

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

Annual Report

for the year ended 31 December 2018

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

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

Annual Report

for the year ended 31 December 2018

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GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

Strategic report for the year ended 31 December 2018

The Directors present their strategic report on GlaxoSmithKline Research & Development Limited (the "Company") for the year ended 31 December 2018.

Principal activities and future developments

The Company is a member of the GlaxoSmithKline Group (the "Group"). The Company 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 providing research and development services to other companies in the Group. Its people are committed to fighting disease by bringing innovative medicines and services to patients throughout the world and to healthcare providers who serve them. Within this overall aim, the research responsibility is to identify lead compounds, with new or enhanced biological properties. Leads emerging from our research programmes, which satisfy strict criteria including unmet medical need, scientific rationale, commercial potential, strategic fit and development feasibility, will become development projects. The activities aim to develop these new compounds into products for sale, which add value over existing therapies. These programmes are conducted internationally in order to optimise the resources available and to enable marketing approval to be obtained in as many markets as possible, with the minimum of delay. The Directors do not envisage any change to the nature of the business in the foreseeable future.

The Group world-wide research and development activities are focused on the following areas: Respiratory, Anti-virals, Central nervous system, Cardiovascular and Urogenital, Metabolic, Anti-bacterials and Emesis, Vaccines, Dermatology, Oncology and Rare diseases. Success in these areas will enable the Group to strengthen its current franchises and break into new ones.

Review of business

The Directors report that revenue received from other companies in the Group for the provision of research and development and other services amounted to £1,049,914,000 for the year ended 31 December 2018 (2017: £1,077,287,000). Total research and development expenditure for the year ended 31 December 2018 amounted to £960,527,000 (2017: £984,689,000). The profit for the financial year was £73,123,000 (2017: profit of £74,699,000). The Directors are of the opinion that the current level of activity and the year end financial position are satisfactory and will remain so in the foreseeable future.

The profit for the financial year of £73,123,000 will be transferred to reserves (2017: profit of £74,699,000 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 would not be appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's 2018 Annual Report which does not form part of this report.

GlaxoSmithKline Research & Development Limited
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Strategic report for the year ended 31 December 2018 (continued)

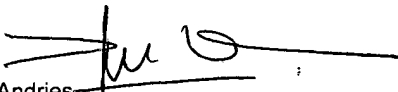
Key performance indicators (KPIs)

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.

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


J Andries
Director
26 September 2019

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

Directors' report for the year ended 31 December 2018

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

Results and dividends

The Company's results for the financial year are shown in the income statement and statement of comprehensive income on pages 8 and 9.

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

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:

Glaxo Group Limited
Edinburgh Pharmaceutical Industries Limited
D Allen
J Andries (appointed on 12 April 2018)

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.

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.

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

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

Statement of Directors' responsibilities (continued)

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 page 1 and 2:

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

Governance

The Company's approach to the Modern Slavery Act 2015 is set by the Group. Each year, as part of their governance arrangements, the Group formally reviews and approves the approach to the Modern Slavery Act 2015 and has confirmed that the approach is still valid for 2018.

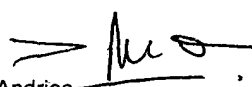
Disclosure of information to auditors

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

Independent auditor

PricewaterhouseCoopers LLP resigned during 2018 as the Company's auditor after completing the Company's 2017 statutory audit. 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


J Andries
Director
26 September 2019

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

Independent auditor's report to the members of GlaxoSmithKline Research & Development Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of GlaxoSmithKline Research & Development Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its 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 22.

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.

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

Independent auditor's report to the members of GlaxoSmithKline Research & Development Limited (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and 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 and 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.

We have nothing to report in respect of these matters.

