

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

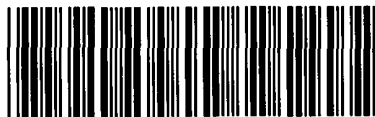
**Annual Report**

**for the year ended 31 December 2016**

**Registered office address:**

980 Great West Road  
Brentford  
Middlesex  
TW8 9GS  
England

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

**Annual Report**

**for the year ended 31 December 2016**

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

**Strategic report for the year ended 31 December 2016**

The Directors present their Strategic report on the Company for the year ended 31 December 2016.

**Principal activities and future developments**

GlaxoSmithKline Intellectual Property Development Limited's (the "Company") principal activities are the development, enhancement, maintenance, protection and exploitation of intellectual property assets owned by the Company which may include but is not limited to, licensing out intellectual property rights relating to pharmaceutical products to the GlaxoSmithKline Group of companies (the "Group") and carrying out research and development activities.

The Directors do not envisage any change to the nature of the business in the foreseeable future.

**Review of business**

The Company made a loss for the financial year of £1,897,813,000 (2015: Loss of £1,853,604,000). This is due to a significant portion of the portfolio being in development stage. The Directors are of the opinion that the portfolio will become profitable in the future and that the current level of activity is sustainable, and will improve in the future. Additionally, the Directors have also received confirmation that GlaxoSmithKline Finance plc intends to support the Company for the foreseeable future after these financial statements are signed. Therefore, the Directors are of the opinion that the Company remains a going concern.

The loss for the financial year of £1,897,813,000 will be transferred from reserves (2015: Loss of £1,853,604,000 transferred from reserves).

**Principal risks and uncertainties**

The Directors of the Company manage the functions, assets and risks related to the intellectual property assets owned by the Company on a business sector, therapy area and stage of product life cycle basis. The principal functions, risks and uncertainties related to the development, enhancement, maintenance, protection and exploitation of intellectual property assets owned by the Group, which include those of the Company, are discussed in the Group's 2016 Annual Report. Please refer to the 2016 Group 2016 Report, which does not form part of this report, to ensure a complete understanding of the principal risks and uncertainties of the Group, and therefore the Company.

**Key performance indicators (KPIs)**

The Directors of the Company manage the functions, assets and risks related to the intellectual property assets owned by the Company on a business sector, therapy area and stage of product life cycle basis. Therefore, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The development, performance and position of the Group are discussed in the Group's 2016 Annual Report which does not form part of this report.

**Exceptional items**

The impairment charge of £7,023,000 relates to the adjustment in the carrying value of intellectual property following either a failure in clinical trials, the abandonment of the underlying asset and/or changes in the profitability forecasts for the underlying assets.

The Company has disposed of a portfolio of bioelectronic intellectual property rights held for £nil to a fellow Group subsidiary, Galvani Bioelectronics Limited, for consideration of £51.2 million, resulting in a gain on disposal of £51.2 million.

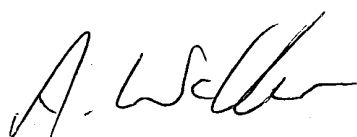
**GlaxoSmithKline Intellectual Property Development Limited**  
**(Registered number: 08283222)**

**Strategic report for the year ended 31 December 2016**

**Exceptional items (continued)**

The Company has also disposed of a portfolio of Ophthalmology intellectual property rights held for £nil, to a third party. The consideration received by the Group was in the form of Series A preferred stock in the third party purchaser of fair value £2.7 million (USD 3.4 million). The Series A preferred stock was capitalised in a fellow subsidiary entity, Glaxo Group Limited, who reimbursed the Company the fair value of the shares of £2.7 million (USD 3.4 million).

On behalf of the Board



A Walker  
Corporate Director  
06 September 2017

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

**Directors' report for the year ended 31 December 2016**

The Directors present their report on the Company and the audited financial statements for the year ended 31 December 2016.

**Results and dividends**

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

No dividend is proposed to the holders of ordinary shares in respect of the year ended 31 December 2016 (2015: £nil).

**Research and development**

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

**Directors and their interests**

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:

P F Blackburn	(Resigned on 1 February 2016)
Edinburgh Pharmaceutical Industries Limited	
Glaxo Group Limited	
S Dingemans	
F MacFarlane	(Resigned on 1 November 2016)
A Walker	
L La Corte	
K S Priestman	(Appointed on 9 December 2016)

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.

**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 Directors 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 his or her engagement in the business of the Company.

