

GLAXOSMITHKLINE PLC  
Form 20-F  
March 01, 2010

As filed with the Securities and Exchange Commission on March 01, 2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 20-F**

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

b **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2009**

**OR**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 1-15170**

**GlaxoSmithKline plc**

(Exact name of Registrant as specified in its charter)

**England**

(Jurisdiction of incorporation or organization)

**980 Great West Road, Brentford, Middlesex TW8 9GS England**

(Address of principal executive offices)

Simon Bicknell

Company Secretary

GlaxoSmithKline plc

980 Great West Road

Brentford, TW8 9GS

England

+44 20 8047 5000

company.secretary@gsk.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

**Title of Each Class**

**Name of Each Exchange On Which Registered**

American Depositary Shares, each representing 2  
Ordinary Shares,  
Par value 25 pence  
4.850% Notes due 2013  
5.650% Notes due 2018  
6.375% Notes due 2038

New York Stock Exchange  
  
New York Stock Exchange  
New York Stock Exchange  
New York Stock Exchange

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Floating Rate Notes due 2010

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares of Par value 25 pence each

5,190,934,201

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No



**Cautionary statement regarding forward-looking statements**

The Group's reports filed with or furnished to the US Securities and Exchange Commission (SEC), including this document and written information released, or oral statements made, to the public in the future by or on behalf of the Group, may contain forward-looking statements. Forward-looking statements give the Group's current expectations or forecasts of future events. An investor can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, intend, will, project, plan, other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results. The Group undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Forward-looking statements involve inherent risks and uncertainties. The Group cautions investors that a number of important factors, including those in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under Risk factors on pages 43 to 47 of this Annual Report.

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**Contents****Business review**

This discusses our financial and non-financial activities, resources, development and performance during 2009 and outlines the factors, including the trends and the principal risks and uncertainties, which are likely to affect future development.

**Governance and remuneration**

This discusses our management structures and governance procedures. It also sets out the remuneration policies operated for our Directors and Corporate Executive Team members.

**Financial statements**

The financial statements provide a summary of the Group's financial performance throughout 2009 and its position as at 31st December 2009. The consolidated financial statements are prepared in accordance with the IFRS as adopted by the European Union and also IFRS as issued by the International Accounting Standards Board.

**Shareholder information**

This includes the full product development pipeline and discusses shareholder return in the form of dividends and share price movements.

**Notice regarding limitations on Director Liability under English Law**

Under the UK Companies Act 2006, a safe harbour limits the liability of Directors in respect of statements in and omissions from the Report of the Directors contained on pages 8 to 90. Under English law the Directors would be liable to the company, but not to any third party, if the Report of the Directors contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

**Report of the Directors**

Pages 6 to 90 inclusive comprise the Report of the Directors that has been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

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**Chairman & CEO summary**

Our strategy is delivering and we believe that GSK is now moving to a position where it can deliver long-term financial performance on a sustainable basis for shareholders.

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**Chairman & CEO summary****Dear Shareholder**

Since our last Annual Report, GSK has made significant progress to transform its business model. Our strategy is delivering and we believe that GSK is now moving to a position where it can deliver long-term financial performance on a sustainable basis for shareholders.

**Return to sales growth**

In 2009, we saw GSK return to sales growth. Our strategic priority, to diversify and drive growth in key investment areas such as Emerging Markets, Consumer Healthcare and Vaccines, has supported this growth.

In doing so we have developed many more engines of growth for the company. This increased diversification is helping to reduce risk through lower sales volatility – evident in that GSK absorbed the impact of losing more than £1 billion of sales to genericisation in the US market in 2009.

Of course, sales of our influenza products to governments responding to the H1N1 pandemic also contributed to sales. For many years, we have invested in developing our influenza capabilities. Five months after the WHO declared H1N1 a global flu pandemic, GSK was able to supply an approved vaccine for governments across the world. We are continuing to work closely with them to respond to their needs.

**New product momentum sustained**

We remain focused on broadening and strengthening our product portfolio. Last year, GSK received 12 product approvals and completed 11 new filings.

In the last 3 years, GSK has obtained more FDA approvals for new medicines and vaccines than any other company. Over the next 18 months we have the potential to launch a number of brand new medicines and vaccines, including *Benlysta*, which would be the first new treatment for systemic lupus in over 50 years.

This momentum is set against a continued goal of maintaining around 30 assets in our late stage pipeline.

**Improving return on investment**

We remain mindful of the need to improve and demonstrate better returns on investment. Across the entire business, we continue to implement our restructuring programme to simplify operations and reduce costs. In 2009 this programme delivered £1 billion of annual savings.

In particular, in Research and Development we are strongly focused on allocating capital to areas where we can get the best return on investment.

We continue to look at how we can make better decisions around pipeline progression and maintain our strategy to increase the level of externally sourced compounds in our pipeline, through more option-based agreements.

In addition, we are reducing R&D investment and associated infrastructure in therapy areas where we believe the prospects for successful registration and launch of differentiated medicines are low.

Based on the investment made in our late stage pipeline and our long-term sales expectation, we estimate our projected rate of R&D return to be around 11%. We believe this is an improvement on the industry average over the last ten years. Our long-term goal is to go further and realise an aspirational rate of return for GSK's R&D of around 14%.

**More responsive, more flexible, more open**

Equally important are GSK's financial and social responsibilities to ensure the long-term success and sustainability of our business.

We are determined to make our company more responsive, more flexible and more open to society's expectations.

We continue to make progress in many areas such as improving access to medicines, enhancing research opportunities for neglected tropical diseases, raising the ethical standards for conducting our research and our commercial activities, and being more transparent about the way we run our business.

**Progressive dividend**

As one of the FTSE 100's top dividend payers, we strongly believe in the importance of returning funds to our shareholders. In line with GSK's progressive dividend policy, the Board has approved a total dividend for the year of 61 pence, a 7% increase on last year's dividend.

**Improving long-term prospects**

In conclusion, we are making progress against our strategic priorities. We have seen good progress in our sales performance; we are maintaining a strong focus on cost reduction; we are delivering more new medicines, vaccines and consumer healthcare products; and we continue to take new initiatives to build society's trust. In accomplishing this, we would like to recognise the enormous contribution of our employees and our wide network of partners. There is no doubt that we are operating in a challenging environment. However, with further successful execution of our strategy, we believe GSK's long-term prospects are improving and that we will enhance our position as a leading-edge healthcare company.

Sir Christopher Gent  
Chairman

Andrew Witty  
Chief Executive Officer

GSK Annual Report 2009

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## Our strategy

We are focused on delivering three strategic priorities to transform GSK into a company that delivers more growth, has less risk and an improved long-term financial performance.

To be a successful and sustainable business we must also fulfil our social responsibilities. We are doing this by making our company more responsive, more flexible and more open.

### Strategic priorities

**Grow a diversified global business** We are diversifying our business to create a more balanced product portfolio and move away from a reliance on traditional white pill/ western markets . We are investing in key growth areas such as Emerging Markets, Japan, Vaccines and our Consumer Healthcare business.