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

Independent auditor's report to the members of GlaxoSmithKline Research & Development Limited (continued)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Deloitte LLP
Statutory Auditor
London, United Kingdom
26 September 2019

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

Income statement
for the year ended 31 December 2018

| | Notes | 2018 £'000 | 2017 £'000 |
|--|-------|---------------|---------------|
| Turnover | 4 | 1,049,914 | 1,077,287 |
| Research and development expenditure | | (960,527) | (984,689) |
| Operating profit | 5 | 89,387 | 92,598 |
| Profit before interest and taxation | | 89,387 | 92,598 |
| Finance income | 7 | 2,773 | 736 |
| Profit before taxation | | 92,160 | 93,334 |
| Taxation | 8 | (19,037) | (18,635) |
| Profit for the year | | 73,123 | 74,699 |

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

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

Statement of comprehensive income
for the year ended 31 December 2018

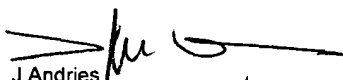
| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Profit for the year | 73,123 | 74,699 |
| Items that may not be subsequently reclassified to the income statement: | | |
| Fair value movements on financial assets at fair value through other comprehensive income / (loss) | 14 | (65) |
| Other comprehensive income / (loss) for the year | 14 | (65) |
| Total comprehensive income for the year | 73,137 | 74,634 |

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

Balance sheet
as at 31 December 2018

| | Notes | 2018 £'000 | 2017 £'000 |
|--|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 550,055 | 569,011 |
| Intangible assets | 10 | 88,496 | 89,016 |
| Equity investments | 11 | 200 | 186 |
| Prepayments and accrued income | 12 | 23,365 | 27,455 |
| Total non-current assets | | 662,116 | 685,668 |
| Current assets | | | |
| Trade and other receivables | 13 | 1,161,677 | 994,740 |
| Prepayments and accrued income | 12 | 36,403 | 41,510 |
| Cash and cash equivalents | - | 2 | - |
| Total current assets | | 1,198,082 | 1,036,250 |
| Total assets | | 1,860,198 | 1,721,918 |
| Current liabilities | | | |
| Trade and other payables | 14 | (435,137) | (360,464) |
| Accruals and deferred income | 15 | (77,443) | (86,448) |
| Short term provisions | 16 | (22,657) | (12,852) |
| Bank overdraft | - | - | (72) |
| Total current liabilities | | (535,237) | (459,836) |
| Net current assets | | 662,845 | 576,414 |
| Total assets less current liabilities | | 1,324,961 | 1,262,082 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 8 | (98,445) | (104,940) |
| Accruals and deferred income | 15 | (1,949) | (1,949) |
| Other provisions | 16 | (6,172) | (9,935) |
| Total non-current liabilities | | (106,566) | (116,824) |
| Total liabilities | | (641,803) | (576,660) |
| Net assets | | 1,218,395 | 1,145,258 |
| Equity: | | | |
| Share capital | 17 | 600,000 | 600,000 |
| Other reserves | 18 | 145 | 131 |
| Retained earnings | | 618,250 | 545,127 |
| Shareholders' equity | | 1,218,395 | 1,145,258 |

The financial statements on pages 8 to 27 were approved by the Board of Directors on 26 September 2019 and signed on its behalf by:


J Andries
Director

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

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

| | Share capital £'000 | Other reserves £'000 | Retained earnings £'000 | Total £'000 |
|---|---------------------------|----------------------------|-------------------------------|----------------|
| At 1 January 2017 | 600,000 | 196 | 470,428 | 1,070,624 |
| Profit for the year | - | - | 74,699 | 74,699 |
| Other comprehensive loss for the year | - | (65) | - | (65) |
| At 31 December 2017 | 600,000 | 131 | 545,127 | 1,145,258 |
| Profit for the year | - | - | 73,123 | 73,123 |
| Other comprehensive income for the year | - | 14 | - | 14 |
| At 31 December 2018 | 600,000 | 145 | 618,250 | 1,218,395 |

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

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

1 Presentation of the financial statements

General information

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.

The principal activities of the Company are providing research and development services to other companies in the Group. Its people are committed to fighting disease by bringing innovative medicines and services to patients throughout the world and to healthcare providers who serve them. Within this overall aim, the research responsibility is to identify lead compounds, with new or enhanced biological properties. Leads emerging from our research programmes, which satisfy strict criteria including unmet medical need, scientific rationale, commercial potential, strategic fit and development feasibility, will become development projects. The activities aim to develop these new compounds into products for sale, which add value over existing therapies. These programmes are conducted internationally in order to optimise the resources available and to enable marketing approval to be obtained in as many markets as possible, with the minimum of delay.

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 equity investment designated as financial assets at fair value through other comprehensive income, and in accordance with the Companies Act 2006.

