the ultimate parent company and as such has taken advantage of the exemption from preparing group financial statements under section 400 of the Companies Act 2006. 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 of the Company is GlaxoSmithKline Finance plc. These financial statements are separate financial statements.

(c) Implementation of IFRS 9 'Financial instruments'

The Company has applied IFRS 9 'Financial instruments' with effect from 1 January 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairments for financial assets and general hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are described below. The Company has adopted IFRS 9 retrospectively but with certain permitted exceptions as detailed below.

Classification and measurement of financial assets

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

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

2 Summary of significant accounting policies (continued)

(c) Implementation of IFRS 9 'Financial instruments' (continued)

The Company has elected to recognise the movements in the fair value of equity investments in other comprehensive income under IFRS 9. Investments in equity instruments that were previously classified as available-for-sale financial assets measured at fair value have been designated as measured at fair value through other comprehensive income (FVTOCI) under IFRS 9. As a result, fair value movements are now recorded in other comprehensive income along with gains or losses on disposal of the investments.

The Company's investments in limited life funds included in other investments 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.

A loss of £156,176,000 was transferred from retained earnings to the fair value reserve as an adjustment on 1 January 2018. This resulted from the reclassification of previous impairment losses on equity investments now designated as measured at FVTOCI under IFRS 9 from retained earnings to the fair value reserve.

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 portfolio under IFRS 9 to collect the contractual cash flows (measured at amortised cost).

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.

12-month ECLs are applied to all financial assets not measured at FVTPL except for net trade receivables which are measured reflecting lifetime ECLs using the simplified approach. There were no transition adjustments arising from the change in impairment basis.

General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting which were available under IAS 30: fair value hedges, cash flow hedges and net investment hedges. However, the effectiveness testing requirements have been simplified.

The Company has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application of 1 January 2018. All existing hedging relationships continued to be effective under IFRS 9.

(d) Foreign currency transactions

Foreign currency transactions are booked in the functional currency of the Company at the exchange rate ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into the functional currency at rates of exchange ruling at the balance sheet date. Exchange differences are included in the income statement. The functional and presentation currency of the Company is Pounds Sterling.

(e) 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.

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

2 Summary of significant accounting policies (continued)

(e) Turnover (continued)

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 over time as the supply and management of the pharmaceutical products is being performed, when the performance obligations are being fulfilled.

Royalty income

The Company enters into development and marketing collaborations and out-licenses its compounds or products to other parties. 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.

Co-promotional income

The Company enters into co-promotional contracts and promotes products on behalf of other parties. These contracts give rise to variable consideration based on sales which is not recognised until the relevant product sale occurs. Co-promotional income is presented in turnover.

(f) Expenditure

Expenditure is recognised in respect of 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.

(g) Research and development

Research and development expenditure is charged to the income statement 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. Property, plant and equipment used for research and development are capitalised and depreciated in accordance with the Company's policy.

(h) Royalty expenses

The Company enters into development and marketing collaborations and out-licenses its compounds or products to other parties. 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.

(i) Dividends paid and received

Interim dividends received are included in the income statement in the year in which the right to receive the payment is established. Interim dividends paid are deducted from reserves in the year in which they are paid. Final dividends are recorded in the reserves upon shareholder approval. Dividends in specie are recognised at their fair value at the date of receipt.

(j) Finance income and expense

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

(k) Property, plant and equipment

Property, plant and equipment is stated at the cost of purchase or construction less provisions for depreciation and impairment. Financing costs are capitalised within the cost of qualifying assets in construction.

Depreciation is calculated to write off the cost of property, plant and equipment, excluding freehold land, using the straight-line basis over their expected useful lives. The normal expected useful lives of the major categories of property, plant and equipment are:

Plant and equipment	3 to 20 years
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Notes to the financial statements for the year ended 31 December 2018

2 Summary of significant accounting policies (continued)

(l) Investment properties

Investment properties comprise significant portions of freehold/leasehold office buildings that are held for long-term rental yields and/or capital appreciation.

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of the shorter of the lease term or 50 years for buildings. Land is not depreciated. The residual values, useful lives and depreciation method of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement.

