

GlaxoSmithKline Intellectual Property (No.3) Limited
(Registered number: 11480952)

Directors' report and financial statements

for the period from 24 July 2018 (date of incorporation) to 31 December 2019



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

**GlaxoSmithKline Intellectual Property (No.3) Limited
(Registered number: 11480952)**

Directors' report and financial statements

for the period from 24 July 2018 to 31 December 2019

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GlaxoSmithKline Intellectual Property (No.3) Limited
(Registered number: 11480952)

Directors' report for the period from 24 July 2018 to 31 December 2019

The Directors present their report on GlaxoSmithKline Intellectual Property (No.3) Limited (the "Company") and the audited financial statements for the financial period from 24 July 2018 to 31 December 2019 ("financial period").

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 Company's principal activities are the development, enhancement, maintenance, protection and exploitation of intellectual property assets owned by the Company which may include but are not limited to, licensing out intellectual property rights relating to pharmaceutical products to Group companies and carrying out research and development activities. For the financial period ended 31 December 2019, the Company has commenced development activities but is not generating any revenue as a result of the early stage of development of the assets.

Review of business

The Company is a private limited company and was incorporated on 24 July 2018.

The Directors changed the Company's initial accounting reference date of 31 July 2019 to 31 December 2019. Therefore, this is the Company's first Directors' report and financial statements.

The Company made a loss for the financial period of £118,179,000. This is due to the fact that the Company has just commenced development activities but is not generating any revenue as a result of the early stage of development of the assets. The Directors have received confirmation that GlaxoSmithKline Finance plc will support the Company for at least one year after these financial statements are signed.

The loss for the financial period of £118,179,000 will form the initial reserves (negative).

Results

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

Research and development

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

Financial instruments

The Company has entered into foreign currency forward and swap contracts to mitigate the foreign currency exposure on certain foreign currency transactions of the Company. Detailed disclosures are not provided in the financial statements as the Company has taken advantage of the exemption from disclosure under FRS 101. Details of the accounting policies applied to financial instruments are disclosed in Note 2(o).

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Directors' report for the period from 24 July 2018 to 31 December 2019 (continued)

Post balance sheet event

The Directors have considered the impact on the Company of the COVID-19 pandemic, which is a non-adjusting post balance sheet event. The Directors do not consider that there have been any material adverse changes to the carrying values of the Company's assets nor material adjustments to liabilities subsequent to the financial period end which require disclosure in these financial statements.

Directors

The Directors of the Company who were in office during the financial period and up to the date of signing the financial statements were as follows:

Edinburgh Pharmaceutical Industries Limited	(appointed on 24 July 2018)
The Wellcome Foundation Limited	(appointed on 24 July 2018)
A Walker	(appointed on 24 July 2018)
K Priestman	(appointed on 24 July 2018)
J Andries	(appointed on 24 July 2018)
J Wheatcroft	(appointed on 1 July 2019)
S Dingemans	(appointed on 24 July 2018 and resigned on 1 May 2019)

No Director had, during the financial period or at the end of the financial period, any material interest in any contract of significance to the Company's business with the exception of the Corporate Directors, where such an interest may arise in the ordinary course of business. A Corporate Director is a legal entity of the Group as opposed to a natural person (an individual) Director.

Directors' indemnity

Each of the Directors who is an individual benefits from an indemnity given by another Group 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, her or its engagement in the business of the Company.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report and 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 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 Intellectual Property (No.3) Limited
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Directors' report for the period from 24 July 2018 to 31 December 2019 (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.

Modern Slavery

The Company's approach to the Modern Slavery Act 2015 is set by the Group. Each year, as part of its 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 2019.

Corporate Governance

As a subsidiary company of the Group which is listed on the New York and London Stock Exchanges, the Company has developed governance practices and processes that are fit for purpose.

The Directors have applied an undocumented system of governance by:

- (a) Promoting the purpose of the Group to deliver manufacturing and distribution of medicines through its subsidiaries' operations.
- (b) Regularly reviewing its composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and that individual Directors have sufficient capacity to make a valuable contribution.
- (c) To support effective decision-making Directors take into account the System of Internal Control and the Code of Conduct when acting in their capacity as a Director of the Company.
- (d) In accordance with the governance practices and processes that it adopts, the Board is supported by Systems of Internal Control to identify opportunities to create and preserve value.
- (e) Having regard to and fostering good stakeholder relationships.

Stakeholder Engagement

The Company aims to build enduring relationships with governments, regulators, patients, customers, partners, suppliers and communities in the countries where it operates. The Company works with its business partners in an honest, respectful and responsible way and seeks to work with others who share the Company's commitments to safety, ethics and compliance.