The financial statements are presented in Pounds Sterling.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

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

GlaxoSmithKline Research & Development Limited
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Notes to the financial statements for the year ended 31 December 2018

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or make a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirements for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 40A-D (requirements for a third balance sheet);
 - 111 (cash flow statement information); and
 - 134 - 136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 and 18A of IAS 24, 'Related party disclosures' (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) Ultimate and immediate parent undertaking

The Company is a wholly owned subsidiary of the ultimate parent company, GlaxoSmithKline plc, a company registered in England and Wales, is the Company's ultimate parent undertaking and controlling party. The largest and smallest group of undertakings for which group financial statements are prepared and which include the results of the Company are the consolidated financial statements of GlaxoSmithKline plc. Copies of the consolidated financial statements can be obtained from the Company Secretary, GlaxoSmithKline plc, 980 Great West Road, Brentford, Middlesex TW8 9GS. The immediate parent undertaking is Glaxo Group Limited. 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.

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

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)

Classification and measurement of financial assets (continued)

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.

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 trade and other receivables were all classified as financial assets measured at amortised cost under IAS 39. Under IFRS 9, the business model under which each portfolio of trade and other receivables held has been assessed. The Company has a portfolio of financial assets under IFRS 9 to collect the contractual cash flows (measured at amortised cost).

There were no material changes in the carrying value of the financial assets as a result of these changes in measurement basis.

Impairment of financial assets

IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets rather than the incurred credit loss model required under IAS 39. The expected credit loss model requires the Group to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date.

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.

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

The Company has applied IFRS 15 'Revenue from contracts with customers' with effect from 1 January 2018. IFRS 15 provides a single, principles-based approach to the recognition of revenue from all contracts with customers. It focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations are satisfied.

The Company adopted IFRS 15 applying the modified retrospective approach. IFRS 15 did not have a material impact on the amount or timing of recognition of reported revenue. At 1 January 2018, a cumulative adjustment to decrease retained earnings of was recognised. In accordance with the requirements of IFRS 15 where the modified retrospective approach is adopted, prior year results have not been restated.

(e) Foreign currency transactions

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

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

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

2 Summary of significant accounting policies (continued)

(f) Turnover

The Company recognises turnover for supply of integrated research and development services for the overall development of pharmaceutical products owned by the other Group Companies. The services are provided for a combined output and are not separable. Therefore, the services form a single performance obligation.

Turnover is recognised over time as the services are provided and corresponding costs incurred. The services are usually paid and billed on a monthly basis and relevant turnover represents the recharge of research and development costs incurred in United Kingdom to other Group companies with an agreed mark-up, excluding value added tax and other sales taxes.

Additionally, the Company acts as an agent in relation to the collection and subsequent recharge of worldwide research and development costs from the worldwide research and development centres outside of the United Kingdom to the various worldwide intellectual property owners. The Company does not earn a fee or commission in return for provision of this service. Therefore, no turnover is recorded in the Company in respect of its activities as an agent.

(g) 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.

Restructuring costs are recognised and provided for, where appropriate, in respect of the direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

(h) 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 policy.

(i) Finance income

Finance income is recognised on an accruals basis using the effective interest method.

(j) 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:

| | |
|-------------------------------|--|
| Freehold buildings | 20 to 50 years |
| Leasehold land and buildings | The shorter of lease term and 50 years |
| Plant, equipment and vehicles | 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)

(k) Asset retirement obligations

Asset retirement obligations are included within the cost of an asset on its initial purchase or construction if there is a legal obligation to incur the costs on retirement of the asset. The addition to the cost of the asset and the provision are measured by discounting the expected future cash outflows to present value. The asset cost arising from recognition of the asset retirement obligation is depreciated along with the rest of the asset over the expected useful life.

(l) Intangible assets

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

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.

(m) Financial assets

Financial assets are measured at amortised cost and fair value through other comprehensive income ('FVTOCI'). 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.

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.

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

(n) 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.

(o) 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. Any provision for impairment is charged to the statement of comprehensive income in the year concerned.