(m) Goodwill

Goodwill is stated at cost less impairments. Goodwill is deemed to have an indefinite useful life and is tested for impairment at least annually. Where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the consideration payable, the excess is recognised on the balance sheet. Subsequently, the excess up to the fair value of the non-monetary assets acquired is recognised in the income statement in the periods in which the non-monetary assets are recovered. Any excess exceeding the fair value of non-monetary assets acquired is recognised in the income statement in the periods which are expected to be benefited.

(n) 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 and patents' rights, are written off to the income statement 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.

The costs of acquiring and developing computer software for internal use and internet sites for external use are capitalised as intangible fixed assets where the software or site supports a significant business system and the expenditure leads to the creation of a durable asset. ERP systems software is amortised over seven to ten years and other computer software over three to five years.

(o) 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.

(p) Other investments

Other investments comprise equity investments and investments in limited life funds. The Company has elected to designate equity investments as measured at FVTOCI. They are initially recorded at fair value plus transaction costs and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses are recognised in other comprehensive income. On disposal of the equity investment, gains and losses that have been deferred in other comprehensive Income are transferred directly to retained earnings. Investments in limited life funds are measured at FVTPL. They are initially recorded at fair value and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses are recognised in the income statement.

Dividends on equity investments and distributions from funds are recognised in the income statement when the Company's right to receive payment is established.

Purchases and sales of Other investments are accounted for on the trade date.

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

2 Summary of significant accounting policies (continued)

(q) 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.

(r) Investment in subsidiaries

The majority of investments in subsidiaries are held at cost less accumulated impairment losses. However, certain foreign currency investments in subsidiaries denominated in foreign currency are designated as a hedged item in a fair value hedge of the exposure to changes in foreign currency rates under IFRS 9 Financial instruments.

Recognition and measurement

The hedged items are re-measured for changes in foreign currency rates even if it would otherwise have been recognised using a historical rate under IAS 21 'The effects of changes in foreign exchange rates'. In these circumstances, the historical foreign currency cost of the foreign currency investment would be retranslated at the spot exchange rate at the date of the expiry of the derivative and the exchange difference arising on the retranslation will be recognised in income statement to offset the change in the fair value of the hedging instruments. These foreign currency investments in subsidiaries are held at retranslated cost less accumulated impairment.

(s) Investment in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are held at cost less accumulated impairment losses.

(t) Impairment of non-financial assets

The carrying values of all non-financial assets are reviewed for impairment, either on a stand-alone basis or as part of a larger cash generating unit, when there is an indication that the assets might be impaired. Additionally, goodwill, 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 income statement in the year concerned.

(u) 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 income statement.

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

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

2 Summary of significant accounting policies (continued)

(v) 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 within borrowings in current liabilities.

(w) Trade and other payables

Trade payables are initially recognised at fair value and then held at amortised cost which equates to nominal value. Long-term payables are discounted where the effect is material.

(x) Taxation

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

Deferred tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(y) 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 an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(z) Legal and other disputes

A 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, a 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 income statement as they are incurred.

(aa) Derivative financial instruments and hedging

Derivative financial instruments are used to manage exposure to market risks and foreign exchange risk. The principal derivative instruments are forward currency swaps, forward exchange contracts and options. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Derivative financial assets and liabilities are classified as held-for trading and are measured at fair value. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Derivatives designated as hedging instruments are classified on inception as cash flow hedges, net investment hedges or fair value hedges.

Changes in the fair value of derivatives designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedges are effective. Ineffective portions are recognised in profit or loss immediately. Amounts deferred in other comprehensive income are reclassified to the income statement when the hedged item affects profit or loss.

Changes in the fair value of derivatives designated as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability.

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

2 Summary of significant accounting policies (continued)

(ab) Divestment expenses and income

Where appropriate, product divestment expenses are recognised and provided for in respect of the difference between profits paid to a counterparty on divested products based on signed contractual agreements and the profits on divested products received from other GSK Group entities which are distributed to the Company.

(ac) Share capital

Ordinary shares are classified as equity.

(ad) Assets held for sale

Non-current assets and disposal groups are transferred to assets held for sale when it is expected that their carrying amounts will be recovered principally through disposal and a sale is considered highly probable. They are held at the lower of carrying amount and fair value less costs to sell.

(ae) 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 products 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.

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

The Company classifies its financial assets in the following categories: 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.

Available-for-sale investments

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

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.

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

2 Summary of significant accounting policies (continued)

(af) 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.

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.