**Statement of Directors' responsibilities**

The Directors are responsible for preparing the Strategic report, Directors' report and the financial statements 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 101 'Reduced disclosure framework' ("FRS 101") 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.

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

**Directors' report for the year ended 31 December 2016**

**Statement of Directors' responsibilities (continued)**

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable UK accounting standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;

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. They 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:

- principal activities and future developments;
- review of business;
- principal risks and uncertainties; and
- exceptional items

**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.

**Governance**

The Company's approach to the Modern Slavery Act 2015 is set by the Group. As part of their governance, the Group reviewed and approved the approach to the Modern Slavery Act 2015 during 2016.

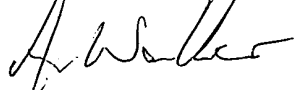
**Going concern**

The Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of another Group company GlaxoSmithKline Finance plc. GlaxoSmithKline Finance plc provides financial services to other companies within the Group, including borrowing through the issue of short term securities and investing in short term securities in order to manage the liquidity requirements of Group undertakings. The Directors have received confirmation that GlaxoSmithKline Finance plc intends to support the Company for at least one year after these financial statements are signed. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**Independent auditors**

Pursuant of Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the Board



A Walker  
Corporate Director  
06 September 2017

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

**Independent auditors' report to the members of GlaxoSmithKline Intellectual Property Development Limited**

**Report on the financial statements**

*Our opinion*

In our opinion, GlaxoSmithKline Intellectual Property Development Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

*What we have audited*

The financial statements, included within the Annual Report, comprise:

- the Balance sheet as at 31 December 2016;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

**Opinions on other matters prescribed by the Companies Act 2006**

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

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

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

**Other matters on which we are required to report by exception**

*Adequacy of accounting records and information and explanations received*

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, 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.

We have no exceptions to report arising from this responsibility.

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

**Independent auditors' report to the members of GlaxoSmithKline Intellectual Property Development Limited**

**Other matters on which we are required to report by exception (continued)**

*Directors' remuneration*

Under the Companies Act 2006, we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

*Our responsibilities and those of the Directors*

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 and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

The 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.

*What an audit of financial statements involves*

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

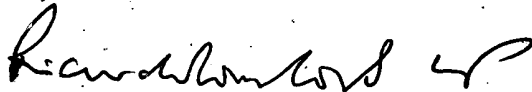
- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic report and the Directors' Report, we consider whether these reports include the disclosures required by applicable legal requirements.

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  
Chartered Accountants and Statutory Auditors  
London  
6 September 2017



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

**Statement of comprehensive income**  
**for the year ended 31 December 2016**

	Note	2016 £'000	2015 £'000
Cost of sales <sup>4</sup>		(425,013)	(571,592)
Gross loss		(425,013)	(571,592)
Administrative expenses		(85,006)	(25,752)
Research and development expenditure		(1,806,432)	(1,608,948)
Other operating expenses		(70,038)	(24,416)
Exceptional items:			
Gain on disposal of intangible assets		53,947	-
Impairment of intangible assets		(7,023)	(1,488)
<b>Operating loss</b>	<b>4</b>	<b>(2,339,565)</b>	<b>(2,232,196)</b>
<b>Loss before interest and taxation</b>		<b>(2,339,565)</b>	<b>(2,232,196)</b>
Finance expense	6	(39,586)	(30,069)
<b>Loss before taxation</b>		<b>(2,379,151)</b>	<b>(2,262,265)</b>
Taxation	7	481,338	408,661
<b>Loss for the year</b>		<b>(1,897,813)</b>	<b>(1,853,604)</b>

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

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

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

**Balance sheet**  
**as at 31 December 2016**

	Note	2016 £'000	2015 £'000
<b>Non-current assets</b>			
Intangible assets	8	449,443	355,263
Deferred tax assets	7	83,554	86,995
<b>Total non-current assets</b>		<b>532,997</b>	<b>442,258</b>
<b>Current assets</b>			
Trade and other receivables	9	556,659	797,115
Prepayments and accrued income	10	13,070	4,806
Cash and cash equivalents		38	35
<b>Total current assets</b>		<b>569,767</b>	<b>801,956</b>
<b>Total assets</b>		<b>1,102,764</b>	<b>1,244,214</b>
<b>Current liabilities</b>			
Trade and other payables	11	(7,511,334)	(5,782,416)
Accruals and deferred income	12	(55,974)	(28,529)
<b>Total current liabilities</b>		<b>(7,567,308)</b>	<b>(5,810,945)</b>
<b>Net current liabilities</b>		<b>(6,997,541)</b>	<b>(5,008,990)</b>
<b>Total assets less current liabilities</b>		<b>(6,464,544)</b>	<b>(4,566,731)</b>
<b>Total liabilities</b>		<b>(7,567,308)</b>	<b>(5,810,945)</b>
<b>Net liabilities</b>		<b>(6,464,544)</b>	<b>(4,566,731)</b>
<b>Equity</b>			
Share capital	13	-	-
Other reserves	14	396,800	396,800
Accumulated losses		(6,861,344)	(4,963,531)
<b>Shareholders' deficit</b>		<b>(6,464,544)</b>	<b>(4,566,731)</b>