**Deliver more products of value** We aim to sustain an industry-leading pipeline of products, ensuring that they demonstrate value for healthcare providers. Our R&D strategy is built around focusing on the best science, diversifying through externalisation of research, and improving the returns on investment.

**Simplify the operating model** GSK is a large and complex organisation. We are transforming our operational model to reduce complexities, improve efficiency and reduce costs.



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## **2009 performance overview**

### **Key performance indicators**

\* The calculation of results before major restructuring is described in Note 1 to the financial statements, Presentation of the financial statements .

+ The calculation of free cash flow is described on page 39.

The calculation of CER growth is described on page 10.

### **Our strategies**

We have focused the business around the delivery of three strategic priorities.

#### **Grow a diversified global business**

Broadening and balancing our portfolio, diversifying into new product areas and capturing opportunities that exist beyond our established geographic footprint.

#### **Deliver more products of value**

Transforming R&D to ensure we not only deliver the current pipeline but are also able to sustain the flow of products for years to come.

#### **Simplifying the operating model**

Simplifying our operating model to ensure that it is fit for purpose and able to support our business in the most cost efficient way.

GSK Annual Report 2009

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**2009 performance overview****Our measures**

We use a number of measures to track our progress against the strategic priorities over the medium to long term. These include the following:

Performance of core pharmaceuticals and vaccines businesses

**Our progress in 2009**

We made good progress during the year, with a number of notable successes

The core pharmaceuticals and vaccines businesses delivered sales of £19.1 billion and grew 5% in the year. This excludes genericised products, *Avandia* and influenza products. Including pandemic products, sales were £20.9 billion, up 12% for 2009.

Diversification of sales

Sales from white pill/western markets fell from 36% of turnover in 2008 to 30% in 2009.

Contribution of Emerging Markets to our overall sales and growth

Sales in the Emerging Markets pharmaceutical business grew 20% to nearly £3 billion, now representing 10% of Group turnover.

We completed 10 bolt-on acquisitions in 2009.

Growth of Consumer Healthcare market share

Consumer Healthcare market share gains were delivered in the OTC and Oral healthcare businesses, but share declined in Nutritional healthcare.

Consumer Healthcare sales grew 7% to £4.7 billion, with growth in all categories: OTC up 8%; Oral healthcare up 7%; Nutritional healthcare up 3%.

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|  |  |
|--|--|
| Expansion of Japanese business   | <p>Sales reached £1.6 billion in 2009, up 22%, driven by <i>Adoair</i> and <i>Relenza</i>.</p> <p>Products launched in the last three years contributed around £260 million sales in 2009.</p>   |
| Build biopharmaceutical portfolio  | <p><i>Arzerra</i> was launched in the USA, a positive opinion was received for <i>Prolia</i> and positive phase III data was announced for <i>Benlysta</i> in 2009.</p> <p>Around 17% of our pipeline now comprises biopharmaceutical assets.</p>  |
| Contribution to sales of new products                                      | <p>New pharmaceutical products launched since 2007 contributed sales of £1.3 billion, or £2.1 billion including H1N1 pandemic vaccine.</p>   |
| Number of reimbursable product approvals and filings                       | <p>We received 12 product approvals and completed 11 new filings in 2009. In the last three years we have obtained more FDA approvals for new molecular entities and vaccines than any other company.</p>  |
| Sustaining late-stage pipeline   | <p>We maintained around 30 assets in phase III and registration, with five new programmes entering phase III during 2009.</p>  |
| Enhanced R&D productivity and increased externalisation for Drug Discovery | <p>Our projected rate of return based on investment made in our late stage pipeline and expected future long-term sales performance is around 11%. Our long-term goal is to improve our rate of return for R&amp;D to around 14%.</p> <p>We have externalised approximately 30% of our discovery research with 47 external partners.</p> |

Delivery of major restructuring programme

Annual cost savings of £1 billion have already been achieved. The programme has been expanded again to deliver annual savings of £2.2 billion by 2012.

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**Report of the Directors**

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This report is prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and also with IFRS as issued by the International Accounting Standards Board.

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EX-15.1

The Report of the Directors provides users of the financial statements with a more complete picture of GSK. It supplements the information in the financial statements with a discussion of other aspects of our activities, our future and the environment in which we operate.

**Business review**

This discusses our financial and non-financial activities, resources, development and performance during 2009 and outlines the factors, including the trends and the principal risks and uncertainties, which are likely to affect future development.

**Corporate governance**

This discusses our management structures and governance procedures. It includes disclosures on compliance with the Combined Code on Corporate Governance of the Financial Reporting Council (Combined Code) and with US laws and regulation.

**Remuneration Report**

This sets out the remuneration policies operated for our Directors and the Corporate Executive Team (CET) members. There are disclosures on Directors' remuneration including those required by The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

**Financial trends**

| <b>Total results</b>                      | <b>2009</b>    |          | Growth*   | 2008    |      | Growth* | 2007    |
|---|----------------|----------|-----------|---------|------|---------|---------|
|   | <b>£m</b>      | CER%     | £%        | £m      | CER% | £%      | £m      |
| Turnover                                  | <b>28,368</b>  | <b>3</b> | <b>16</b> | 24,352  | (3)  | 7       | 22,716  |
| Cost of sales                             | <b>(7,380)</b> | <b>6</b> | <b>15</b> | (6,415) | 13   | 21      | (5,317) |
| Selling, general and administration       | <b>(9,592)</b> | <b>6</b> | <b>25</b> | (7,656) | 2    | 10      | (6,954) |
| Research and development                  | <b>(4,106)</b> | <b>1</b> | <b>12</b> | (3,681) | 4    | 11      | (3,327) |
| Other operating income                    | <b>1,135</b>   |          |           | 541     |      |         | 475     |
| Operating profit                          | <b>8,425</b>   | <b>4</b> | <b>18</b> | 7,141   | (20) | (6)     | 7,593   |
| Profit before taxation                    | <b>7,891</b>   | <b>4</b> | <b>19</b> | 6,659   | (24) | (11)    | 7,452   |
| Profit after taxation for the year        | <b>5,669</b>   | <b>6</b> | <b>20</b> | 4,712   | (25) | (11)    | 5,310   |
| Profit attributable to minority interests | <b>138</b>     |          |           | 110     |      |         | 96      |
| Profit attributable to shareholders       | <b>5,531</b>   |          |           | 4,602   |      |         | 5,214   |
| Basic earnings per share (pence)          | <b>109.1p</b>  | <b>8</b> | <b>23</b> | 88.6p   | (21) | (6)     | 94.4p   |
| Diluted earnings per share (pence)        | <b>108.2p</b>  |          |           | 88.1p   |      |         | 93.7p   |

