

**Glaxo Group Limited**  
(Registered number: 00305979)

**Annual Report**  
**for the year ended 31 December 2017**

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26/09/2018  
COMPANIES HOUSE

**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 2017**

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**Glaxo Group Limited**  
(Registered number: 00305979)

## **Strategic report for the year ended 31 December 2017**

The Directors present their Strategic report on Glaxo Group Limited (the "Company") for the year ended 31 December 2017.

### **Principal activities and future developments**

The Company is a member of the GlaxoSmithKline Group (the "Group"). The Directors do not envisage any change to the nature of the business in the foreseeable future.

The Company's principal activities are:

- (a) the holding of shares and other investments in subsidiaries, associates and third party available-for-sale 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 Company is a private company 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.

### **Review of business**

The Company made a profit for the financial year of £422,980,000 (2016: profit of £38,077,000), which includes a profit of £70,988,000 (2016: profit of £83,242,000) from exceptional items in the year. 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 £422,980,000 will be transferred to reserves (2016: profit for the year of £38,077,000 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 Company'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 2017 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 2017 Annual Report which does not form part of this report.

**Glaxo Group Limited**  
(Registered number: 00305979)

**Strategic report for the year ended 31 December 2017 (continued)**

**Exceptional items**

During 2017, the Company disposed of its investment in an associate, JCR Pharmaceuticals Co. Ltd. which had a carrying value of £71,329,000 for consideration of £159,072,000 resulting in a gain on disposal of £87,743,000.

During 2017, the Company disposed of its investments in a subsidiary, Aners S.A. which had a carrying value of £3,204,000 for consideration of £3,469,000 resulting in a gain on disposal of £265,000.

Amounts written off subsidiaries and available-for-sale investments of £17,680,000 relate to write-downs in the carrying value of the Company's subsidiary investments in GlaxoSmithKline South Africa (Pty) Limited of £13,090,000 and Glaxo Kabushiki Kaisha of £4,562,000 and a write-down of £28,000 in carrying value of the Company's available-for-sale investments.

**Subsequent events**

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.

By order of the Board

A handwritten signature in black ink, appearing to read 'AG i' with a stylized flourish underneath.

A Burns  
For and on behalf of Edinburgh Pharmaceutical Industries Limited  
Corporate Director  
19 September 2018

**Glaxo Group Limited**  
(Registered number: 00305979)

## **Directors' report for the year ended 31 December 2017**

The Directors present their report on the Company and the audited financial statements for the year ended 31 December 2017.

### **Results and dividends**

The Company's results for the financial year are shown in the income statement on page 7.

An interim ordinary dividend of £3.09 (2016: nil) per ordinary share amounting to £5 billion (2016: nil) 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(z).

### **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:

S Dingemans  
Edinburgh Pharmaceutical Industries Limited  
The Wellcome Foundation Limited  
A Walker

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 their duties.

In addition, each of the Directors who is an individual benefits from an indemnity given by another Group company, GlaxoSmithKline Services Unlimited. This indemnity is in respect of liabilities arising out of third party proceedings to which the Director is a party by virtue of their 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 2017 (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 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;
- exceptional items; and
- subsequent events.

**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 2017.

**Disclosure of information to auditors**

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

**Independent Auditors**

Following the signing of the accounts, the Company will be appointing Deloitte LLP as statutory auditors for the 2018 financial year.

By order of the Board



A Burns  
For and on behalf of Edinburgh Pharmaceutical Industries Limited  
Corporate Director  
19 September 2018

**Glaxo Group Limited**  
(Registered number: 00305979)

***Independent auditors' report to the members of Glaxo Group Limited***

**Report on the audit of the financial statements**

**Opinion**

In our opinion, Glaxo Group Limited's financial statements:

- give a true and fair view of the state of the Company's affairs at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet at 31 December 2017; the income statement and the statement of other comprehensive income; the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Independence***

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

**Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included. Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

**Glaxo Group Limited**  
(Registered number: 00305979)

***Independent auditors' report to the members of Glaxo Group Limited***

***Strategic Report and Directors' Report***

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 year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

***Responsibilities for the financial statements and the audit***

***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of Directors' Responsibilities set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

***Auditors' 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 auditors' 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

***Use of this report***

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

***Other required reporting***

***Companies Act 2006 exception reporting***

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

***Other matter***

The Company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the senior statutory auditor's name should not be stated.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
19 September 2018