The financial statements on pages 7 to 18 were approved by the Board of Directors on 06 September 2017 and were signed on its behalf by:



A Walker  
**Corporate Director**

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

**Statement of changes in equity**  
**for the year ended 31 December 2016**

	Share capital £'000	Other reserves £'000	Accumulated losses £'000	Total £'000
<b>At 1 January 2015</b>	-	396,800	(3,109,927)	(2,713,127)
Loss for the year and total comprehensive loss for the year	-	-	(1,853,604)	(1,853,604)
<b>At 31 December 2015</b>	-	<b>396,800</b>	<b>(4,963,531)</b>	<b>(4,566,731)</b>
Loss for the year and total comprehensive loss for the year	-	-	(1,897,813)	(1,897,813)
<b>At 31 December 2016</b>	-	<b>396,800</b>	<b>(6,861,344)</b>	<b>(6,464,544)</b>

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

**Notes to the financial statements for the year ended 31 December 2016**

**1 Presentation of the financial statements**

**General information**

GlaxoSmithKline Intellectual Property Development Limited's (the "Company") principal activities are the development, enhancement, maintenance, protection and exploitation of intellectual property assets owned by the Company which may include but is not limited to, licensing out intellectual property rights relating to pharmaceutical products to the GlaxoSmithKline Group of companies (the "Group") and carrying out research and development activities.

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

**2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

**(a) Basis of preparation**

The financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

The Company has received a letter of support from GlaxoSmithKline Finance plc which confirms its intention to provide financial support for the foreseeable future from the date of signing off the financial statements. As a result of continued financial support, the directors of the Company are satisfied that the going concern basis remains appropriate.

These financial statements have been prepared on the going concern basis under the historical cost convention, 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 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 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 62(a) and (b) 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 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 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 members of a group.

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

**Notes to the financial statements for the year ended 31 December 2016**

**2 Summary of significant accounting policies**

**(a) Basis of preparation**

The financial statements of GlaxoSmithKline plc can be obtained as described in note 2(b).

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

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

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

**(c) Foreign currency transactions**

Foreign currency transactions are booked in 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 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.

**(d) Research and development**

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

**(e) 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.

**(f) Finance income and expense**

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

**(g) Intangible assets**

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

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

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

**Notes to the financial statements for the year ended 31 December 2016**

**2 Summary of significant accounting policies**

**(h) Capitalised borrowing costs**

The Company borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. All other borrowing costs are recognised as expenses in the period in which they are incurred.

**(i) 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, intangible assets with indefinite useful lives and intangible assets which are not yet available for use are tested for impairment annually. Any provision for impairment is charged to the statement of comprehensive income in the year concerned.

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

**(j) Trade and other receivables**

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 receivable is determined to be uncollectable it is written off, firstly against any provisions available and then to the statement of comprehensive income.

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

**(k) 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.

**(l) Trade and other payables**

Trade and other payables are initially recognised at fair value and then held at amortised cost using the effective interest method. Long-term payables are discounted where the effect is material.

**(m) Taxation**

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

Deferred tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probably that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date.

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

**Notes to the financial statements for the year ended 31 December 2016**

**3 Key accounting judgments 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) 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.

**(b) Impairment of intangible assets and useful lives**

Impairment tests on intangible assets are undertaken if events occur which call into question the carrying values of the assets. Where brands and other intangible assets which are not yet available for use are not amortised, they are subject to annual impairment tests. Valuations for impairment tests are based on established market multiples or risk-adjusted future cash flows over the estimated useful life of the asset, where limited, discounted using appropriate 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, know-how 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.

**4 Operating loss**

	2016 £'000	2015 £'000
<b>The following items have been (charged)/credited in operating loss:</b>		
Amortisation of intangible assets	(22,577)	(24,849)
Research and development expenditure	(1,806,432)	(1,608,948)
Exchange (losses) / gains on foreign currency transactions	(7,914)	467
Management fee	(32)	(33)
<b>Exceptional items:</b>		
Gain on disposal of Intellectual Property	53,947	-
Impairment of intangible fixed assets	(7,023)	(1,488)

GlaxoSmithKline Services Unlimited provides various services and facilities to the Company including finance and administrative services which are recharged at cost plus an appropriate arm's length mark up where relevant. Included in the management fee is a charge for auditors' remuneration £11,041 (2015: £22,050).