The Company's activities affect a wide variety of individuals and organisations. The Company engages with these stakeholders and listens to their differing needs and priorities as an everyday part of its business and uses the input and feedback to inform its decision making.

On behalf of the Company, the Group participates in industry associations that offer opportunities to share good practices and collaborate on issues of importance. Additionally, the Group works with governments on a range of issues that are relevant to its business, from regulatory compliance, to collaborating on community initiatives.

The Group seeks to engage with customers through social media, focus groups and in-depth interviews with customers to better understand customers' needs and seek their feedback.

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Directors' report for the period from 24 July 2018 to 31 December 2019 (continued)

Disclosure of information to auditor

As far as each of the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware and the Directors have taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Going concern

Having assessed the principal risks and other matters, including the potential impact of the COVID-19 pandemic, the Directors are of the opinion that the current level of activity remains sustainable. In relation to the challenges that arise from the COVID-19 pandemic, the considerations have included the potential risks to the research and development activities of the Company. The Directors have taken into account that as part of the GSK Group of companies, the Company has already received the necessary letter of support from GlaxoSmithKline Finance plc and can take actions to ensure business continuity through operational channels, as well as the ability to manage variable costs. On the basis of those considerations, the Directors believe that it remains appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Approach to Brexit

In preparing for the UK's exit from the EU (Brexit), our overriding priority has been to maintain continuity of supply of our products to people in the UK and EU. As a result, we have taken a risk based approach to planning and mitigation, in conjunction and complete alignment with the Group, whilst the negotiations on future relationships between the UK and the European Union is negotiated.

We have significant experience of maintaining resilient supply chains and have used existing processes to develop a new supply model based on the UK leaving the EU. Uncertainty remains about the new operating environment after the transition ends on 31 December 2020, but all preparations are being taken to minimise disruption to the supply of our products to consumers.

Risks associated with the coronavirus outbreak

The potential impact of the coronavirus outbreak on the Company's trade route performance remains uncertain. Up to the date of this report, the outbreak has not had a material impact on the results of the Company. The situation could change at any time and there can be no assurance that the coronavirus outbreak will not have a material adverse impact on the future results of the Company.

Independent auditor

Deloitte LLP were appointed to act as the Company's auditor pursuant to section 485(3) Companies Act 2006. Deloitte LLP were then appointed by the members at general meeting during the period in accordance with s485(4) Companies Act 2006.

Small company exemption

This report has been prepared taking advantage of the small companies exemption in accordance with section 415A of the Companies Act 2006. The Company has taken advantage of the small companies exemption from preparing a Strategic report in accordance with section 414B of the Companies Act 2006.

On behalf of the Board



A Walker
Director
22 July 2020

GlaxoSmithKline Intellectual Property (No.3) Limited
(Registered number: 11480952)

Independent auditors' report to the members of GlaxoSmithKline Intellectual Property (No.3) Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of GlaxoSmithKline Intellectual Property (No.3) Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the financial period from 24 July 2018 to 31 December 2019 ("financial period");
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 16.

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". (United Kingdom Generally Accepted Accounting Practice).

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 have reviewed the directors' statement of responsibilities in relation to the financial statements about whether they consider it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Company and its subsidiaries, its business model and related risks including where relevant the impact of COVID-19, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

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.

GlaxoSmithKline Intellectual Property (No.3) Limited
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Independent auditors' report to the members of GlaxoSmithKline Intellectual Property (No.3) Limited

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditors-responsibilities. 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 directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has 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 directors' report.

GlaxoSmithKline Intellectual Property (No.3) Limited
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Independent auditors' report to the members of GlaxoSmithKline Intellectual Property (No.3) Limited

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.
- The Directors were not entitled to take advantage of the small companies' exemption in preparing the Director's report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Use of our report

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

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

Deloitte LLP

Deloitte LLP
Statutory Auditor
Reading, United Kingdom
22 July 2020

GlaxoSmithKline Intellectual Property (No.3) Limited
(Registered number: 11480952)

Statement of comprehensive income
for the period from 24 July 2018 to 31 December 2019

		For the period from 24 July 2018 to 31 December 2019
	Notes	£'000
Administrative expenses		(377)
Research and development expenditure		(114,541)
Other operating expenses		(28,737)
Operating loss	4	(143,655)
Loss before interest and taxation		(143,655)
Finance expense	6	(2,245)
Loss before taxation		(145,900)
Taxation	7	27,721
Loss for the period		(118,179)

The results disclosed above for the financial period relate entirely to continuing operations.

The Company has no other comprehensive income during the financial period and therefore no separate statement to present other comprehensive income has been prepared.