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

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

2 Summary of significant accounting policies (continued)

(p) Leases

Leasing agreements which transfer to the Company substantially all the benefits and risks of ownership of an asset are treated as finance leases, as if the asset had been purchased outright. The assets are included in property, plant and equipment or computer software and the capital element of the leasing commitment is shown as obligations under finance leases. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the income statement. All other leases are operating leases and the rental costs are charged to the income statement on a straight-line basis over the lease term.

(q) 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.

(r) 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 overdraft are shown within borrowings in current liabilities.

(s) 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.

(t) 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 using rates of tax that has been enacted or subsequently enacted by the balance sheet date.

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

2 Summary of significant accounting policies (continued)

(u) Provisions for liabilities

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

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

Turnover is recognised in the income statement when goods or services are supplied from the Company to other Group subsidiaries.

Turnover represents the net invoice value, which includes the recharge of research and development costs incurred in the United Kingdom to other Group companies with an agreed mark-up, excluding value added tax and other sales taxes.

Additionally, the Company acts as an agent in relation to the collection and subsequent recharge of worldwide research and development costs from the worldwide research and development centres outside of the United Kingdom to the various worldwide intellectual property owners. The Company does not earn a fee or commission in return for provision of this service. Therefore, no turnover is recorded in the Company in respect of its activities as an agent.

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

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. 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.

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

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

2 Summary of significant accounting policies (continued)

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

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.

(x) 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.

(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.

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

2 Summary of significant accounting policies (continued)

(y) Trade and other receivables for periods up to and including 31 December 2017

Trade and other receivables are carried at original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When a trade or other receivable is determined to be uncollectable it is written off, firstly against any provisions available and then to the 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 key accounting judgements and estimates made.

The Directors do not consider that there are any critical accounting judgements that have been made in the process of applying the Company's accounting policies and that have had a significant effect on the amounts recognised in the financial statements. 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

Turnover represents service fees charged to Glaxo Group Limited and fellow subsidiary undertakings. The turnover attributable to Glaxo Group Limited, a Director of the Company, is £1,213,000 (2017: £7,949,000).

Analysis of turnover by geography:

| | 2018 £'000 | 2017 £'000 |
|--------------------------|---------------|---------------|
| United Kingdom | 1,032,077 | 1,034,254 |
| Ireland | 3,098 | 5,059 |
| United States of America | 14,739 | 37,974 |
| | 1,049,914 | 1,077,287 |

In the opinion of the Directors there is one class of business - the provision of Research and Development services.

The Company acts as an agent in relation to the collecting and subsequent recharge of worldwide research and development costs from the worldwide research and development centres to the various intellectual property owners. The Company does not earn a fee or commission in return for provision of this service. Therefore, no turnover is recorded by the Company in respect of its activities as an agent. In 2018, the Company's activities as an agent totalled £2,292,491,000 (2017: £2,244,063,000).

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

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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 | 48,122 | 45,585 |
| Amortisation of intangible assets | 21,950 | 18,463 |
| Impairment of property, plant and equipment | 1,955 | 2,664 |
| Impairment of intangible assets | 7,191 | 172 |
| Exchange losses on foreign currency translation | 1,651 | 7,205 |
| Operating lease rentals: | | |
| Land and buildings | 1,400 | 1,400 |
| Employment costs | 415,967 | 400,426 |
| Recharges relating to services provided by other group companies | 146,399 | 181,101 |
| Share based payment charge | 365 | 365 |
| Management fee | 266 | 266 |

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 auditors' remuneration of £248,000 (2017: £248,000).

6 Employees

All personnel 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.

| Employee costs | 2018 £'000 | 2017 £'000 |
|--|----------------|----------------|
| Wages and salaries | 270,564 | 267,864 |
| Severance pay | 25,302 | 12,103 |
| Social security costs | 29,717 | 29,759 |
| Pension costs - defined contribution plans | 56,813 | 55,723 |
| Share based payments | 33,571 | 34,977 |
| | 415,967 | 400,426 |
| <hr/> | | |
| | 2018 | 2017 |
| The average monthly number of persons employed by the Company (including Directors) | No. | No. |
| Research and development | 3,439 | 3,831 |

The average number of employees exclude temporary and contract staff.