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

(a) Assets carried 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.

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 income statement. 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.

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

2 Summary of significant accounting policies (continued)

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

(b) 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.

(ah) 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 income statement.

Subsequent recoveries of amounts previously provided for are credited to the income statement. 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 Critical accounting judgements and key sources of estimation uncertainty made.

Management makes a judgement as to whether an investment should be classified as an subsidiary or associate depending on whether or not said investment is controlled by the Company. Control exists if the investor has power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the investor's returns. This information is assessed based on available information to management. If sufficient information is not available, the judgement is made based solely on the Company's shareholding. There have been no significant estimates or assumptions which are likely to cause a material adjustment to the carrying amount of assets and liabilities within the next financial year.

4 Turnover

Analysis of turnover by geography:	2018	2017
	£'000	£'000
UK	6,495	8,489
Rest of World	10,984	18,830
	17,479	27,319
Analysis of turnover by category:	2018	2017
	£'000	£'000
Co-promotional income	8,238	14,719
Royalty income	3,065	3,592
Return on intellectual property rights	599	2,299
Other	5,577	6,709
Total	17,479	27,319

The analysis by location of customer of sales to other undertakings within the Group, operating profit and net assets are disclosed in the Group financial statements.

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

5 Operating profit

	2018 £'000	2017 £'000
The following items have been charged/(credited) in operating profit:		
Depreciation of property, plant and equipment		
Owned assets (note 11)	173	296
Income from subsidiaries, associates and equity investments (note 7)	(245,032)	(197,798)
Impairment of goodwill (note 12)	34,443	-
Amortisation of intangible assets (note 12)	1,302	1,338
Depreciation of investment properties (note 16)	203	264
Exchange gain on derivative financial instruments	-	(1,653)
Exchange gain on foreign currency transactions	(2,447)	(3,189)
Research and development expenditure	4,912	2,009
Divestment expenses	-	3,994
Management fee	69	62
Product divestment income	-	(660)
Loss on disposal of investment properties	588	-
Gain on disposal of investments	(5,577)	(88,008)
Amounts written off subsidiaries and equity investments (note 13)	54,000	17,680

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

In 2017, Product divestment income of £1 million was received in exchange for providing selling, distribution and other support services of the divested brands to third parties.

Divestment expenses relate to the difference between profit paid to counterparties on divested products based on signed contractual agreements and profit received from other Group entities in relation to the same divested products, which are distributed to the Company.

See Notes 13 and 15 for realised gain on disposal of investments and commentary on impairment of investments in subsidiaries and available-for-sale investments.

6 Employees

All UK employees are remunerated by GlaxoSmithKline Services Unlimited and receive no remuneration from the Company. A management fee is charged by GlaxoSmithKline Services Unlimited for services provided to the Company (see note 5). The Company has no employees (2017: none).

7 Income from subsidiaries, associates and equity investments

	2018 £'000	2017 £'000
Dividends from subsidiaries	216,583	196,167
Dividends from associates	28,035	1,209
Dividends from equity investments	414	422
	245,032	197,798

Dividends from subsidiaries for the year of £217 million relates to intercompany dividends received from GlaxoSmithKline Pharmaceuticals SA (Poland) of £205 million and GlaxoSmithKline Pharmaceuticals Limited of £12 million on 25 July 2018.

Glaxo Group Limited
(Registered number: 00305979)

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

7 Income from subsidiaries, associates and equity investments (continued)

Dividends from subsidiaries for the year 2017 of £196 million relates to intercompany dividends received from GlaxoSmithKline K.K. of £155 million on 18 December 2017, GlaxoSmithKline Pharmaceuticals Limited of £11 million on 26 July 2017, GlaxoSmithKline Korea Limited of £10 million on 25 October 2017, GlaxoSmithKline Pharmaceutical Sdn Bhd of £6 million on 13 October 2017, GlaxoSmithKline Philippines Inc. of £5 million on 29 March 2017, GSK Business Service Centre Sdn Bhd of £3 million on 31 October 2017, GlaxoSmithKline Chile Farmaceutica Limitada of £3 million on 31 January 2017 and £3 million on 20 December 2017.

Dividends from Associates for the year of £28 million relates to dividends received from Medicix ventures of £27 million and from Innoviva of £0.7 million. The Company also received £0.4 million of dividend income from equity investments.