The Company has disposed of a portfolio of bioelectronic intellectual property rights held for £nil to a fellow Group subsidiary, Galvani Bioelectronics Limited, for consideration of £51.2 million, resulting in a gain on disposal of £51.2 million.

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**Notes to the financial statements for the year ended 31 December 2016**

**4 Operating loss (continued)**

The Company has also disposed of a portfolio of Ophthalmology intellectual property rights held for £nil, to a third party. The consideration received by the Group was in the form of Series A preferred stock in the third party purchaser of fair value £2.7 million (USD 3.4 million). The Series A preferred stock was capitalised in a fellow subsidiary entity, Glaxo Group Limited, who reimbursed the Company the fair value of the shares of £2.7 million (USD 3.4 million).

**5 Employees**

GlaxoSmithKline Services Unlimited is the legal employer of all UK Group employees. It charges the costs of employees at cost to the economic employers of the employee across the UK Group.

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

**6 Finance expense**

	2016 £'000	2015 £'000
On loans with Group undertakings	(39,586)	(30,069)

**7 Taxation**

	2016 £'000	2015 £'000
<b>Income tax credit on loss</b>		
Current tax:		
UK corporation tax at 20.00% (2015: 20.25%)	(487,630)	(448,515)
Adjustments in respect of previous years	2,851	129,971
<b>Total current tax</b>	<b>(484,779)</b>	<b>(318,544)</b>
Deferred tax:		
Current year deferred tax	-	(337)
Change in tax rate- impact on deferred tax	4,915	-
Adjustments in respect of previous years	(1,474)	(89,780)
<b>Total Deferred tax</b>	<b>3,441</b>	<b>(90,117)</b>
<b>Total tax credit for the year</b>	<b>(481,338)</b>	<b>(408,661)</b>

The tax credit assessed for the year is higher than (2015: lower than) the standard rate of corporation tax in the UK for the year ended 31 December 2016 of 20.00% (2015: 20.25%). The differences are explained below:

	2016 £'000	2015 £'000
<b>Reconciliation of total tax credit</b>		
Loss before taxation	(2,379,151)	(2,262,265)
Loss on ordinary activities at the UK statutory rate 20.00% (2015: 20.25%)	(475,830)	(458,109)
Effects of:		
Non-taxable income/non-deductible expense	(11,800)	-
Group relief surrendered for nil payment	-	9,257
Adjustments to tax change in respect of previous years	6,292	40,191
<b>Total tax credit for the year</b>	<b>(481,338)</b>	<b>(408,661)</b>



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**Notes to the financial statements for the year ended 31 December 2016**

**7 Taxation (continued)**

Factors that may affect future tax charges:

The UK tax rate for the year ended 31 December 2016 is 20%. Further reductions to 19% (effective 1 April 2017) and to 17% (effective 1 April 2020) were enacted as part of the Finance Act 2016 on 15 September 2016. This will impact the Company's future current tax charge accordingly. Deferred taxes have been measured using appropriate rates substantively enacted at the balance sheet date.

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

	Total £'000
At 1 January 2015	(3,122)
Prior year credit to the statement of comprehensive income	89,780
Charge for the year	337
At 31 December 2015	86,995
Current year movement	(3,441)
At 31 December 2016	83,554

Recognised tax losses relate to trading losses in 2013 and 2014.

Other net temporary differences include a deferred tax liability arising on the Company's adoption of FRS 100 and FRS 101.

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

	2016 £'000	2015 £'000
Deferred tax assets	83,554	86,995
	83,554	86,995

Deferred tax assets are recognised where it is probable that future taxable profits will be available to utilise the losses.

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

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**Notes to the financial statements for the year ended 31 December 2016**

**8 Intangible assets**

	Licences and patents £'000
<b>Cost</b>	
At 1 January 2016	701,260
Additions	123,780
<b>At 31 December 2016</b>	<b>825,040</b>
<b>Accumulated amortisation</b>	
At 1 January 2016	(89,004)
Charge for the year	(22,577)
<b>At 31 December 2016</b>	<b>(111,581)</b>
<b>Accumulated impairment</b>	
At 1 January 2016	(256,993)
Charge for the year	(7,023)
<b>At 31 December 2016</b>	<b>(264,016)</b>
<b>Total amortisation and impairment at 31 December 2016</b>	<b>(375,597)</b>
<b>Net book value at 1 January 2016</b>	<b>355,263</b>
<b>Net book value at 31 December 2016</b>	<b>449,443</b>

The additions include £106 million (2015: £85 million) additions from third parties outside of the Group.