GlaxoSmithKline Services Unlimited operates hybrid pension schemes for all of the Group's UK employees. These schemes include defined benefit arrangements where the assets are held independently of the Group's finances and which are funded partly by contributions from members and partly by contributions from GlaxoSmithKline Services Unlimited at rates advised by independent professionally qualified actuaries.

The management fee is charged by GlaxoSmithKline Services Unlimited for services provided to the Company which includes an element relating to:

- obligation to provide shares to the employees when they exercise their options or awards;
- the pension arrangements for the Group's UK employees calculated as if the arrangements were on a defined contribution basis. However, the sponsoring employer does not recharge the net defined benefit cost to other entities within the Group. As such, the sponsoring employer accounts for the entire scheme as a defined benefit scheme in accordance with IAS 19 "Employee benefits".

Full details of the UK pension schemes and employee share schemes can be found in the Annual report of GlaxoSmithKline Services Unlimited for the year ended 31 December 2018.

GlaxoSmithKline Research & Development Limited
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Notes to the financial statements for the year ended 31 December 2018

7 Finance income

| | 2018 £'000 | 2017 £'000 |
|----------------------------------|---------------|---------------|
| On loans with Group undertakings | 2,773 | 736 |

8 Taxation

| | 2018 £'000 | 2017 £'000 |
|--|----------------|---------------|
| Income tax charge on profit | | |
| Current tax: | | |
| UK corporation tax | 21,567 | 9,279 |
| Adjustments in respect of previous years | 3,965 | 159 |
| Total current tax | 25,532 | 9,438 |
| Deferred tax: | | |
| Origination and reversal of timing differences | (2,344) | 9,505 |
| Adjustments in respect of previous years | (4,151) | (308) |
| Total deferred tax | (6,495) | 9,197 |
| Total tax charge for the year | 19,037 | 18,635 |

The tax assessed for the year is higher (2017: higher) 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:

| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Reconciliation of total tax charge | | |
| Profit on ordinary activities before tax | 92,160 | 93,334 |
| Profit on ordinary activities at the UK standard rate 19.00% (2017: 19.25%) | 17,510 | 17,964 |
| Effects of: | | |
| Research and development tax charge | 524 | 20 |
| Adjustments to tax charge in respect of previous years | (186) | (149) |
| Expenses not deductible for tax purposes | 913 | 2,056 |
| Remeasurement of deferred tax - change in UK tax rate | 276 | (1,256) |
| Total tax charge for the year | 19,037 | 18,635 |

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

Movement in deferred tax assets and liabilities

| | Accelerated capital allowances £'000 | Other net temporary differences £'000 | Total £'000 |
|---------------------------------------|---|--|----------------|
| At 1 January 2017 | 100,799 | (5,056) | 95,743 |
| Charge to income statement | 8,286 | 1,219 | 9,505 |
| Adjustments in respect of prior years | (13) | (295) | (308) |
| At 1 January 2018 | 109,072 | (4,132) | 104,940 |
| Charge to income statement | (4,265) | (2,230) | (6,495) |
| At 31 December 2018 | 104,807 | (6,362) | 98,445 |

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

8 Taxation (continued)

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

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Deferred tax liabilities classified as non-current liabilities | 98,445 | 104,940 |

9 Property, plant and equipment

| | Land and buildings £'000 | Plant, equipment and vehicles £'000 | Assets in construction £'000 | Total £'000 |
|---|--------------------------------|---|------------------------------------|----------------|
| Cost | | | | |
| At 1 January 2018 | 472,134 | 1,225,829 | 94,935 | 1,792,898 |
| Additions | - | 977 | 31,629 | 32,606 |
| Reclassifications (Note 10) | 12 | 106,824 | (108,469) | (1,633) |
| Disposals and write-offs | (2,564) | (51,534) | (399) | (54,497) |
| At 31 December 2018 | 469,582 | 1,282,096 | 17,696 | 1,769,374 |
| Accumulated depreciation | | | | |
| At 1 January 2018 | (282,828) | (939,668) | - | (1,222,496) |
| Charge for the year | (6,311) | (41,811) | - | (48,122) |
| Disposals and write-offs | 1,384 | 50,484 | - | 51,868 |
| At 31 December 2018 | (287,755) | (930,995) | - | (1,218,750) |
| Accumulated impairment | | | | |
| At 1 January 2018 | (521) | (870) | - | (1,391) |
| Impairment charge for the year | (876) | (680) | (399) | (1,955) |
| Disposals and write-offs | 1,181 | 1,197 | 399 | 2,777 |
| At 31 December 2018 | (216) | (353) | - | (569) |
| Total depreciation and impairment at 31 December 2018 | (287,971) | (931,348) | - | (1,219,319) |
| Net book value at 1 January 2018 | 188,785 | 285,291 | 94,935 | 569,011 |
| Net book value at 31 December 2018 | 181,611 | 350,748 | 17,696 | 550,055 |