**Glaxo Group Limited**  
**(Registered number: 00305979)**

**Income statement**  
**for the year ended 31 December 2017**

	Notes	2017 £'000	2016 £'000
Turnover	4	27,319	18,262
Cost of sales		(657)	(4,249)
<b>Gross profit</b>		<b>26,662</b>	<b>14,013</b>
Administrative expenses		(1,963)	(1,287)
Research and development expenditure		(2,009)	(12,845)
Other operating expenses		(53,912)	(399,159)
Income from subsidiaries, associates and available-for-sale investments	7	197,798	338,995
<i>Exceptional items:</i>			
Product divestment income		660	4,432
Gain on disposal of investments		88,008	108,009
Gain on disposal of intangible assets		-	20,817
Amounts written off subsidiaries and available-for-sale investments		(17,680)	(50,016)
<b>Operating profit</b>	5	<b>237,564</b>	<b>22,959</b>
<b>Profit before interest and taxation</b>		<b>237,564</b>	<b>22,959</b>
Finance income	8	9,279	14,452
Finance expense	9	(103)	(1)
Finance income - net		9,176	14,451
<b>Profit before taxation</b>		<b>246,740</b>	<b>37,410</b>
Taxation	10	176,240	667
<b>Profit for the year</b>		<b>422,980</b>	<b>38,077</b>

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

**Glaxo Group Limited**  
**(Registered number: 00305979)**

**Statement of other comprehensive income**  
**for the year ended 31 December 2017**

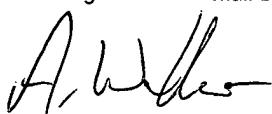
	2017 £'000	2016 £'000
<b>Profit for the year</b>	<b>422,980</b>	<b>38,077</b>
<b>Items that may be subsequently reclassified to the income statement:</b>		
Fair value movements on available-for-sale investments	(67,289)	248,179
Fair value movements on forward foreign exchange contracts and currency swap	80	-
Deferred tax on fair value movements on forward foreign exchange contracts and currency swap	(14)	-
Release of fair value and foreign currency movements on disposal of available-for-sale investments	-	(108,025)
<b>Other comprehensive (expense) / income for the year</b>	<b>(67,223)</b>	<b>140,154</b>
<b>Total comprehensive income for the year</b>	<b>355,757</b>	<b>178,231</b>

**Glaxo Group Limited**  
(Registered number: 00305979)

**Balance sheet**  
**at 31 December 2017**

	Notes	2017 £'000	2016 £'000
<b>Non-current assets</b>			
Property, plant and equipment	11	1,385	3,902
Goodwill	12	34,443	34,443
Intangible assets	12	15,480	16,818
Investments in subsidiaries	13	9,694,602	9,713,746
Investments in associates	14	308,189	370,368
Investments in available-for-sale assets	15	361,407	428,019
Investment properties	16	6,860	14,083
Deferred tax assets	10	4,497	4,736
<b>Total non-current assets</b>		<b>10,426,863</b>	<b>10,586,115</b>
<b>Current assets</b>			
Trade and other receivables	17	1,336,495	6,170,104
Prepayments and accrued income		295	50,742
Derivative financial instruments	18	539	12,960
Cash and cash equivalents		3,474	147
Assets held for sale	19	8,769	-
<b>Total current assets</b>		<b>1,349,572</b>	<b>6,233,953</b>
<b>Total assets</b>		<b>11,776,435</b>	<b>16,820,068</b>
<b>Current liabilities</b>			
Trade and other payables	20	(463,941)	(793,760)
Short-term borrowings	21	(66)	(2)
Derivative financial instruments	18	-	(54,159)
Accruals and deferred income	22	(38,688)	(50,339)
Provisions for liabilities	23	(115)	(1,428)
<b>Total current liabilities</b>		<b>(502,810)</b>	<b>(899,688)</b>
<b>Net current assets</b>		<b>846,762</b>	<b>5,334,265</b>
<b>Total assets less current liabilities</b>		<b>11,273,625</b>	<b>15,920,380</b>
<b>Non-current liabilities</b>			
Accruals and deferred income	22	(17,662)	(20,174)
<b>Total liabilities</b>		<b>(520,472)</b>	<b>(919,862)</b>
<b>Net assets</b>		<b>11,255,963</b>	<b>15,900,206</b>
<b>Equity</b>			
Share capital	24	808,994	808,994
Share premium		2,730,743	2,730,743
Other reserves		5,131,416	5,198,639
Retained earnings		2,584,810	7,161,830
<b>Shareholder's equity</b>		<b>11,255,963</b>	<b>15,900,206</b>