**Results before major restructuring**

|   |                |            |           |         |      |    |         |
|---|----------------|------------|-----------|---------|------|----|---------|
| Turnover                                  | <b>28,368</b>  | <b>3</b>   | <b>16</b> | 24,352  | (3)  | 7  | 22,716  |
| Cost of sales                             | <b>(7,095)</b> | <b>13</b>  | <b>23</b> | (5,776) | 4    | 11 | (5,206) |
| Selling, general and administration       | <b>(9,200)</b> | <b>6</b>   | <b>25</b> | (7,352) |      | 8  | (6,817) |
| Research and development                  | <b>(3,951)</b> | <b>2</b>   | <b>13</b> | (3,506) | 2    | 8  | (3,237) |
| Other operating income                    | <b>1,135</b>   |            |           | 541     |      |    | 475     |
| Operating profit                          | <b>9,257</b>   | <b>(1)</b> | <b>12</b> | 8,259   | (10) | 4  | 7,931   |
| Profit before taxation                    | <b>8,726</b>   | <b>(1)</b> | <b>12</b> | 7,782   | (14) |    | 7,790   |
| Profit after taxation for the year        | <b>6,283</b>   |            | <b>13</b> | 5,551   | (14) |    | 5,571   |
| Profit attributable to minority interests | <b>138</b>     |            |           | 110     |      |    | 96      |
| Profit attributable to shareholders       | <b>6,145</b>   |            |           | 5,441   |      |    | 5,475   |
| Basic earnings per share (pence)          | <b>121.2p</b>  | <b>2</b>   | <b>16</b> | 104.7p  | (9)  | 6  | 99.1p   |
| Diluted earnings per share (pence)        | <b>120.3p</b>  |            |           | 104.1p  |      |    | 98.3p   |

**Research and development total**

|                     |              |       |       |
|---------------------|--------------|-------|-------|
| Pharmaceuticals     | <b>3,947</b> | 3,557 | 3,215 |
| Consumer Healthcare | <b>159</b>   | 124   | 112   |
| Total               | <b>4,106</b> | 3,681 | 3,327 |

**Net finance cost cover total**

|                   |                 |          |          |
|-------------------|-----------------|----------|----------|
| Net finance costs | <b>713</b>      | 530      | 191      |
| Cover             | <b>12 times</b> | 14 times | 40 times |

Net finance cost cover is profit before tax plus net finance costs, divided by net finance costs.

|                                     |              |       |       |
|-------------------------------------|--------------|-------|-------|
| Tax rate total                      | <b>28.2%</b> | 29.2% | 28.7% |
| Tax rate before major restructuring | <b>28.0%</b> | 28.7% | 28.5% |

**Borrowings**

|          |              |        |       |
|----------|--------------|--------|-------|
| Net debt | <b>9,444</b> | 10,173 | 6,039 |
| Gearing  | <b>88%</b>   | 122%   | 61%   |

The gearing ratio is calculated as net debt as a percentage of total equity.

\* CER%  
represents  
growth at  
constant  
exchange rates.  
Sterling% or £%  
represents  
growth at actual  
exchange rates.  
See page 10.  
The calculation  
of results before  
major  
restructuring, is  
described in  
Note 1 to the  
financial  
statements,  
Presentation of  
the financial  
statements .

**History and development of the company**

GlaxoSmithKline plc is a public limited company incorporated on 6th December 1999 under English law. Its shares are listed on the London Stock Exchange and the New York Stock Exchange. On 27th December 2000 the company acquired Glaxo Wellcome plc and SmithKline Beecham plc, both English public limited companies, by way of a scheme of arrangement for the merger of the two companies. GSK and its subsidiary and associated undertakings constitute a major global healthcare group engaged in the creation, discovery, development, manufacture and marketing of pharmaceutical and consumer health-related products. GSK has its corporate head office in London and has its US headquarters in Research Triangle Park, North Carolina, with operations in some 120 countries, and products sold in over 150 countries.

**Annual Report and Summary**

This report is the Annual Report of GlaxoSmithKline plc for the year ended 31st December 2009, prepared in accordance with United Kingdom requirements. It was approved by the Board of Directors on 24th February 2010 and published on 25th February 2010.

A summary of the year, intended for the shareholder not needing the full detail of the Annual Report, is produced as a separate document and issued to all shareholders. The summary does not constitute a set of summary financial statements as defined by section 428 of the Companies Act 2006. The Annual Report is issued to shareholders who have elected to receive it.

In this Report GlaxoSmithKline, the Group or GSK means GlaxoSmithKline plc and its subsidiary undertakings; the company means GlaxoSmithKline plc; GlaxoSmithKline share means an Ordinary Share of GlaxoSmithKline plc of 25p; American Depositary Shares (ADS) each represent two GlaxoSmithKline shares.

**Brand names**

Brand names appearing in italics throughout this report are trademarks either owned by and/or licensed to GlaxoSmithKline or associated companies, with the exception of *Baycol* and *Levitra*, trademarks of Bayer, *Benlysta*, a trademark of Human Genome Science, *Boniva/Bonviva*, a trademark of Roche, *Citrucel*, a trademark of Merrell Pharmaceuticals, *Volibris*, a trademark of Gilead, *NicoDerm*, a trademark of Elan, Johnson & Johnson, Merrell, Novartis, Sanofi-Aventis or GlaxoSmithKline, *Prolia*, a trademark of Amgen and *Vesicare*, a trademark of Astellas Pharmaceuticals in many countries and of Yamanouchi Pharmaceuticals in certain countries, all of which are used in certain countries under licence by the Group.

**Currencies**

The currencies that most influence the Group's results remain the US dollar, the Euro, the Yen and Sterling. Details of the exchange rates used by the Group are given in Note 5 Exchange Rates on page 106.

During 2009, average Sterling exchange rates were weaker against the US Dollar, the Euro and the Yen compared with 2008. However, and as a result of the significant currency movements seen in Q4 2008, year end Sterling exchange rates were actually stronger against all three currencies compared with those at 31st December 2008.

**Results before major restructuring**

In October 2007, the Board approved the implementation of a detailed formal plan for, and GSK announced, a significant new Operational Excellence programme to improve the effectiveness and productivity of its operations. A second formal plan, representing a significant expansion of the Operational Excellence programme, was approved by the Board and announced in February 2009. A further expansion was approved by the Board and announced in February 2010. Total costs for the implementation of the expanded programme are expected to increase from £3.6 billion to approximately £4.5 billion, to be incurred over the period from 2007 to 2012. The programme is now expected to deliver total annual pre-tax savings of approximately £2.2 billion by 2012, with savings realised across the business. GSK presents the restructuring costs incurred solely as a direct result of the Operational Excellence programme in a separate column in the income statement titled Major restructuring. In addition to the restructuring

costs of the Operational Excellence programme, the major restructuring column in the income statement includes restructuring costs incurred solely as a direct result of any restructuring programmes that follow, and relate to, material acquisitions where the operations of the acquired business overlap extensively with GSK's existing operations. The \$1.65 billion (£814 million) acquisition of Reliant Pharmaceuticals in December 2007 and the \$3.6 billion (£2.2 billion) acquisition of Stiefel Laboratories in July 2009 are the only acquisitions since October 2007 that meet these criteria.