The net book value at 31 December 2018 of the Company's land and buildings comprises freehold properties of £181,611,000 (2017: £188,785,000).

Included in plant, equipment and vehicles at 31 December 2018 are leased assets with a cost of £4,331,000 (at 2017: £4,331,000), accumulated depreciation of £4,331,000 (2017: £4,331,000) and a net book value of £nil (2017: £nil).

The impairment loss of £1,955,000 (2017: £2,664,000) in the current year relates to impairment made during the review of the fixed assets.

The Company assesses impairment of property, plant and equipment at each reporting date by evaluating conditions specific to the assets that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined.

Assets with gross costs of £54,497,000 was disposed during the year.

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

10 Intangible assets

| | Computer software £'000 |
|--|-------------------------------|
| Cost | |
| At 1 January 2018 | 148,628 |
| Additions | 25,679 |
| Disposals and write-offs | (37,054) |
| Reclassifications (Note 9) | 1,633 |
| Capitalisation Borrowing cost | 1,002 |
| At 31 December 2018 | 139,888 |
| Accumulated amortisation | |
| At 1 January 2018 | (59,304) |
| Charge for the year | (21,950) |
| Disposals and write-offs | 31,330 |
| At 31 December 2018 | (49,924) |
| Accumulated impairment | |
| At 1 January 2018 | (308) |
| Impairment charge for the year | (7,191) |
| Disposals and write-offs | 6,031 |
| At 31 December 2018 | (1,468) |
| Total amortisation and impairment at 31 December 2018 | (51,392) |
| Net book value at 1 January 2018 | 89,016 |
| Net book value at 31 December 2018 | 88,496 |

The current year impairment loss of £7,191,000 (2017: £172,000) relates to impairment made during the review of the intangible asset register.

The current year disposals and write-offs of cost of £37,054,000 (2017: £45,592,000) relates to the write-off of obsolete assets during the annual review of the computer software asset register.

Amortisation of intangible assets is included in research and development expenditure in the income statement.

11 Equity investments

| | Equity investments £'000 |
|---|-----------------------------|
| Cost at 1 January 2017, 31 December 2017 and 31 December 2018 | 55 |
| Revaluation reserve | |
| At 1 January 2018 | 131 |
| Movement in the year | 14 |
| At 31 December 2018 | 145 |
| Carrying value at 1 January 2017 | 251 |
| Carrying value at 31 December 2017 | 186 |
| Carrying value at 31 December 2018 | 200 |

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

11 Equity investments (continued)

| Investment | Country of Incorporation | Class of share held | % holding | Carrying value £'000 |
|---------------|-----------------------------|------------------------|-----------|----------------------------|
| Cellzome Inc. | United States | Common | 0.5 | 200 |

In the current year, the investment holding in Cellzome Inc. remained at 0.5% (2017: 0.5%) for the Company.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

12 Prepayments and accrued income

| | 2018 £'000 | 2017 £'000 |
|--------------------------------------|---------------|---------------|
| Amounts due within one year | 36,403 | 41,510 |
| Amounts due after more than one year | 23,365 | 27,455 |
| | 59,768 | 68,965 |

13 Trade and other receivables

| | 2018 £'000 | 2017 £'000 |
|------------------------------------|------------------|----------------|
| Amounts due within one year | | |
| Amounts owed by Group undertakings | 1,156,154 | 987,448 |
| Corporation tax | - | 1,103 |
| Other receivables | 5,523 | 6,189 |
| | 1,161,677 | 994,740 |

The amounts owed by Group undertakings are unsecured, interest free and are repayable on demand, except for a call account balance with GlaxoSmithKline IHC Limited of £641,492,000 (2017: £407,378,000) which is unsecured with interest received at LIBOR rate less 0.125% (2017: LIBOR rate less 0.125%) per annum and repayable on demand.