The financial statements on pages 7 to 33 were approved by the Board of Directors on 19 September 2018 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 2017**

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
<b>At 1 January 2016</b>	<b>808,994</b>	<b>2,730,743</b>	<b>5,058,485</b>	<b>7,123,753</b>	<b>15,721,975</b>
Profit for the year	-	-	-	38,077	<b>38,077</b>
Other comprehensive income	-	-	140,154	-	<b>140,154</b>
Total comprehensive income for the year	-	-	140,154	38,077	<b>178,231</b>
<b>At 31 December 2016</b>	<b>808,994</b>	<b>2,730,743</b>	<b>5,198,639</b>	<b>7,161,830</b>	<b>15,900,206</b>
Profit for the year	-	-	-	422,980	<b>422,980</b>
Other comprehensive expense	-	-	(67,223)	-	<b>(67,223)</b>
Total comprehensive income for the year	-	-	(67,223)	422,980	<b>355,757</b>
Dividends to shareholders	-	-	-	(5,000,000)	<b>(5,000,000)</b>
<b>At 31 December 2017</b>	<b>808,994</b>	<b>2,730,743</b>	<b>5,131,416</b>	<b>2,584,810</b>	<b>11,255,963</b>

Other reserves are non-distributable.

**Glaxo Group Limited**  
(Registered number: 00305979)

**Notes to the financial statements for the year ended 31 December 2017**

**1 Presentation of the financial statements**

**General information**

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

- (a) the holding of shares and other investments in subsidiaries, associates and third party available-for-sale 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 Company is a private company 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.

**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 available-for-sale investments and derivative financial assets and liabilities at fair value through the profit and loss, and in accordance with the Companies Act 2006.

***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);
- IFRS 7, 'Financial instruments: disclosures';
- 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); and
  - (iv) paragraph 76 and 79(d) of IAS 40 Investment property;
- 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 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)

Glaxo Group Limited  
(Registered number: 00305979)

Notes to the financial statements for the year ended 31 December 2017

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

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

*Disclosure exemptions adopted (continued)*

- 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 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 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) 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.

**(d) Turnover**

Turnover comprises third party royalty income, intercompany royalty income and positive residual profit returns.

The net profit remaining after accounting for all third party income and expenses, and intercompany expenses related to the supply and management of the product, is returned to the intellectual property rights holders in the form of a residual return. Where the return is an income, it is categorised as turnover, and where it is a cost, it is categorised as 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.

Notes to the financial statements for the year ended 31 December 2017

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

**(e) 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.

**(f) 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.

**(g) Royalty income and expenses**

Royalty income is recognised in turnover and royalty expenses are recognised in cost of sales on an accruals basis in accordance with the terms of the relevant licensing agreements.

**(h) Exceptional items**

Exceptional items are items of income and expenditure which, in the opinion of the Directors, are material and unusual in nature or of such significance that they require separate disclosure.

**(i) Dividends received**

Dividends received are included in the income statement in the year in which the right to receive the payment is established. 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	10 to 20 years
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**(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.

Notes to the financial statements for the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

(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 paid, this excess is recognised immediately on the statement of financial position. Subsequently, the excess up to the fair value of the non-monetary assets acquired shall be recognised in profit or loss in the periods in which the non-monetary assets are recovered. Any excess exceeding the fair value of non-monetary assets acquired shall be recognised in profit or loss in the periods 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, 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

*Classification*

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 which 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.

*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 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. Loans and receivables are subsequently carried at amortised cost using the effective interest method.



Notes to the financial statements for the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

(o) Financial assets (continued)

*Recognition and measurement (continued)*

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 the statement of 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 as part of finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as income from available-for-sale investments 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 the settlement date.

(p) Impairment of financial assets

(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 income statement.

(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 available-for-sale 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.

Notes to the financial statements for the year ended 31 December 2017

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

**(q) 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 JPY are designated as a hedged item in a fair value hedge of the exposure to changes in foreign currency rates under IAS 39 '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 profit or loss 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.

**(r) 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.

**(s) Impairment of non-financial 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, 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.