Dividends from Associates for the year 2017 of £1.2 million relates to dividends received from JCR Pharmaceuticals Co. Ltd of £0.7 million on 29 June 2017 and £0.5 million on 8 December 2017. The Company also received £0.4 million (2017: £0.4 million) of dividend income from equity investments.

8 Finance income

	2018 £'000	2017 £'000
Bank interest income	69	995
On loans with Group undertakings	4,128	8,284
Swap interest income	41	-
Gains on derivative financial instruments	445	-
Total finance income	4,683	9,279

9 Finance expense

	2018 £'000	2017 £'000
Bank interest expense	(2)	(7)
On loans with Group undertakings	(49)	(96)
Swap interest expense	(259)	-
Losses on derivative financial instruments	(51)	-
Total finance expense	(361)	(103)

10 Taxation

	2018 £'000	2017 £'000
Income tax credit on profit		
Current tax		
UK corporation tax	16,639	16,185
Overseas tax	180	2,649
Adjustments in respect of previous years	(16,503)	(195,299)
Total current tax	316	(176,465)
Deferred tax		
Origination and reversal of timing differences	(331)	220
Adjustments in respect of previous years	-	5
Total deferred tax	(331)	225
Total tax credit for the year	(15)	(176,240)

The tax assessed for the year is lower (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:

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

10 Taxation (continued)

	2018 £'000	2017 £'000
Reconciliation of total tax credit		
Profit before taxation	130,413	246,740
Profit on ordinary activities at the UK statutory rate 19.00% (2017: 19.25%)	24,778	47,489
Effects of:		
Adjustments to tax charge in respect of previous years	(16,503)	(195,294)
Income not taxable	(54,570)	(60,675)
Change in tax rate - impact on deferred tax	40	(30)
Expenses not deductible for tax purposes	29,317	9,603
Overseas tax	180	2,592
Other differences	16,743	20,075
Total tax credit for the year	(15)	(176,240)

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 assets at balance sheet date has been calculated based on these rates.

	2018 £'000	2017 £'000
Tax charge included in other comprehensive income		
Deferred tax:		
Fair value movements on financial assets at fair value through other comprehensive income	27	14

	Accelerated capital allowances £'000	Other net temporary differences £'000	Total £'000
Movement in deferred tax asset			
At 1 January 2017	912	3,824	4,736
(Charge)/credit to income statement	164	(389)	(225)
(Charge)/credit to other comprehensive income	-	(14)	(14)
At 1 January 2018	1,076	3,421	4,497
(Charge)/credit to income statement	606	(275)	331
(Charge)/credit to other comprehensive income	-	(27)	(27)
At 31 December 2018	1,682	3,119	4,801

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

	2018 £'000	2017 £'000
Deferred tax assets classified as non-current assets	4,801	4,497

Glaxo Group Limited
(Registered number: 00305979)

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

11 Property, plant and equipment

	Plant and equipment £'000	Assets in construction £'000	Total £'000
Cost			
At 1 January 2018	1,803	-	1,803
Additions	-	252	252
Reclassifications	233	(233)	-
At 31 December 2018	2,036	19	2,055
Accumulated depreciation			
At 1 January 2018	(413)	-	(413)
Charge for the year (note 5)	(173)	-	(173)
Reclassifications (refer note 16)	(63)	-	(63)
At 31 December 2018	(649)	-	(649)
Accumulated impairment			
At 1 January 2018	(5)	-	(5)
Charge for the year	-	(19)	(19)
Reclassifications	5	-	5
At 31 December 2018	-	(19)	(19)
Total depreciation and impairment at 31 December 2018	(649)	(19)	(668)
Net book value at 1 January 2018	1,385	-	1,385
Net book value at 31 December 2018	1,387	-	1,387

12 Goodwill and other intangible assets

	Goodwill £'000	Licences and patents £'000	Total £'000
Cost			
At 1 January 2018 and 31 December 2018	67,246	20,644	87,890
Accumulated amortisation			
At 1 January 2018	-	(5,164)	(5,164)
Charge for the year (note 5)	-	(1,302)	(1,302)
At 31 December 2018	-	(6,466)	(6,466)
Accumulated impairment			
At 1 January 2018	(32,803)	-	(32,803)
Charge for the year (note 5)	(34,443)	-	(34,443)
At 31 December 2018	(67,246)	-	(67,246)
Total amortisation and impairment at 31 December 2018	(67,246)	(6,466)	(73,712)
Net book value at 1 January 2018	34,443	15,480	49,923
Net book value at 31 December 2018	-	14,178	14,178

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

12 Goodwill and other intangible assets (continued)

The goodwill of £34 million arose on the acquisition of Stafford Miller in 2003. This goodwill was fully impaired in 2018 following an assessment performed by management which concluded that the carrying value of this goodwill is not recoverable due to the reorganisation of the Stafford Miller assets elsewhere in the Group.