The Group's results before the costs of the Operational Excellence programme and acquisition-related restructuring programmes meeting the criteria described above are described as 'Results before major restructuring'. This presentation, which GSK intends to apply consistently to future major restructuring programmes that have a material impact on GSK's operating results and on the manner in which GSK's business is conducted, has been adopted to show clearly the Group's results both before and after the costs of these restructuring programmes. Management believes that this presentation assists shareholders in gaining a clearer understanding of the Group's financial performance and in making projections of future financial performance, as results that include such costs, by virtue of their size and nature, have limited comparative value. This presentation is also consistent with the way management assesses the Group's financial performance.

### **CER growth**

In order to illustrate underlying performance, it is the Group's practice to discuss its results in terms of constant exchange rate (CER) growth. This represents growth calculated as if the exchange rates used to determine the results of overseas companies in Sterling had remained unchanged from those used in the previous year. CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates.

All commentaries in this Report are presented in terms of CER unless otherwise stated.

### **Exchange rates**

The Group operates in many countries and earns revenues and incurs costs in many currencies. The results of the Group, as reported in Sterling, are affected by movements in exchange rates between Sterling and other currencies. Average exchange rates prevailing during the period are used to translate the results and cash flows of overseas subsidiaries, associates and joint ventures into Sterling. Period end rates are used to translate the net assets of those entities.

**Products, intellectual property and competition****Pharmaceutical products**

GSK's principal pharmaceutical products are currently directed to nine main therapeutic areas including dermatologicals following the acquisition of Stiefel Laboratories in July 2009. A description of the products is on pages 12 to 13 and an analysis of sales by therapeutic area, is on page 29.

**Competition**

Our principal pharmaceutical competitors range from small to large pharmaceutical companies often with substantial resources. Some of these companies are:

- Abbott Laboratories
- Amgen
- AstraZeneca
- Bristol-Myers Squibb
- Eli Lilly
- Johnson & Johnson
- Merck
- Novartis
- Pfizer
- Roche Holdings
- Sanofi-Aventis

Pharmaceuticals may be subject to competition from other products during the period of patent protection and, once off patent, from generic versions. The manufacturers of generic products typically do not incur significant research and development or education and marketing development costs and consequently are able to offer their products at considerably lower prices than the branded competitors. As a research and development based company we will normally seek to achieve a sufficiently high profit margin and sales volume during the period of patent protection to repay the original investment, which is generally substantial, and to generate profits and fund research for the future. Competition from generic products generally occurs as patents in major markets expire. Increasingly patent challenges are made prior to patent expiry, claiming that the innovator patent is not valid and/or that it is not infringed by the generic product. Following the loss of patent protection, generic products rapidly capture a large share of the market, particularly in the USA.

We believe that remaining competitive is dependent upon the discovery and development of new products, together with effective marketing of existing products.

Within the pharmaceutical industry, the introduction of new products and processes by our competitors may affect pricing or result in changing patterns of product use. There is no assurance that products will not become outmoded, notwithstanding patent or trademark protection. In addition, increased government and other pressures for physicians and patients to use generic pharmaceuticals, rather than brand-name medicines, may increase competition for products that are no longer protected by a patent.

**Intellectual property**

Intellectual property is a key business asset for our company, and the effective legal protection of our intellectual property (via patents, trademarks, registered designs, copyrights and domain name registrations) is critical in ensuring a reasonable return on investment in R&D.

**Patents**

It is our policy to try to obtain patents on commercially important, protectable inventions discovered or developed through our R&D activities. Patent protection for new active ingredients is available in major markets and patents can also be obtained for new drug formulations, manufacturing processes, medical uses and devices for administering products. Although we may obtain patents for our products, this does not prevent them from being challenged before they expire. Further, the grant of a patent does not mean that the issued patent will necessarily be held valid and enforceable by a court. If a court determines that a patent we hold is invalid, non infringed or unenforceable, it will

not protect the market from third party entry prior to patent expiry. Significant litigation concerning such challenges is summarised in Note 44 to the financial statements, Legal proceedings .

The life of a patent in most countries is 20 years from the filing date, however the long development time for pharmaceutical products may result in a substantial amount of this patent life being used up before launch. In some markets (including the USA and in Europe) it is possible to have some of this lost time restored and this leads to variations in the amount of patent life actually available for each product we market. Further, certain countries provide a period of data or market exclusivity that prevents a third party company from relying on our clinical trial data to enter the market with its copy for the period of exclusivity.

The patent expiry dates for our significant products are in the following table. Dates provided are for expiry of patents in the USA and major European markets on the active ingredient, unless otherwise indicated, and include extensions of patent term (including for paediatric use in the USA) where available.



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## Products, intellectual property and competition

| Products                 | Compounds                                       | Indication(s)                            | Major competitor brands   | Patent expiry dates  |  |
|--------------------------|---|--|---|--|--|
|                          |   |  |   | USA  | EU   |
| <b>Respiratory</b>       |   |  |   |  |  |
| <i>Seretide/Advair</i>   | salmeterol xinafoate/<br>fluticasone propionate | asthma/COPD                              | Singulair, Symbicort,<br>Spiriva, Asmanex, Pulmicort,<br>Foster | 2010<br>(combination)<br>2011-2016<br>( <i>Diskus device</i> ) | 2013 <sup>1</sup><br>(combination)<br>2011<br>( <i>Diskus device</i> ) |
| <i>Flixotide/Flovent</i> | fluticasone propionate                          | asthma/COPD                              | Qvar, Singulair   | 2011-2025<br>(devices)   | 2011-2017<br>(devices)   |
| <i>Serevent</i>          | salmeterol xinafoate                            | asthma/COPD                              | Foradil, Spiriva  | 2011-2016<br>(Diskus device)                                   | 2011-2019<br>(devices)   |
| <i>Veramyst</i>          | fluticasone furoate                             | rhinitis                                 | Nasacort  | 2021   | 2023   |
| <b>Anti-virals</b>       |   |  |   |  |  |
| <i>Epzicom/Kivexa</i>    | lamivudine and abacavir                         | HIV/AIDS                                 | Truvada, Atripla  | 2016<br>(combination)  | 2016<br>(combination)  |
| <i>Combivir</i>          | lamivudine and<br>zidovudine                    | HIV/AIDS                                 | Truvada, Atripla  | 2012<br><br>(combination)                                      | 2013<br><br>(combination)  |
| <i>Trizivir</i>          | lamivudine, zidovudine<br>and abacavir          | HIV/AIDS                                 | Truvada, Atripla  | 2016<br>(combination)  | 2016<br>(combination)  |
| <i>Agenerase</i>         | amprenavir                                      | HIV/AIDS                                 | Prezista, Kaletra, Reyataz                                      | 2013   | 2014   |
| <i>Lexiva</i>            | fosamprenavir                                   | HIV/AIDS                                 | Prezista, Kaletra, Reyataz                                      | 2017   | 2019   |
| <i>Epivir</i>            | lamivudine                                      | HIV/AIDS                                 | Truvada, Atripla  | 2010   | 2011   |
| <i>Ziagen</i>            | abacavir  | HIV/AIDS                                 | Truvada, Atripla  | 2012   | 2014   |
| <i>Valtrex</i>           | valaciclovir                                    | genital herpes,<br>coldsore,<br>shingles | Famvir  | expired  | expired  |
| <i>Zeffix</i>            | lamivudine                                      | chronic<br>hepatitis B                   | Hepsera   | 2010   | 2011   |
| <i>Relenza</i>           | zanamivir                                       | influenza                                | Tamiflu   | 2013   | 2014   |