**(t) Trade and other receivables**

Trade 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 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.

**(u) 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.

**(v) 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.

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Notes to the financial statements for the year ended 31 December 2017

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

**(w) 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. Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date.

**(x) 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.

**(y) 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.

**(z) Derivative financial instruments and hedging**

Derivative financial instruments are used to manage exposure to market risks and foreign exchange risk in investment in JPY denominated subsidiaries. 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 instruments are classified as held-for-trading and are carried in the balance sheet at fair value. Derivatives designated as hedging instruments are classified on inception as fair value hedges.

Derivative financial instruments are initially recognised in the balance sheet at fair value on inception and then remeasured at subsequent reporting dates (being the revaluation to rates of exchange ruling at the balance sheet date) with remeasurement gains and losses recognised in the income statement. In addition the foreign exchange contract interest relating to the financial year is accrued.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

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Notes to the financial statements for the year ended 31 December 2017

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

### **(aa) 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.

### **(ab) Share capital**

Ordinary shares are classified as equity.

### **(ac) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

## **3 Key accounting judgements and estimates**

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported in the financial statements. Actual amounts and results could differ from those estimates. The following are considered to be the key accounting judgements and estimates made.

### **(a) Turnover**

The net profit remaining after accounting for all third party income and expenses, and intercompany expenses related to the supply and management of the product, is returned to the intellectual property rights holders in the form of a residual return. Where the return is an income, it is categorised as turnover, and where it is a cost, it is categorised as cost of sales.

Turnover is recognised when the third party 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.

### **(b) Taxation**

Current tax is provided at the amounts expected to be paid, and deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts, at the rates that have been enacted or substantively enacted by the balance sheet date.

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, based on management's assumptions relating to the amounts and timing of future taxable profits.

Notes to the financial statements for the year ended 31 December 2017

**3 Key accounting judgements and estimates (continued)**

**(c) Impairment of investments in subsidiaries and associates**

Investments in subsidiaries and associates are held at cost less accumulated impairment losses. Annual impairment tests are carried out to ascertain if the carrying value of investments are impaired. These tests comprise a comparison between the carrying value of investment in subsidiaries and associates and the net asset value of the subsidiaries and associates. In some instances, valuations of subsidiaries and associates are prepared. Valuations for impairment tests are based on established market multiples or risk-adjusted future cash flows over the estimated useful life of the asset, discounted using appropriate interest rates.

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

Licences, patents and marketing rights separately acquired or internally developed intellectual property rights that are available for use 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 are reviewed annually, and 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.

**(d) Valuation of available-for-sale investments**

Management have calculated the fair value of the available-for sale investments based on the listed share price of each listed company and based on the latest financial information for each listed company. The fair value movements of available-for-sale investments are accounted for in other comprehensive income and other reserves.

**4 Turnover**

Analysis of turnover by geography:	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
UK	<b>8,489</b>	<b>-</b>
Rest of World	<b>18,830</b>	<b>18,262</b>
	<b>27,319</b>	<b>18,262</b>
Analysis of turnover by category:	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Pharmaceuticals	<b>27,319</b>	<b>18,262</b>

All turnover relates to licence income from other Group undertakings.

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. All other segmental information is included in the 2017 Annual Report of GlaxoSmithKline plc.

Notes to the financial statements for the year ended 31 December 2017

5 Operating profit

	2017 £'000	2016 £'000
<b>The following items have been (charged) / credited in operating profit:</b>		
Depreciation of property, plant and equipment		
Owned assets (note 11)	(296)	(585)
Income from subsidiaries, associates and available-for-sale investments (note 7)	197,798	338,995
Amortisation of intangible assets (note 12)	(1,338)	(266)
Depreciation of investment properties (note 16)	(264)	(318)
Exchange gains/(losses) on derivative financial instruments	1,653	(147,393)
Exchange gains on revaluation of investment in subsidiaries (note 13)	-	147,393
Exchange gains/(losses) on foreign currency transactions	3,189	(1,059)
Research and development expenditure	(2,009)	(12,845)
Divestment income/(expenses)	(3,994)	(131,875)
Management fee	(62)	(62)
<i>Exceptional items:</i>		
Product divestment income	660	4,432
Gain on disposal of investments	88,008	108,009
Gain on disposal of intangible assets	-	20,817
Amounts written off subsidiaries and available-for-sale investments	(17,680)	(50,016)

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 £35,575 (2016: £35,575).