GlaxoSmithKline Intellectual Property (No.3) Limited
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Balance sheet
as at 31 December 2019

	Notes	2019 £'000
Non-current assets		
Intangible assets	8	64,479
Total non-current assets		64,479
Current assets		
Trade and other receivables	9	8,424
Corporation tax		28,271
Total current assets		36,695
Total assets		101,174
Current liabilities		
Trade and other payables	11	(198,139)
Derivative financial instruments	10	(2,609)
Total current liabilities		(200,748)
Net current liabilities		(164,053)
Total assets less current liabilities		(99,574)
Non-current liabilities		
Trade and other payables	11	(18,605)
Total liabilities		(219,353)
Net liabilities		(118,179)
Equity		
Share capital	12	-
Accumulated losses		(118,179)
Shareholder's deficit		(118,179)

The financial statements on pages 8 to 18 were approved by the Board of Directors on 22 July 2020 and were signed on its behalf by:



A Walker
 Director

GlaxoSmithKline Intellectual Property (No.3) Limited
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Statement of changes in equity
for the period from 24 July 2018 to 31 December 2019

	Notes	Share capital £'000	Accumulated losses £'000	Total £'000
At 24 July 2018		-	-	-
Loss and total comprehensive loss for the financial period		-	(118,179)	(118,179)
Ordinary shares issued	12	-	-	-
At 31 December 2019		-	(118,179)	(118,179)

During the financial period ended 31 December 2019, the Company allotted 100 ordinary shares (nominal value: £1 per share) to Glaxo Group Limited.

GlaxoSmithKline Intellectual Property (No.3) Limited
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Notes to the financial statements for the period from 24 July 2018 to 31 December 2019

1 Presentation of the financial statements

General information

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 Company's principal activities are the development, enhancement, maintenance, protection and exploitation of intellectual property assets owned by the Company which may include but are not limited to, licensing out intellectual property rights relating to pharmaceutical products to Group companies and carrying out research and development activities. For the financial period ended 31 December 2019, the Company has commenced development activities but is not generating any revenue as a result of the early stage of development of the assets.

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

The financial statements are presented in Pounds Sterling.

Going concern

Having assessed the principal risks and other matters, including the potential impact of the COVID-19 pandemic, the Directors are of the opinion that the current level of activity remains sustainable. In relation to the challenges that arise from the COVID-19 pandemic, the considerations have included the potential risks to the research and development activities of the Company. The Directors have taken into account that as part of the GSK Group of companies, the Company has already received the necessary letter of support from GlaxoSmithKline Finance plc and can take actions to ensure business continuity through operational channels, as well as the ability to manage variable costs. On the basis of those considerations, the Directors believe that it remains appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101 to requirements set by the International Financial Reporting Standards (IFRS). 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'.

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Notes to the financial statements for the period from 24 July 2018 to 31 December 2019

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Disclosure exemptions adopted (continued)

- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - (i) paragraph 79(a) (iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16, 'Property, plant and equipment';
 - (iii) paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period);
 - (iv) paragraph 76 and 79(d) of IAS 40, 'Investment property'; and
 - (v) paragraph 50 of IAS 41, 'Agriculture'.
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows);
 - 10(f) (a balance sheet 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'.
- The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16, 'Leases';
- The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total;
- 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; and
- 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 United Kingdom (England), 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.

GlaxoSmithKline Intellectual Property (No.3) Limited
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Notes to the financial statements for the period from 24 July 2018 to 31 December 2019

2 Summary of significant accounting policies (continued)

(c) Foreign currency transactions

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

(d) Turnover

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

(e) Expenditure

Expenditure is recognised in respect of services received when supplied in accordance with contractual terms.

(f) Research and development

Research and development expenditure is charged to the statement of comprehensive income in the period in which it is incurred and is presented net of the share of costs recharged to other parties under the terms of co-development and collaboration agreements. Development expenditure is capitalised when the criteria for recognising an asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

(g) Royalty income and expenses

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

(h) Finance expense

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

(i) 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 4 years, using the straight-line basis, from the time they are available for use. The estimated useful lives for determining the amortisation charge take into account patent lives, where applicable, as well as the value obtained from periods of non-exclusivity. Asset lives are reviewed, and where appropriate adjusted, annually. Contingent milestone payments are recognised at the point that the contingent event becomes probable. Any development costs incurred by the Company and associated with acquired licences, patents rights are written off to the 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. Amortisation of intangible assets is included under other operating expense in the statement of comprehensive income.