The Company has disposed of a portfolio of bioelectronic intellectual property rights held for £nil to a fellow Group subsidiary, Galvani Bioelectronics Limited, for consideration of £51.2 million, resulting in a gain on disposal of £51.2 million.

The Company has also disposed of a portfolio of Ophthalmology intellectual property rights held for £nil, to a third party. The consideration received by the Group was in the form of Series A preferred stock in the third party purchaser of fair value £2.7 million (USD 3.4 million). The Series A preferred stock was capitalised in a fellow subsidiary entity, Glaxo Group Limited, who reimbursed the Company the fair value of the shares of £2.7 million (USD 3.4 million).

Development costs capitalised during the year is £18 million (2015: £26 million). The period over which these costs are to be written down is the estimated useful life of the asset. The costs have been capitalised as the probability of obtaining regulatory approval for successful product launch on a territory specific basis is highly probable.

The impairment charge of £7,023,000 relates to the adjustment in the carrying value of intellectual property following either a failure in clinical trials, the abandonment of the underlying asset and/or changes in the profitability forecasts for the underlying assets.

Intangible asset impairments are recorded within exceptional items in the statement of comprehensive income. Intangible assets amortisation is included in Other operating expenses in the statement of comprehensive income.

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**Notes to the financial statements for the year ended 31 December 2016**

**9 Trade and other receivables**

	2016 £'000	2015 £'000
Trade receivables	146	121
Amounts owed by Group undertakings	34,715	351,424
Corporation tax	521,798	445,570
	<b>556,659</b>	<b>797,115</b>

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

The corporation tax debtors contain amounts which will be received from fellow Group companies.

**10 Prepayments and accrued income**

	2016 £'000	2015 £'000
Amounts due within one year	13,070	4,806

Prepayments falling due within one year relating to royalties paid in advance to third parties on in-licensed products.

**11 Trade and other payables**

	2016 £'000	2015 £'000
Trade payables	34,181	21,212
Amounts owed to Group undertakings	7,477,114	5,746,151
Other payables	39	15,053
	<b>7,511,334</b>	<b>5,782,416</b>

The amounts owed to Group undertakings are unsecured, interest free and repayable on demand except for a call account balance with GlaxoSmithKline Finance plc of £7,236 million (2015: £5,156 million) which is unsecured with interest charged at LIBOR rate plus 0.25% per annum (2015: LIBOR rate plus 0.25% per annum) and repayable on demand.

**12 Accruals and deferred income**

	2016 £'000	2015 £'000
Amounts falling due within one year	55,974	28,529

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

**13 Share capital**

	2016 Number of shares	2015 Number of shares	2016 £	2015 £
<b>Issued and fully paid</b>				
Ordinary Shares of £1 each (2015: £1 each)	100	100	100	100

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**Notes to the financial statements for the year ended 31 December 2016**

**14 Other reserves**

	Other reserves £'000
At 1 January 2015, 31 December 2015 and 31 December 2016	396,800

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

**15 Commitments**

	2016 £'000	2015 £'000
<b>Capital commitments</b>		
Contracted for but not provided in the financial statements		
Intangible assets	6,114,043	4,941,627

A number of commitments were made in 2016 and in prior years under licensing and other agreements. The commitments related to intangible assets include milestone payments, which are dependent on successful clinical development or on meeting specified sales targets, and which represent the maximum that would be paid if all milestones, however unlikely, are achieved. As some of these agreements relate to compounds in the early stages of development, milestone payments will continue for a number of years if the compounds move successfully through the development process. Generally, the closer the product is to marketing approval, the greater the possibility of success.

**16 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 2016 is limited to the amount held on its accounts with the bank. No loss is expected to accrue to the Company from the agreement.

**17 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 (2015: £nil). Corporate Directors received no remuneration during the year, either as executives of the Group or in respect of their services to the Company.

**18 Related party transactions**

As a wholly owned subsidiary of the ultimate parent company, GlaxoSmithKline plc, advantage has been taken of the exemption afforded by FRS 101 'Reduced disclosure framework' not to disclose any related party transactions with other wholly owned members of the Group, or information around remuneration of key management personnel compensation. There are no other related party transactions.