Product divestment income of £1 million (2016: £4 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 group 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 (2016: nil).

7 Income from subsidiaries, associates and available-for-sale investments

	2017 £'000	2016 £'000
Dividends from subsidiaries	196,167	334,181
Dividends from associates	1,209	4,017
Dividends from available-for-sale investments	422	797
	<b>197,798</b>	<b>338,995</b>

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**Notes to the financial statements for the year ended 31 December 2017**

**7 Income from subsidiaries, associates and available-for-sale investments (continued)**

Dividends from subsidiaries of £196 million (2016: £334 million) relates to intercompany dividends received from GlaxoSmithKline K.K. of £155 million on 18 December 2017 (2016: £250 million), GlaxoSmithKline Pharmaceuticals Limited of £11 million on 26 July 2017 (2016: £17 million), GlaxoSmithKline Korea Limited of £10 million on 25 October 2017 (2016: £28 million), GlaxoSmithKline Pharmaceutical Sdn Bhd of £6 million on 13 October 2017 (2016: nil), GlaxoSmithKline Philippines Inc of £5 million on 29 March 2017 (2016: nil), GSK Business Service Centre Sdn Bhd of £3 million on 31 October 2017 (2016: £5 million), GlaxoSmithKline Chile Farmaceutica Limitada of £3 million on 31 January 2017 and £3 million on 20 December 2017 (2016: nil), GlaxoSmithKline Pharmaceuticals S.A. of £nil (2016: £21 million) and Glaxo Kabushiki Kaisha of £nil (2016: £13 million).

Dividends from Associates of £1.2 million (2016: £4 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 (2016: £1.1 million) and Index Ventures Life VI (Jersey) LP of £nil (2016: £2.9 million). The Company also received £0.4 million (2016: £0.8 million) of dividend income from available-for-sale investments.

**8 Finance income**

	2017 £'000	2016 £'000
Bank interest income	995	900
On loans with Group undertakings	8,284	11,926
Gains on derivative financial instruments	-	1,626
<b>Total finance income</b>	<b>9,279</b>	<b>14,452</b>

**9 Finance expense**

	2017 £'000	2016 £'000
On loans with Group undertakings	(96)	-
Bank borrowings	(7)	(1)
<b>Total finance expense</b>	<b>(103)</b>	<b>(1)</b>

**10 Taxation**

	2017 £'000	2016 £'000
<b>Income tax credit on ordinary activities</b>		
<b>Current Tax</b>		
UK corporation tax at 19.25% (2016: 20.00%)	16,185	3,676
Overseas tax	2,649	2,298
Adjustments in respect of previous years	(195,299)	(12,706)
<b>Total current tax</b>	<b>(176,465)</b>	<b>(6,732)</b>
<b>Deferred Tax</b>		
Origination and reversal of timing differences	220	5,132
Adjustments in respect of previous years	5	353
Change in tax rate - impact on deferred tax	-	580
<b>Total deferred tax</b>	<b>225</b>	<b>6,065</b>
<b>Total tax credit for the year</b>	<b>(176,240)</b>	<b>(667)</b>

The tax assessed for the year is lower (2016: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20.00%). The differences are explained below:

Notes to the financial statements for the year ended 31 December 2017

10 Taxation (continued)

	2017 £'000	2016 £'000
<b>Reconciliation of total tax credit</b>		
Profit before taxation	246,740	37,410
Profit on ordinary activities at the UK statutory rate 19.25% (2016: 20.00%)	47,489	7,482
Effects of:		
Adjustments to tax charge in respect of previous years	(195,294)	(12,353)
Income not taxable	(60,675)	(89,403)
Change in tax rate - impact on deferred tax	(30)	(211)
Expenses not deductible for tax purposes	9,603	78,379
Overseas tax	2,592	2,298
Other differences	20,075	13,141
<b>Total tax credit for the year</b>	<b>(176,240)</b>	<b>(667)</b>

Factors that may affect future tax charges:

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. Changes to the UK corporation tax rates were fully enacted as part of Finance Bill 2016 on 15 September 2016. These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. This will impact the Company's future current tax charge accordingly. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

	2017 £'000	2016 £'000
<b>Tax expense included in other comprehensive income</b>		
Deferred tax:		
Fair value movements on forward foreign exchange contracts and currency swap	14	-