**Central nervous system**

|                                      |                           |  |                                 |                                  |  |
|--------------------------------------|---------------------------|--|---------------------------------|----------------------------------|--|
|                                      | lamotrigine               | epilepsy,<br>bipolar<br>disorder   | Keppra, Dilantin                | expired                          | expired  |
| <i>Lamictal</i>                      |                           |  |                                 |                                  |  |
| <i>Imigran/Imitrex</i>               | sumatriptan               | migraine   | Zomig, Maxalt, Relpax           | expired                          | expired  |
| <i>Seroxat/Paxil</i>                 | paroxetine                | depression,<br>various<br>anxiety<br>disorders   | Effexor, Cymbalta,<br>Lexapro   | expired                          | expired  |
| <i>Wellbutrin SR</i>                 | bupropion                 | depression   | Effexor, Cymbalta,<br>Lexapro   | expired                          | expired  |
| <i>Requip</i>                        | ropinirole                | Parkinson's<br>disease,<br>restless legs<br>syndrome   | Mirapex                         | expired                          | 2011<br><br>(use in<br><br>treating<br>Parkinson's<br>disease) |
| <i>Treximet</i>                      | sumatriptan and naproxen  | migraine   | Zomig, Maxalt, Relpax           | 2017<br>(combination<br>and use) | NA   |
| <b>Cardiovascular and urogenital</b> |                           |  |                                 |                                  |  |
|                                      | dutasteride               | benign<br>prostatic<br>hyperplasia   | Proscar, Flomax, finasteride    | 2015                             | 2017   |
| <i>Avodart</i>                       |                           |  |                                 |                                  |  |
| <i>Lovaza</i>                        | omega-3 acid ethyl esters | very high<br>triglycerides   | Tricor                          | 2017<br><br>(Formulation)        | NA   |
| <i>Coreg CR</i>                      | carvedilol phosphate      | mild-to-severe<br>heart failure,<br>hypertension,<br>left<br>ventricular<br>dysfunction<br>post MI | Toprol XL                       | 2023 <sup>2</sup>                | NA   |
| <i>Fraxiparine</i>                   | nadroparin                | deep vein<br>thrombosis,<br>pulmonary<br>embolism  | Lovenox, Fragmin<br><br>Innohep | expired                          | expired  |
| <i>Arixtra</i>                       | fondaparinux              | deep vein<br>thrombosis,   | Lovenox, Fragmin                | expired                          | expired  |

|                 |             |                    |                                      |      |    |
|-----------------|-------------|--------------------|--------------------------------------|------|----|
|                 |             | pulmonary embolism | Innohep                              |      |    |
| <i>Vesicare</i> | solifenacin | overactive bladder | Detrol, Detrol LA, Enablex, Sanctura | 2018 | NA |

1 The UK and Irish patents have been revoked by the courts 2 Generic competition possible in 2010 following conclusion of patent proceedings  
 GSK Annual Report 2009

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## Products, intellectual property and competition

| Products                   | Compounds  | Indication(s)   | Major competitor brands                   | Patent expiry dates |         |
|----------------------------|--|---|---|---------------------|---------|
|                            |  |   |   | USA                 | EU      |
| <b>Metabolic</b>           |  |   |   |                     |         |
| <i>Avandia</i>             | rosiglitazone maleate                                      | type 2 diabetes   | Actos, Januvia                            | 2012                | 2013    |
| <i>Avandamet</i>           | rosiglitazone maleate and metformin HCl                    | type 2 diabetes   | Competact, Janumet<br>Actoplus met        | 2012                | 2013    |
| <b>Anti-bacterials</b>     |  |   |   |                     |         |
| <i>Augmentin</i>           | amoxicillin/clavulanate potassium                          | common infections   |   | expired             | expired |
| <i>Altabax</i>             | retapamulin  | skin infections   |   | 2021                | 2022    |
| <b>Oncology and emesis</b> |  |   |   |                     |         |
| <i>Arzerra</i>             | ofatumumab   | refractory chronic lymphocytic leukaemia                        | MabThera/Rituxan                          | 2023                | 2023    |
| <i>Hycamtin</i>            | topotecan  | ovarian cancer, small cell lung cancer, cervical cancer         | Doxil, Gemzar                             | 2010                | 2011    |
| <i>Promacta/Revolade</i>   | eltrombopag  | idiopathic thrombocytopenic purpura                             | Nplate                                    | 2022                | 2024    |
| <i>Tykerb/Tyverb</i>       | lapatanib  | advanced and metastatic breast cancer in HER2 positive patients | Herceptin                                 | 2020                | 2023    |
| <i>Votrient</i>            | pazopanib  | metastatic renal cell carcinoma                                 | Sutent, Nexavar                           | 2023                | 2025    |
| <b>Vaccines</b>            |  |   |   |                     |         |
| <i>Infanrix/Pediarix</i>   | diphtheria, tetanus, pertussis, polio, hepatitis B (HepB), | diphtheria, tetanus, pertussis, polio, hepatitis B (HepB),      | Pentavac, Pentaxim,<br>Pediacef, Pentacel | 2017                | 2016    |

|                  |  |                                    |   |      |      |
|------------------|--|------------------------------------|---|------|------|
|                  | inactivated antigens   |                                    |   |      |      |
| <i>Fluarix</i>   | split inactivated influenza virus subtypes A and type B antigens                   | seasonal influenza                 | Vaxigrip, Mutagrip, Fluzone, Influvac, Aggripal, Flud | 2022 | 2022 |
| <i>FluLaval</i>  | split inactivated influenza virus subtypes A and type B antigens                   | seasonal influenza                 | Vaxigrip, Mutagrip, Fluzone, Influvac, Aggripal, Flud | none | none |
| <i>Cervarix</i>  | HPV 16 & 18 virus like particles (VLPs), AS04 adjuvant (MPL + aluminium hydroxide) | human papilloma virus type 16 & 18 | Gardasil, Silgard                                     | 2026 | 2019 |
| <i>Synflorix</i> | conjugated pneumococcal polysaccharide   | invasive pneumococcal disease      | Prevenar  | NA   | 2020 |
| <i>Rotarix</i>   | live attenuated rotavirus strain GIP(8)  | rotavirus gastroenteritis          | Rotateq   | 2022 | 2020 |

### Trademarks

All of GSK's commercial products are protected by registered trademarks in major markets. There may be local variations, for example, in the USA the trademark *Advair* covers the same product sold in the EU as *Seretide*. Trademark protection may generally be extended as long as the trademark is used by renewing it when necessary. GSK's trademarks are important for maintaining the brand identity of its products. GSK enforces its trademark rights to prevent infringements.