GlaxoSmithKline Intellectual Property (No.3) Limited
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Notes to the financial statements for the period from 24 July 2018 to 31 December 2019

2 Summary of significant accounting policies (continued)

(j) Financial assets

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

(k) Impairment of financial assets

Expected credit losses are recognised in the statement of comprehensive income 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.

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

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

(m) 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.

(n) 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 have been enacted or substantively enacted by the balance sheet date.

GlaxoSmithKline Intellectual Property (No.3) Limited
(Registered number: 11480952)

Notes to the financial statements for the period from 24 July 2018 to 31 December 2019

2 Summary of significant accounting policies (continued)

(o) Derivative financial instruments

Derivative financial instruments are used to manage exposure to market risks. The principal derivative instrument used by the Company is foreign exchange forward contracts. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

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

(p) Share capital

Ordinary shares are classified as equity.

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 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 Operating loss

**For the period from 24 July 2018
to 31 December 2019
£'000**

The following items have been charged / (credited) in operating loss:	
Amortisation of intangible assets	23,162
Impairment of intangible assets	6,175
Exchange gains on foreign currency transactions	(600)
Research and development expenditure	114,541
Management fee	49

GlaxoSmithKline Services Unlimited provides various services and facilities to the Company including finance and administrative services for which a management fee is charged. Included in the management fee is a charge for auditor's remuneration of £36,000.

5 Employees

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

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Notes to the financial statements for the period from 24 July 2018 to 31 December 2019

6 Finance expense

	For the period from 24 July 2018 to 31 December 2019 £'000
Interest expense on swaps	(1,919)
On bank loans and overdraft	(3)
Interest payable to Group companies	(323)
	(2,245)

7 Taxation

	For the period from 24 July 2018 to 31 December 2019 £'000
Income tax credit on loss	
Current tax:	
UK corporation tax at 19.00%	(27,721)
Total current tax	(27,721)
Total tax credit for the financial period	(27,721)

There are no items required to reconcile the loss on ordinary activities before taxation at the statutory rate of 19.00% to the current taxation charge.

Factors that may affect future tax rates:

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. There is no impact of this change on the tax charge as there are no instances of deferred taxation recognised in the statement of comprehensive income or directly in equity in the current period.

8 Intangible assets

	Licences and Patents 2019 £'000
Cost	
Additions	93,816
At 31 December 2019	93,816
Accumulated amortisation	
Charge for the period	(23,162)
Accumulated impairment	
Charge for the period	(6,175)
Total amortisation and impairment at 31 December 2019	(29,337)
Net book value at 31 December 2019	64,479

The addition of £94 million during the financial period relates to acquired licences and patents which are either in use or still in development.

Intangible asset amortisation and impairment is recorded within other operating expenses in the statement of comprehensive income.

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Notes to the financial statements for the period from 24 July 2018 to 31 December 2019

9 Trade and other receivables

	2019
	£'000
Amounts due within one year	
Other receivables	8,424

10 Derivative financial instruments

The Company has forward foreign exchange contracts with the following fair values at the end of the financial period:

	2019
	£'000
Foreign exchange forward and swap contracts - held-for-trading	(2,609)

The notional principal amounts of the outstanding derivative instruments at 31 December 2019 were £46 million.

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

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

11 Trade and other payables

	2019
	£'000
Amounts falling due within one year	
Amounts owed to Group undertakings	179,500
Other payables	18,639
	198,139
Amounts falling due after more than one year	
Other payables	18,605

The amounts owed by Group undertakings are unsecured, interest free and are repayable on demand except for a call account balance with GlaxoSmithKline Finance plc of £16,302,000 and GlaxoSmithKline IHC Limited of £82,426,000 which is unsecured with interest paid at LIBOR rate plus 0.25% per annum and repayable on demand.

12 Share capital

	2019	2019
	Number of	£'000
	shares	
Authorised		
Ordinary Shares of £1 each	100	-

During the financial period ended 31 December 2019, the Company allotted 100 ordinary shares (nominal value: £1 per share) to Glaxo Group Limited.

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Notes to the financial statements for the period from 24 July 2018 to 31 December 2019

13 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 2019 is limited to the amount held on its accounts with the bank. No loss is expected to accrue to the Company from the agreement.

14 Events after the end of reporting period

The Directors have considered the impact on the Company of the COVID-19 pandemic, which is a non-adjusting post balance sheet event. The Directors do not consider that there have been any material adverse changes to the carrying values of the Company's assets nor material adjustments to liabilities subsequent to the financial period end which require disclosure in these financial statements.

15 Directors' remuneration

During the financial period, 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. Corporate Directors received no remuneration during the financial period, either as executives of the Group or in respect of their services to the Company.

16 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.