13 Investments in subsidiaries

	Total £'000
Cost	
At 1 January 2017	10,059,736
Additions	1,711
Disposals	(4,971)
At 31 December 2017	10,056,476
Additions	21,165
At 31 December 2018	10,077,641
Accumulated Impairment	
At 1 January 2017	(345,990)
Impairment charge for the year	(17,652)
Disposals	1,768
At 31 December 2017	(361,874)
Impairment charge for the year	(54,000)
At 31 December 2018	(415,874)
Carrying value at 1 January 2017	9,713,746
Carrying value at 31 December 2017	9,694,602
Carrying value at 31 December 2018	9,661,767

During the year, the Company injected share capital of £21 million in its shareholding in GlaxoSmithKline Argentina S.A.

Details of the subsidiaries of the Company as at 31 December 2018 are given in note 28.

14 Investments in associates

	Total £'000
Cost	
At 1 January 2017	370,368
Additions	9,149
Disposals	(71,328)
At 31 December 2017	308,189
Additions	8,688
At 31 December 2018	316,877

Additions to associates comprise investments in Kurma Bio Fund and Medicxi Ventures of £2.5 million each, Apollo Associate of £1.9 million and Index Ventures Life VI (Jersey) LP of £1.6 million.

Details of the associates of the Company as at 31 December 2018 are given in note 28.

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

15 Equity investments

	Total £'000
Carrying value at 1 January 2017	428,019
Additions	704
Disposals	-
Fair value movements	(43,441)
Foreign exchange movements	(23,877)
Carrying value at 31 December 2017	361,406
Additions	297,392
Disposals	(66,090)
Fair value movements	134,189
Foreign exchange movements	(17,680)
Carrying value at 31 December 2018	709,217

Additions to equity investments comprise of investments in 23andMe of £229 million, Orchard Therapeutics Limited of £63 million and other investments of £5 million. During the year, the Company disposed off its equity investments in Chemocentryx, Protein science and Neurosearch.

Fair value movements in the year of £0.4 million in relation to the Dementia Discovery Fund have been credited to the income statement as this is a limited life fund which is measured at fair value through the profit and loss.

16 Investment properties

	Land and buildings £'000	Assets under construction £'000	Total £'000
Cost			
At 31 December 2017	9,611	252	9,863
Additions	-	-	-
Reclassifications	-	(252)	(252)
At 31 December 2018	9,611	-	9,611
Accumulated depreciation			
At 31 December 2017	(3,003)	-	(3,003)
Charge for the year (note 5)	(203)	-	(203)
Reclassifications	57	-	57
At 31 December 2018	(3,149)	-	(3,149)
Net book value at 31 December 2017	6,608	252	6,860
Net book value at 31 December 2018	6,462	-	6,462

The net book value at 31 December 2018 of the Company's investment properties includes freehold properties of £nil (at 31 December 2017: £nil) and leasehold properties of £6.4 million (at 31 December 2017: £6.6 million).

17 Trade and other receivables

	2018 £'000	2017 £'000
Amounts due within one year		
Amounts owed by Group undertakings	899,557	1,195,323
Other receivables	70,078	141,172
	969,635	1,336,495

Amounts owed by Group undertakings are unsecured, interest free and are repayable on demand, except for a call account balance with GlaxoSmithKline Finance plc of £716 million (2017: £969 million) which is unsecured with interest received at LIBOR rate less 0.125% (2017: LIBOR rate less 0.125%) per annum and repayable on demand.

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

18 Derivative financial instruments

The Company had a forward foreign exchange contract and a currency swap with the following fair values at the end of the year:

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward foreign exchange contract- United States Dollar	-	-	460	-
Forward currency swap contract- Euro	-	51	79	-
	-	51	539	-

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a current asset or liability, if the maturity of the hedged item is less than 12 months.