### Consumer Healthcare products

Our portfolio comprises three main categories: Over-the-counter (OTC) medicines, Oral healthcare and Nutritional healthcare.

Sales of key Consumer Healthcare products in 2009 are shown on page 30.

Our leading Consumer Healthcare products include the following:

#### OTC medicines

*alli*, the first licenced weight loss medicine to be available without a prescription, launched in the USA in 2007 and across Europe in 2009

*Panadol*, the global paracetamol/acetaminophen analgesic

Smoking control products *NicoDerm*, *NiQuitin CQ*, *Nicabate* and in the USA, *Nicorette*

Other brands include *Breathe Right* nasal strips, *Tums*, *Citrucel*, *Contac* and *FiberChoice*.

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Products, intellectual property and competition

### Oral healthcare

*Aquafresh*, a range of toothpastes, toothbrushes and mouthwashes

*Sensodyne*, a range of toothpastes, toothbrushes and mouthwashes including *Pronamel* to protect from acid erosion

*Biotene*, acquired late in 2008, the leading treatment for dry mouth

*Polident*, *Poligrip* and *Corega* denture care cleansers and adhesives

Other brands include *Odol*, *Macleans* and *Dr Best*.

### Nutritional healthcare

*Lucozade*, a range of energy and sports drinks

*Horlicks*, a range of milk-based malted food and chocolate drinks

*Ribena*, a blackcurrant juice-based drink.

### Consumer Healthcare competition

GSK holds leading global positions in all its key consumer product areas. Worldwide it is the second largest in OTC medicines and the third largest in Oral healthcare. In Nutritional healthcare it holds the leading position in the UK, India and Ireland.

The environment in which the Consumer Healthcare business operates has become ever more challenging: consumers are demanding better quality, better value and improved performance  
retailers have consolidated and globalised which has strengthened their negotiation power  
cycle times for innovation have reduced.

The main competitors include the major international companies Colgate-Palmolive, Johnson & Johnson, Procter & Gamble, Unilever and Pfizer. In addition, there are many other smaller companies that compete with GSK in certain markets.

The major competitor products in OTC medicines are:

in the USA: Metamucil (laxative), Pepcid (indigestion) and private label smoking control products

in the UK: Lemsip (cold remedy), Nurofen and Anadin (analgesics), and Nicorette and Nicotinell (smoking control treatments).

In Oral healthcare the major competitors are Colgate-Palmolive's Colgate and Procter & Gamble's Crest.

In Nutritional healthcare the major competitors to *Horlicks* are Ovaltine and Milo malted food and chocolate drinks.

Competitors to *Ribena* are primarily local fruit juice products, while *Lucozade* competes with other energy drinks.

### Global manufacturing and supply (GMS)

More than 29,000 people work in GMS across our network of 78 sites in 33 countries. GMS supports the commercial ambition of GSK by delivering quality medicines and consumer products to patients and customers around the world.

The scale of manufacturing in GSK is huge, with the manufacture of over 4 billion packs per year in 28,000 different presentations (including tablets, creams/ointments, inhalers, injections, liquids and steriles), which are then supplied to over 150 markets. Over £3.7 billion was spent by GMS on production in 2009.

GMS operates a procurement operation on behalf of the Group. We spend over £2 billion annually with external suppliers, purchasing active ingredients, chemical intermediates, packaging components and part-finished and finished products.

During 2009, as our internal customers sought every opportunity to grow their businesses, we focused on the cost-competitive supply of quality product to meet their ambitions. We worked diligently to leverage our network of sites and contractors to give us built-in flexibility to sustain future growth and adapt to emerging commercial business models. In an increasingly rigorous external regulatory environment, we have continued to leverage technology in support of process understanding, control, and capability.

Our Primary supply sites supply high quality, competitively priced bulk actives and focus on improvements in primary technologies and processes. Our New Product and Global Supply sites work closely with R&D's development teams to ensure that the right technical competencies are in place to support rapid and successful new product introduction.

These sites serve as the focal point for developing and introducing new secondary manufacturing technologies. The sites in our Regional Pharma supply division focus on reducing costs, allowing GSK to compete more effectively in

all its markets. Our Consumer Healthcare sites deliver high-quality, competitively priced products and support rapid new product introduction in a highly innovative and competitive business. New technologies have become a fundamental platform for driving innovation, lowering costs, and providing flexibility in operations.

We are embedding new ways of working that are simplifying the business and achieving greater efficiencies. It is our focus on customer service, including support for new product launches, our strong compliance culture, our commitment to health, safety and the environment, and our commitment to developing our people that have delivered strong results for GSK even as the external environment has become more demanding.

Vaccine manufacturing, which is managed as an integral part of the Biologicals business, is particularly complex as it requires the use of innovative technologies and living micro-organisms. Sophisticated quality assurance and quality control procedures are in place to ensure the vaccine's quality and safety. This includes animal use according to health authorities' requirements. Due to their biological nature, individual health authorities may subject vaccines to a second control to guarantee the highest quality standards.

## **Research and development**

### **Research and development Pharmaceuticals**

GSK R&D has built one of the strongest pipelines of potential new medicines in the industry. In 2009, Pharmaceutical R&D was actively managing over 150 projects in human clinical trials across the globe. Delivering this pipeline to patients safely and efficiently is the number one goal.

#### **Discovering potential medicines**

Our early research identifies the biological targets interfering with a particular disease, and creates small molecules or biopharmaceuticals that interact with these disease targets.

A refocus on the best science led us to create an entrepreneurial environment in discovery, building on the success of the existing model of Centres of Excellence for Drug Discovery (CEDDs), groups focused around defined therapy areas. Taking the CEDD model one step further we created a number of smaller Discovery Performance Units (DPUs) within each CEDD. These are small, integrated groups of 5-70 scientists, who focus on a particular disease or pathway. There are now 36 DPUs in GSK. The number of DPUs in each CEDD varies according to the science, and some standalone DPUs were created to explore new therapy areas (such as Ophthalmology), or new ways of working (such as the academic DPU which forms drug discovery collaborations with academia).

The CEDDs are now one year into their 3-year business plan defining overall budget and clear objectives. The business plans have been reviewed at the end of year 1, and our discovery organisation is on track to deliver GSK's objectives.

We continue to identify compounds from other companies that would enhance the portfolio and to create innovative collaborations to ensure that we are seen as a partner of choice for large and small companies. Our internal R&D expertise allows us to have a strong position in business development, and makes us able to complement our internal pipeline with acquisitions, in-licensing, co-marketing/ co-promotion deals, or future options collaborations.

#### **Delivering these medicines to patients**

Progression into late-stage development consists of optimising both the physical product properties of the medicine, i.e. the chemical steps and formulation required to manufacture and deliver it as well as the much larger scale studies in humans confirming efficacy and safety. The combination of the results of these two steps into a regulatory file for submission to regulatory agencies and approval for patient use is the responsibility of the regulatory team.