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

14 Trade and other payables

| | 2018 £'000 | 2017 £'000 |
|-------------------------------------|----------------|----------------|
| Amounts falling due within one year | | |
| Trade payables | 165,901 | 153,922 |
| Amounts owed to Group undertakings | 245,307 | 201,211 |
| Corporation tax | 18,809 | - |
| Other taxes and social security | 5,120 | 5,331 |
| | 435,137 | 360,464 |

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

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

15 Accruals and deferred income

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Amounts falling due within one year | 77,443 | 86,448 |
| Amounts falling due after more than one year | 1,949 | 1,949 |
| | 79,392 | 88,397 |

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

15 Accruals and deferred income (continued)

Accruals and deferred income falling due within one year includes 2018 bonus award of £37,445,000 (2017: £38,909,000) and deferred severance pay expenditure of £nil (2017: £4,255,000).

Accruals and deferred income falling due after more than one year relates to grant income £1,949,000 (2017: £1,949,000) from the Medical Research Council in relation to the Addenbrookes facility in Cambridge which is being recognised over the term of the grant.

16 Other provisions

| | Other provisions £'000 |
|---------------------------------------|------------------------------|
| At 1 January 2017 | 29,955 |
| Charge for the year | 2,778 |
| Reversed/ released | (3,847) |
| Utilised | (6,099) |
| At 31 December 2017 | 22,787 |
| Charge for the year | 22,233 |
| Reversed/released | (795) |
| Utilised | (13,866) |
| Reclassifications and other movements | (1,530) |
| At 31 December 2018 | 28,829 |

Other provisions includes severance costs under the Group's Operational Excellence Programme of £20,000,000 (2017: £9,000,000), asset retirement obligation of £4,000,000 (2017: £8,000,000) and Pipeline Award provision of £4,000,000 (2017: £4,000,000). The majority of the Group's Operational Excellence Programme is expected to be utilised in 2019. Management anticipates the Pipeline Awards provision will be used by 2024.

17 Share capital

| | 2018 Number of shares | 2017 Number of shares | 2018 £'000 | 2017 £'000 |
|--|-----------------------------|-----------------------------|---------------|---------------|
| Issued and fully paid | | | | |
| Ordinary Shares of £1 each (2017: £1 each) | 600,000,000 | 600,000,000 | 600,000 | 600,000 |

18 Other reserves

| | Fair value reserves £'000 |
|--|---------------------------------|
| At 31 December 2017 | 131 |
| Fair value movements on equity investments | 14 |
| At 31 December 2018 | 145 |

Other reserves of £145,000 relate to cumulative fair value gains on equity investments.

GlaxoSmithKline Research & Development Limited
(Registered number: 00835139)

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

19 Commitments

At 31 December, the Company had the following capital commitments:

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Capital commitments | | |
| Contracted for but not provided in the financial statements: | | |
| Intangible assets | 4,203 | 157 |
| Property, plant and equipment | 14,794 | 26,687 |
| Commitments under non-cancellable operating leases are disclosed below : | | |
| | 2018 £'000 | 2017 £'000 |
| Commitments under non-cancellable operating leases | | |
| Rental payments due within one year | 400 | 1,400 |
| Rental payments due between one and not later than five years | 1,600 | 1,600 |
| Rental payments due after five years | 1,500 | 1,900 |
| Total commitments under non-cancellable operating leases | 3,500 | 4,900 |

20 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.

21 Directors' remuneration

The Directors' remuneration is as follows:

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Salary and fees | 262 | 138 |
| Retirement benefits and other emoluments | 34 | 5 |
| Bonus | 124 | 99 |
| Share based payments | 96 | - |
| Total | 516 | 242 |

No retirement benefits accrued under defined benefits pension schemes and money purchase schemes for Directors during the year ended 31 December 2018 (2017: No Director).

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).

Highest paid director

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Salary and fees | 130 | 138 |
| Retirement benefits and other emoluments | 25 | 5 |
| Bonus | 61 | 99 |
| Share based payments | 96 | - |
| Total | 312 | 242 |

22 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.