Forward foreign exchange contracts

The notional principal amounts of the outstanding derivative instruments at 31 December 2018 were £30 million (2017: £51 million).

These derivative financial instruments are used to mitigate exposure to foreign exchange transactional risks. The derivative financial instruments are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The valuations of derivative financial instruments are based on the present value of net contractual cash flows using market sourced data (exchange rates).

All outstanding contracts have a maturity of 12 months or less.

19 Assets held for sale

	Plant and equipment £'000	Land and buildings £'000	Total £'000
At 1 January 2017 and 31 December 2017	3,396	5,373	8,769
Impairment reversals	-	1,071	1,071
Disposals	(3,396)	(6,444)	(9,840)
At 31 December 2018	-	-	-

Non-current assets and disposal groups are transferred to assets held for sale when it is expected that their carrying amounts will be recovered principally through disposal and a sale is considered highly probable. They are held at the lower of carrying amount and fair value less costs to sell.

Included within Assets held for sale are assets which were written down to fair value less costs to sell of £nil (2017: £8.8 million).

In 2018, the Company disposed of its entire assets held for sale balance to a third party for consideration of £9,250,000, including £980,000 of deferred consideration. The transaction was completed in April 2018.

20 Trade and other payables

	2018 £'000	2017 £'000
Amounts falling due within one year		
Trade payables	9,523	6,275
Amounts owed to Group undertakings	51,280	210,899
Corporation tax	75,085	244,342
Other payables	24,568	2,425
	160,456	463,941

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand. The corporation tax payable contains amounts which will be paid to fellow Group companies.

Glaxo Group Limited
(Registered number: 00305979)

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

21 Borrowings

	2018 £'000	2017 £'000
Amounts falling due within one year		
Bank overdraft	-	66

22 Accruals and deferred income

	2018 £'000	2017 £'000
Amounts falling due within one year	10,864	38,688
Amounts falling due after more than one year	16,045	17,662
	26,909	56,350

Accrual and deferred income falling due within one year includes £4 million (2017: £10 million) related to trademarks and other non-litigation expenses and £7 million (2017: £30 million) in relation to collaborative agreements.

Accruals and deferred income falling due after more than one year comprises deferred income £16 million (2017: £18 million) in relation to collaborative agreements which are being recognised until 2029.

23 Provisions for liabilities

	Product liability £'000
At 1 January 2017	1,428
Charge for the year	191
Utilised	(1,434)
Exchange loss	(70)
At 31 December 2017	115
Charge for the year	10
Utilised	(48)
Exchange loss	5
At 31 December 2018	82

The Company is involved in a number of legal and other disputes, including notification of possible claims. Provisions for legal and other disputes include amounts relating to government investigations, product liability, contract terminations, self-insurance, environmental clean-up and property rental. The Company's Directors, having taken legal advice, have established provisions after taking into account insurance and other agreements and having regard to 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 provisions required to cover unasserted claims.

The Company's position could change over time, and there can, therefore, 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. The largest individual amounts provided for are expected to be settled within three years.

For further detail concerning legal proceedings, refer to note 29 of the GlaxoSmithKline plc 2018 annual report.

24 Share capital

	2018 Number of shares	2017 Number of shares	2018 £'000	2017 £'000
Issued and fully paid				
Ordinary Shares of 50p each (2017: 50p each)	1,617,988,119	1,617,988,119	808,994	808,994

Glaxo Group Limited
(Registered number: 00305979)

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

25 Contingent liabilities

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.

26 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).

27 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.

28 Subsidiaries and associates

The subsidiaries and associates of the Company as at 31 December 2018 are as follows:

Subsidiaries	Direct shares held (%)	Indirect shares held (%)	Security	Address of the registered office
Action Potential Venture Capital Limited	100	-	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
Affymax Research Institute	100	-	Common	Corporation Service Company, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California, CA, 95833, United States
Alenfarma - Especialidades Farmaceuticas, Limitada	-	100	Ordinary Quota	Rua Dr Antonio Loureiro Borges No 3, Arquiparque, Miraflares, Alges, 1499-013, Portugal
Allen & Hanburys Limited	-	100	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
Amoun Pharmaceutical Industries Co. S.A.E.	-	90.7	New Monetary Shares	El Salam City 11491, PO Box 3001, Cairo, Egypt
Cellzome GmbH	-	91.86	Ordinary	Meyerhofstrasse 1, Heidelberg, 69117, Germany
Cellzome Limited	-	91.86	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
Cellzome Therapeutics, Inc.	-	91.86	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808, United States