**Movement in deferred tax asset**

	Accelerated capital allowances £'000	Other net temporary differences £'000	Total £'000
At 1 January 2016	1,864	8,937	10,801
Charge to income statement	(952)	(5,113)	(6,065)
At 31 December 2016	912	3,824	4,736
(Charge)/credit to income statement	164	(389)	(225)
(Charge)/credit to other comprehensive income	-	(14)	(14)
At 31 December 2017	1,076	3,421	4,497

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

	2017 £'000	2016 £'000
Deferred tax assets	4,497	4,736



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Notes to the financial statements for the year ended 31 December 2017

11 Property, plant and equipment

	Plant and equipment £'000	Assets in construction £'000	Total £'000
<b>Cost</b>			
At 1 January 2017	6,006	-	6,006
Transfer from investment properties (note 16)	-	1,175	1,175
Reclassifications	1,175	(1,175)	-
Transfer to assets held-for-sale (note 19)	(5,378)	-	(5,378)
<b>At 31 December 2017</b>	<b>1,803</b>	<b>-</b>	<b>1,803</b>
<b>Accumulated depreciation</b>			
At 1 January 2017	(2,099)	-	(2,099)
Charge for the year (note 5)	(296)	-	(296)
Transfer to assets held-for-sale (note 19)	1,982	-	1,982
<b>At 31 December 2017</b>	<b>(413)</b>	<b>-</b>	<b>(413)</b>
<b>Accumulated impairment</b>			
At 1 January and 31 December 2017	(5)	-	(5)
<b>Total depreciation and impairment at 31 December 2017</b>	<b>(418)</b>	<b>-</b>	<b>(418)</b>
<b>Net book value at 1 January 2017</b>	<b>3,902</b>	<b>-</b>	<b>3,902</b>
<b>Net book value at 31 December 2017</b>	<b>1,385</b>	<b>-</b>	<b>1,385</b>

12 Goodwill and other intangible assets

	Goodwill £'000	Licences and patents £'000	Computer Software £'000	Total £'000
<b>Cost</b>				
At 1 January 2017	67,246	20,644	37	87,927
Transfer to assets held for sale	-	-	(37)	(37)
<b>At 31 December 2017</b>	<b>67,246</b>	<b>20,644</b>	<b>-</b>	<b>87,890</b>
<b>Accumulated amortisation</b>				
At 1 January 2017	-	(3,826)	(37)	(3,863)
Charge for the year (note 5)	-	(1,338)	-	(1,338)
Transfer to assets held for sale	-	-	37	37
<b>At 31 December 2017</b>	<b>-</b>	<b>(5,164)</b>	<b>-</b>	<b>(5,164)</b>
<b>Accumulated impairment</b>				
At 1 January and 31 December 2017	(32,803)	-	-	(32,803)
<b>Total amortisation and impairment at 31 December 2017</b>	<b>(32,803)</b>	<b>(5,164)</b>	<b>-</b>	<b>(37,967)</b>
<b>Net book value at 1 January 2017</b>	<b>34,443</b>	<b>16,818</b>	<b>-</b>	<b>51,261</b>
<b>Net book value at 31 December 2017</b>	<b>34,443</b>	<b>15,480</b>	<b>-</b>	<b>49,923</b>

The goodwill of £34 million arose on the acquisition of Stafford Miller in 2003. All goodwill is allocated to a single cash generating unit, being the total trade of the Group. This represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

Notes to the financial statements for the year ended 31 December 2017

13 Investments in subsidiaries

	Total £'000
<b>Cost</b>	
At 1 January 2016	9,915,127
Additions	536
Disposal	(3,320)
Exchange revaluation for the year (note 5)	147,393
At 31 December 2016	10,059,736
Additions	1,711
Disposal	(4,971)
At 31 December 2017	10,056,476
<b>Accumulated Impairment</b>	
At 1 January 2016	(311,259)
Impairment charge for the year	(35,066)
Disposals	335
At 31 December 2016	(345,990)
Impairment charge for the year	(17,652)
Disposals	1,768
At 31 December 2017	(361,874)
Carrying value at 1 January 2016	9,603,868
Carrying value at 31 December 2016	9,713,746
Carrying value at 31 December 2017	9,694,602

During the year, the Company injected share capital of £1 million in its shareholding in Aners S.A. The disposal during the year relates to the disposal of the Company's investment in Aners S.A., where the carrying value of £3.2 million compared to sale proceeds of £3.4 million resulted in a gain on disposal of £0.2 million.