Medicines Development is organised by therapy areas in Medicine Development Centres (MDCs): Cardiovascular and Metabolic, Infectious Diseases, Neurosciences and Respiratory. Each MDC has ultimate accountability for developing experimental drugs into regulatory-approved medicines for patients. The MDCs are responsible for creating value through the execution of full product development plans and ensuring strong partnerships with the rest of R&D and GSK, in particular the CEDDs, preclinical development, the regulatory and commercial groups, and manufacturing.

In 2009 emphasis was put on the simplification of the clinical development organisation, and on focusing investment on project spend versus infrastructure. This reflects the increased focus of R&D on return on investment.

#### **Adapting our structure to maximise our chance to succeed**

R&D's units in Oncology and Biopharmaceuticals are integrating the discovery and the late stage development group. This allows us to build critical mass in those two growth areas for GSK, and to focus on delivering a strong pipeline. Both integrated units are now fully set up, and have been very successful at progressing their pipeline in 2009 (see pipeline chart).

Our China Discovery team focused on neurodegeneration and neuroinflammation celebrated its second anniversary in 2009. It has grown to approximately 280 employees in 2009, and has developed an impressive early stage portfolio. As products enter the clinic, the team is now establishing clinical capabilities.





Research and development

### **Governance**

Key projects reaching significant milestones are reviewed each month by a product management board, responsible for determining if a medicine has met criteria for passing into the next phase of development.

GSK's Chief Medical Officer, working with the Global Safety Board, is ultimately accountable for oversight of all major decisions regarding patient safety. Our Global Safety Board is responsible internally for approving pivotal studies and investigating any issues related to patient safety arising during the development programme and post-launch.

The oversight of strategic issues and budget management across R&D is owned by the R&D Executive team (RADEX).

### **Diseases of the developing world**

Continued investment in research into diseases of the developing world is essential if there is to be a long-term improvement in the health of people who live in these regions. As part of our response to this challenge, we operate a drug discovery unit based at Tres Cantos (Spain), which focuses on malaria and tuberculosis. Additional R&D sites in the USA and the UK are focused on the development of new medicines to treat HIV/AIDS and drug resistant bacteria, while vaccine research is conducted in Rixensart (Belgium).

Through these R&D efforts, we are addressing the prevention and treatment of all three of the World Health Organization's (WHO) priority infectious diseases.

### **Vaccines R&D**

GSK is active in the fields of vaccine research, development and production and has a portfolio of over 30 vaccines approved for marketing. We have over 1,600 scientists devoted to discovering innovative vaccines that contribute to the health and well-being of people of all generations around the world. The discovery and development of a new vaccine is a complex process requiring long-term investment and with more than 20 vaccines in clinical development, we have one of the strongest vaccine pipelines in the industry. Although vaccines have traditionally been used to ward off illness, GSK's vaccine division is working to develop therapeutic immunotherapeutics aimed at educating the patient's immune system to identify and attack cancer cells in a highly specific manner.

Vaccine discovery involves many collaborations with academia and the biotech industry to identify new vaccine antigens which are then expressed in yeast, bacteria or mammalian cells and purified to a very high level. This is followed by formulation of the clinical lots of the vaccine. This may involve mixing antigens with selected GSK novel proprietary adjuvant systems, which are combinations of selected adjuvants designed to elicit the most appropriate immune response to a specific antigen. The right combination of antigen and adjuvant system can help the body mobilise the most effective immunological pathway, which is designed to provide maximum protection against specific diseases in targeted populations.

Once formulated, the candidate vaccine is evaluated from a safety and efficacy perspective through the different phases of preclinical testing, then through the clinical trials involving healthy individuals. These will range from safety analysis in a small group of volunteers in phase I, dose adjustment and proof of concept in phase II to large-scale safety and efficacy analysis in phase III. The results obtained during clinical trials and data regarding the development of a quality and large-scale production process and facilities are then combined into a regulatory file which is submitted to the authorities in the countries where the vaccine will be made available.

After launch, post marketing studies of considerable size are set up to assess vaccination programmes and to monitor vaccine safety.

Research and development

### **Animals and research**

For ethical, regulatory and scientific reasons, research using animals remains a small but vital part of research and development of new medicines and vaccines. We only use animals where there is no alternative and constantly strive to reduce the numbers used. We are committed to maintaining high standards for the humane care and treatment of all laboratory animals and undertake internal and external review to assure these standards.

The vast majority of the experimental methods do not use animals. We are actively engaged in research to develop and validate more tests that either avoid the use of animals in research or reduce the numbers needed. When animals are used in research, all due measures are taken to prevent or minimise pain and distress.

We decided not to initiate funding of studies using great apes after 28th October 2008. This is a voluntary decision and provides a tangible demonstration of our commitment to the 3Rs of animal research, which advocates the replacement and reduction of animals in research and refining of experiments to improve animal welfare.

We understand that use of animals for research purposes commands a high level of public interest.

### **Research and development Consumer**

#### **Healthcare**

The continuous creation and development of innovative products keeps our brands relevant, vibrant and valuable. Our portfolio spans three major categories: OTC medicines, Oral healthcare and Nutritional healthcare. For our major brands, dedicated R&D teams, including Regulatory, partner with and work alongside their commercial brand team colleagues in office-free hub environments that foster collaboration and fast decision-making. Hubs have quickly become a preferred way of working at our Innovation Centres in Weybridge, UK, and Parsippany, USA, and we are expanding this model rapidly into other key Consumer Healthcare territories, including China and India.

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## Research and development

We have a full and diverse product development pipeline. Our key late stage projects are highlighted here, comprising both new chemical entities and new combinations and formulations of existing assets. The most advanced status is shown and includes 2009 approvals.

**Key:****Phase III**

Large comparative study (compound versus placebo and/or established treatment) in patients to establish clinical benefit and safety.

**Filed**

Following successful Phase III trials, we file the product for approval by the regulatory authorities.

**Approval**

Only when approval is granted can we begin to market the medicine or vaccine.