Glaxo Group Limited
(Registered number: 00305979)

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

28 Subsidiaries and associated undertakings (continued)

Subsidiaries	Direct shares held (%)	Indirect shares held (%)	Security	Address of the registered office
Cellzome, Inc.	91.86	3.25	Ordinary (91.8626%); Series A Preferred (100%); Series B Preferred (100%); Series C-1 Convertible Preferred (100%); Series C-3 Convertible Preferred (100%)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808, United States
Clarges Pharmaceuticals Limited	100	-	Ordinary(100%); Preference (99.9664%)	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
Domantis Limited	100	-	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
Duncan Pharmaceuticals Philippines Inc.	-	75.71	Common	2266 Chino Roces Avenue, City of Makati, Philippines
Edinburgh Pharmaceutical Industries Limited	100	-	Ordinary; Preference	Shewalton Road, Irvine, Ayrshire, KA11 5AP, Scotland
Etex Farmacéutica Limitada	100	-	Social Capital	Avenida Andres Bello 2687, Piso 19, Las Condes, Santiago, C.P. 7550611, Chile
Glaxo Kabushiki Kaisha	100	-	Ordinary	1-8-1 Asasaka Minato-ku, Tokyo, Japan
Glaxo Laboratories Limited	-	100	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
Glaxo Operations UK Limited	100	-	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
Glaxo Wellcome Farmaceutica, Limitada	100	-	Ordinary Quota	Rua Dr Antonio Loureiro Borges No 3, Arquiparque, Miraflores, Alges, 1499-013, Portugal
Glaxo Wellcome UK Limited	100	-	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
Glaxochem Pte Ltd	51	-	Ordinary	23 Rochester Park, 139234, Singapore
GlaxoSmithKline Argentina S.A.	84.2	-	Ordinary	Tucumán 1, piso 4, Buenos Aires, C1049AAA, Argentina
GlaxoSmithKline Consumer Healthcare Investments (Ireland) Limited	100	-	Ordinary	6900 Cork Airport Business Park, Kinsale Road, Cork, County Cork, Ireland
GlaxoSmithKline Export Limited	100	-	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
GlaxoSmithKline Intellectual Property (No.2) Limited	-	100	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England

Glaxo Group Limited
(Registered number: 00305979)

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

28 Subsidiaries and associated undertakings (continued)

Subsidiaries	Direct shares held (%)	Indirect shares held (%)	Security	Address of the registered office
GlaxoSmithKline Intellectual Property Development Limited	-	100	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
GlaxoSmithKline Intellectual Property Holdings Limited	100	-	A Ordinary (0%); B Ordinary (100%)	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
GlaxoSmithKline Intellectual Property Limited	100	-	Ordinary; Deferred	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
GlaxoSmithKline Intellectual Property Management Limited	-	100	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
GlaxoSmithKline K.K.	64.96	35.04	Ordinary	1-8-1 Asasaka Minato-ku, Tokyo, Japan
GlaxoSmithKline Korea Limited	95.05	-	Ordinary	9F LS Yongsan Tower 92, Hangangdae-ro Yongsan-gu, Seoul, 140-702, Republic of Korea
GlaxoSmithKline Pharmaceutical Sdn Bhd	100	-	Ordinary	Level 6, Quill 9, 112, Jalan Semangat, Petaling Jaya, Selangor Darul Ehsan, 46300, Malaysia
GlaxoSmithKline Pharmaceuticals Limited	35.99	-	Equity	252 Dr Annie Besant Road, Mumbai, 400030, India
GlaxoSmithKline Pharmaceuticals S.A.	100	-	Ordinary A (100%); Ordinary B (100%); Ordinary C (100%); Ordinary D (100%)	Ul. Grunwaldzka 189, Poznan, 60-322, Poland
GlaxoSmithKline Philippines Inc.	75.71	-	Common	2266 Chino Roces Avenue, Makati City, Philippines
GlaxoSmithKline Research & Development Limited	100	-	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
GlaxoSmithKline S.A.E.	91.2	-	Ordinary	Boomerang Office Building - Land No. 46, Zone (J) - 1st District, Town Center - 5th Tagammoe, New Cairo City, Egypt
GlaxoSmithKline South Africa (Pty) Limited	100	-	Ordinary	Flushing Meadows Building, The Campus, 57 Sloane Street, Bryanston 2021, South Africa
GlaxoSmithKline UK Limited	100	-	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
Group Laboratories South Africa (Pty) Limited	-	100	Ordinary	Flushing Meadows Building, The Campus, 57 Sloane Street, Bryanston 2021, South Africa
GSK Business Service Centre Sdn Bhd	100	-	Ordinary	Level 6, Quill 9, 112, Jalan Semangat, Petaling Jaya, Selangor Darul Ehsan, 46300, Malaysia
GSK Capital K.K.	-	100	Ordinary	1-8-1 Asasaka Minato-ku, Tokyo, Japan
GSK CH Argentina S.A.	84.2	-	Nominative non endorseable ordinary shares	Tucumán 1, piso 4, Buenos Aires, C1049AAA, Argentina