Amounts written off investments of £17.7 million relate to write-downs in the carrying value of the Company's subsidiary investments in GlaxoSmithKline South Africa (Pty) Limited of £13.1 million, and Glaxo Kabushiki Kaisha of £4.6 million.

Details of the subsidiaries of the Company as at 31 December 2017 are given in note 28.

14 Investments in associates

	Total £'000
<b>Cost</b>	
At 1 January 2016	385,947
Additions	3,841
Write-offs	(19,420)
At 31 December 2016	370,368
Additions	9,149
Disposal	(71,328)
At 31 December 2017	308,189

Additions to associates comprise of investments in Kurma Bio Fund of £4 million, Medicxi Ventures of £2.3 million, Index Ventures Life VI (Jersey) LP of £2.1 million and Apollo Associate of £0.7 million.

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14 Investments in associates (continued)

The disposal during the year relates to the disposal of the Company's investment in JCR Pharmaceuticals Co. Ltd where the carrying value of £71 million compared to sale proceeds of £159 million resulted in a gain on disposal of £88 million.

Details of the associates of the Company as at 31 December 2017 are given in note 28.

15 Investments in available-for-sale assets

	Total £'000
<b>Cost</b>	
At 1 January 2016	1,021,874
Additions	19,425
Disposal	(630,780)
At 31 December 2016	410,519
Additions	705
At 31 December 2017	411,224
<b>Revaluation reserve</b>	
At 1 January 2016	43,926
Movement in the year	248,179
Disposal	(108,025)
At 31 December 2016	184,080
Movement in the year	(67,289)
At 31 December 2017	116,791
<b>Accumulated Impairment</b>	
At 1 January 2016	(383,903)
Impairment charge for the year	(14,950)
Disposals	232,273
At 31 December 2016	(166,580)
Impairment charge for the year	(28)
At 31 December 2017	(166,608)
Carrying value at 1 January 2016	681,897
Carrying value at 31 December 2016	428,019
Carrying value at 31 December 2017	361,407

The Additions to available-for-sale investments comprises of an additional investment of £0.7 million in Dementia Discovery Fund.

Notes to the financial statements for the year ended 31 December 2017

16 Investment properties

	Land and buildings £'000	Assets under construction £'000	Total £'000
<b>Cost</b>			
At 1 January 2017	19,568	947	20,515
Additions	-	660	660
Transfer to assets held-for-sale (note 19)	(10,137)	-	(10,137)
Transfer to property, plant and equipment (note 11)	-	(1,175)	(1,175)
Reclassifications	180	(180)	-
At 31 December 2017	9,611	252	9,863
<b>Accumulated depreciation</b>			
At 1 January 2017	(6,432)	-	(6,432)
Charge for the year (note 5)	(264)	-	(264)
Transfer to assets held-for-sale (note 19)	3,693	-	3,693
At 31 December 2017	(3,003)	-	(3,003)
<b>Net book value at 1 January 2017</b>	<b>13,136</b>	<b>947</b>	<b>14,083</b>
<b>Net book value at 31 December 2017</b>	<b>6,608</b>	<b>252</b>	<b>6,860</b>

The net book value at 31 December 2017 of the Company's investment properties includes freehold properties of £nil (at 1 January 2017: £6.3 million) and leasehold properties of £6.6 million (at 1 January 2017: £6.8 million).

17 Trade and other receivables

	2017 £'000	2016 £'000
<b>Amounts due within one year</b>		
Amounts owed by Group undertakings	1,195,323	6,011,460
Other receivables	141,172	158,644
	<b>1,336,495</b>	<b>6,170,104</b>

Amounts owed by Group undertakings are interest free, except for a call account balance with GlaxoSmithKline Finance plc of £969 million (2016: £5,824 million) which is unsecured with interest received at LIBOR rate less 0.125% (2016: LIBOR rate less 0.125%) per annum and repayable on demand.

Notes to the financial statements for the year ended 31 December 2017

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:

	2017		2016	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward foreign exchange contract- Japanese Yen	-	-	12,912	(49,653)
Forward foreign exchange contract- United States Dollar	460	-	13	(4,390)
Forward foreign exchange contract- Israeli New Sheqel	-	-	35	-
Forward currency swap contract- Euro	79	-	-	(116)
	539	-	12,960	(54,159)

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 2017 were £51 million (2016: £478 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 2016 and 31 December 2016	-	-	-
Additions	3,396	6,444	9,840
Impairments	-	(1,071)	(1,071)
At 31 December 2017	3,396	5,373	8,769

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 £8.8 million (2016: £nil).

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.

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**20 Trade and other payables**

	2017 £'000	2016 £'000
Trade payables	6,275	7,536
Amounts owed to Group undertakings	210,899	243,398
Corporation tax	244,342	541,249
Other payables	2,425	1,577
	<b>463,941</b>	<b>793,760</b>

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.

**21 Borrowings**

	2017 £'000	2016 £'000
Amounts falling due within one year		
Bank overdraft	66	2

**22 Accruals and deferred income**

	2017 £'000	2016 £'000
Amounts falling due within one year	38,688	50,339
Amounts falling due after more than one year	17,662	20,174
	<b>56,350</b>	<b>70,513</b>

Accrual and deferred income falling due within one year includes £20 million (2016: £17 million) related to trademarks and other non-litigation expenses and £30 million (2016: £33 million) in relation to collaborative agreements.

Accruals and deferred income falling due after more than one year comprises of deferred income £18 million (2016: £20 million) in relation to collaborative agreements which are being recognised until 2029.

**23 Provisions for liabilities**

	Product liability £'000
At 1 January 2016	671
Charge for the year	4,366
Utilised	(3,789)
Exchange loss	180
At 31 December 2016	1,428
Charge for the year	191
Utilised	(1,434)
Exchange loss	(70)
At 31 December 2017	115

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**23 Provisions for liabilities (continued)**

Glaxo Group Limited 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 provision 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 3 years.

For further detail concerning legal proceedings, refer to note 29 of the GlaxoSmithKline plc 2017 Annual Report.

**24 Share capital**

	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>Number of</b>	<b>Number of</b>	<b>£'000</b>	<b>£'000</b>
	<b>shares</b>	<b>shares</b>		
<b>Issued and fully paid</b>				
Ordinary Shares of 50p each				
(2016: 50p each)	<b>1,617,988,119</b>	<b>1,617,988,119</b>	<b>808,994</b>	<b>808,994</b>

**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 2017 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 (2016: £nil). Corporate Directors received no remuneration during the year, either as executives of the Group or in respect of their services to the Company (2016: £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.

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**Notes to the financial statements for the year ended 31 December 2017**

**28 Subsidiaries and associates**

The subsidiaries and associates of the Company as at 31 December 2017 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, Miraflones, 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
Biddle Sawyer Limited	-	35.99	Equity	252 Dr Annie Besant Road, Mumbai, 400030, India
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
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



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28 Subsidiaries and associated undertakings (continued)

Subsidiaries	Direct shares held (%)	Indirect shares held (%)	Security	Address of the registered office
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 Chile Farmaceutica Limitada	21.77	-	Social Capital	Avenida Andres Bello No. 2687, Piso 19, Las Condes, Santiago, C.P. 7550611, Chile
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
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 Landholding Company, Inc	-	27.82	Common	2266 Chino Roces Avenue, Makati City, Philippines
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

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28 Subsidiaries and associated undertakings (continued)

Subsidiaries	Direct shares held (%)	Indirect shares held (%)	Security	Address of the registered office
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
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 Co., Ltd.	-	50	Ordinary	6 Yonbancho, Chiyoda-ku, Tokyo, Japan
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

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**28 Subsidiaries and associated undertakings (continued)**

<b>Subsidiaries</b>	<b>Direct shares held (%)</b>	<b>Indirect shares held (%)</b>	<b>Security</b>	<b>Address of the registered office</b>
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
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
<b>Associates</b>				
Apollo Therapeutics LLP	25	-	Limited Partnership Interest	
Index Ventures Life VI (Jersey) LP	24.94	-	Limited Partnership Interest	
Innoviva, Inc (formerly Theravance, Inc)	31.43	-	Common Stock	
Kuma Biofund II, FCPR	32.06	-	Limited Partnership Interest	
Medicxi Ventures I LP	26.19	-	Limited Partnership Interest	

The Company had no transactions with any of its associates in the year (2016: nil).