Glaxo Group Limited
(Registered number: 00305979)

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

28 Subsidiaries and associated undertakings (continued)

Subsidiaries	Direct shares held (%)	Indirect shares held (%)	Security	Address of the registered office
GSK Commercial Sp. z o.o.	-	100	Ordinary	ul. Rzymowskiego 53, Warsaw, 02-697, Poland
GSK Services Sp z o.o.	-	100	Ordinary	Ul. Grunwaldzka 189, Poznan, 60-322, Poland
Japan Vaccine Distribution Co., Ltd.	-	50	Ordinary	6 Yonbancho, Chiyoda-ku, Tokyo, Japan
Laboratoires Paucourt	100	-	Ordinary	23 rue François Jacob, 92500, Rueil-Malmaison, France
Laboratoires Saint-Germain	100	-	Ordinary	23 rue François Jacob, 92500, Rueil-Malmaison, France
Laboratorios Wellcome De Portugal Limitada	-	100	Ordinary Quota	Rua Dr Antonio Loureiro Borges No 3, Arquiparque, Miraflores, Alges, 1499-013, Portugal
Maxinutrition Limited (In liquidation)	100	-	Ordinary	55 Baker Street, London, W1U 7EU, England
Mixis Genetics Limited	100	-	Ordinary; Ordinary Euro	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
Modern Pharma Trading Company L.L.C.	-	22.94	Quotas	Amoun Street, PO Box 3001, El Salam City, Cairo, 11491, Egypt
Montrose Fine Chemical Company Ltd	100	-	Ordinary	Shewalton Road, Irvine, Ayrshire, KA11 5AP, Scotland
Montrose Pharma Company Limited	-	100	Ordinary Quota	H-1124, Csorsz utca 43, Budapest, Hungary
Sitari Pharma, Inc.	100	-	Common Stock	USA
SPI Acquisition Merger Sub, Inc.	100	-	Common Stock	USA
UCB Pharma Asia Pacific Sdn Bhd	-	100	Ordinary	Level 8, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, Petaling Jaya, Selangor Darul Ehsan, 47301, Malaysia
GlaxoSmithKline US Trading Limited	100	-	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
GlaxoSmithKline Intellectual Property (No.3) Limited	100	-	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
GlaxoSmithKline Intellectual Property (No.4) Limited	100	-	Ordinary	980 Great West Road, Brentford, Middlesex, TW8 9GS, England
Associates				
Apollo Therapeutics LLP	25	-	Limited Partnership Interest	
GlaxoSmithKline Chile Farmaceutica Limitada	21.77	-	Social Capital	Avenida Andres Bello No. 2687, Piso 19, Las Condes, Santiago, C.P. 7550611, Chile
Index Ventures Life VI (Jersey) LP	24.94	-	Limited Partnership Interest	
Innoviva, Inc. (formerly Theravance, Inc.)	31.43	-	Common Stock	
Kurma Biofund II, FCPR	32.06	-	Limited Partnership Interest	
Glaxo Wellcome Ceylon Limited	0.00	-	Ordinary	
Medicxi Ventures I LP	26.19	-	Limited Partnership Interest	

The Company had no transactions with any of its associates in the year (2017: nil).