Our full pipeline is on pages 189 to 192.

| <b>Therapeutic</b>                   | <b>Compound</b>              |
|--------------------------------------|------------------------------|
| <b>Biopharmaceuticals</b>            | <i>Arzerra (ofatumumab)</i>  |
|                                      | <i>Arzerra (ofatumumab)</i>  |
|                                      | <i>Arzerra (ofatumumab)</i>  |
|                                      | <i>Benlysta (belimumab)</i>  |
|                                      | ofatumumab                   |
|                                      | otelixizumab                 |
|                                      | <i>Prolia (denosumab)</i>    |
| <b>Cardiovascular&amp; Metabolic</b> | <i>Syncria</i>               |
|                                      | <i>Arixtra</i>               |
|                                      | <i>Avandamet XR</i>          |
|                                      | <i>Avandia + simvastatin</i> |
|                                      | darapladib                   |
| <b>Neurosciences</b>                 | almorexant                   |
|                                      | <i>Horizant (1838262)*</i>   |
|                                      | retigabine                   |
| <b>Oncology</b>                      | <i>Avodart</i>               |

*Duodart (Avodart +  
alpha blocker)*

*Votrient (pazopanib) +  
Tyverb/Tykerb*

*Revolade/Promacta*

*Revolade/Promacta*

*Revolade/Promacta*

*Tyverb/Tykerb*

*Tyverb/Tykerb*

*Tyverb/Tykerb*

*Tyverb/Tykerb*

*Votrient (pazopanib)*

*Votrient (pazopanib)*

*Votrient (pazopanib)*

**Respiratory**

642444

*Relovair (642444 +  
655698)*

**Vaccines**

*Cervarix*

MAGE-A3 (ASCI)

MAGE-A3 (ASCI)

*Menhibrix (Hib-MenCY-TT)*

*Mosquirix*

New generation flu vaccine

*Nimenrix (MenACWY-TT)*

*Simplirix*

In-license or other  
alliance relationship

with a third party

\* See Note 40 to the  
financial statements,  
Post balance sheet  
events .

ASCI = Antigen Specific Cancer Therapeutic

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Research and development

| <b>Indication</b>                                   | <b>Phase</b> | <b>3</b> | <b>Filed</b> | <b>Approved</b> |
|---|--------------|----------|--------------|-----------------|
| chronic lymphocytic leukaemia (refractory patients) |              |          |              |                 |
| diffuse large B cell lymphoma (relapsed patients)   |              |          |              |                 |
| follicular lymphoma (refractory patients)           |              |          |              |                 |
| systemic lupus erythematosus                        |              |          |              |                 |
| rheumatoid arthritis                                |              |          |              |                 |
| type 1 diabetes                                     |              |          |              |                 |
| post-menopausal osteoporosis                        |              |          |              |                 |
| type 2 diabetes                                     |              |          |              |                 |
| treatment of acute coronary syndrome                |              |          |              |                 |
| type 2 diabetes extended release                    |              |          |              |                 |
| type 2 diabetes                                     |              |          |              |                 |
| atherosclerosis                                     |              |          |              |                 |
| insomnia  |              |          |              |                 |
| restless legs syndrome                              |              |          |              |                 |
| epilepsy partial seizures                           |              |          |              |                 |
| reduction in the risk of prostate cancer            |              |          |              |                 |
| benign prostatic hyperplasia fixed dose combination |              |          |              |                 |
| inflammatory breast cancer                          |              |          |              |                 |
| idiopathic thrombocytopaenic purpura                |              |          |              |                 |
| chronic liver disease induced thrombocytopaenia     |              |          |              |                 |

hepatitis C induced thrombocytopaenia

breast cancer, first line therapy

breast cancer, adjuvant therapy

gastric cancer

head & neck squamous cell carcinomas (resectable disease)

renal cell cancer

ovarian cancer, maintenance therapy

sarcoma

COPD

COPD

cervical dysplasia and cancer prophylaxis caused by HPV 16/18

treatment of melanoma

treatment of non-small cell lung cancer

Neisseria meningitis groups C & Y disease & Haemophilus influenzae  
type b disease prophylaxis

malaria prophylaxis (Plasmodium falciparum)

seasonal influenza prophylaxis for the elderly

Neisseria meningitis groups A, C, W & Y disease prophylaxis

genital herpes prophylaxis



**Our employees****GSK Values and Behaviours**

Changes in the healthcare market over the past decade necessitate the transformation of our business model to one that is more customer-centric and innovative; how we perform as a collective organisation will determine our success. In order to be effective with growing complexity and exponential speed of change in our external environment, GSK needs to create an internal learning culture that is embodied by GSK Values and Behaviours. For more details on GSK Values and Behaviours, see our Corporate Responsibility Report.

**Recruitment, talent management and leadership development**

In 2009, like every year, recruiting, retaining and developing our employees were critical to enhancing and sustaining our performance and reputation. Proactive talent acquisition initiatives underpin our ability to attract specialist and leadership talent externally. Our assessment process is aligned to a core set of competencies, of which ethics and integrity are central.

A global view of talent and strategic capabilities required looking at the quality, depth and breadth of our talent across the world. We need good succession plans, not just for senior roles but for all our critical positions across the organisation. We maintain a robust leadership strategy to identify and develop our highly skilled leadership cadre and use a systematic, disciplined approach to leadership development, providing tools and programmes to help leaders master skills needed to meet customer, employees and investor expectations. In 2009, we launched a First Line Leader programme for all new leaders – whether new to GSK or new to managing people. We also launched a GSK-wide mentoring scheme where each senior leader will mentor at least one individual in 2010.

**Performance and reward**

The performance and development planning (PDP) process means employees have business-aligned objectives and behavioural goals. Our reward systems support high performance and help to attract and retain the best people. Performance-based pay & bonuses and share-based equity plans align employee interests with business targets.

**Communication and employee involvement**

Our communication channels are designed to keep employees informed, engaged and involved in activities across all areas of our organisation. We encourage two-way, open and honest communication with employees, and in 2009 improvements in web usage technology engaged more employees.

Feedback and monitoring mechanisms are part of every major communication event, and Q&A and feedback facilities are a core feature of our web communications channels. Other broader processes include an internal online opinion survey where in 2009 more than 93,000 employees were invited to provide feedback on individual empowerment, employee engagement and our company values.

As our business evolves, there will be changes that affect employees and we remain committed to consulting on these changes via a number of internal consultation forums and discussions with the European Employee Consultation Forum and similar bodies in countries where this is national practice.

**Inclusion and diversity**

We are committed to employment policies free from discrimination against existing or potential employees on the grounds of age, race, ethnic and national origin, gender, sexual orientation, faith or disability. GSK is committed to offering people with disabilities access to the full range of recruitment and career opportunities. Every effort is made to retain and support employees who become disabled while working at GSK. For more details on diversity measures, see our Corporate Responsibility Report.

**Healthy and safe high performance**

To meet our mission and strategy, Employee Health and Performance initiatives focus on the health factors that enable employees to perform at the highest level by sustaining energy and engagement. The programmes developed to deliver this health strategy range from the traditional – such as immunisations, smoking control, and weight management – to cutting-edge programmes in the areas of team and personal resilience, ergonomics and Energy for Performance. These programmes, available in many languages, are designed to address the root causes of excessive work pressure and low energy and engagement at work and at home. They are complimented by our commitment to

flexible working that enables employees to do their best work in an environment that helps them integrate their work and personal lives. For more details on the scope and impact of these programmes, see our Corporate Responsibility Report.

**Our responsibility****Commitment to corporate responsibility**

GSK is committed to connecting business decisions to ethical, social and environmental concerns. Thus, corporate responsibility is an integral and embedded part of the way GSK does business.

**Improving access to medicines****Access to healthcare in the developing world**

There are no easy solutions to the challenge of providing sustainable access to healthcare in developing countries. Poverty is the single biggest barrier. In many countries people do not have enough food, access to a clean water supply, hospitals or clinics in which to receive treatment and healthcare professionals to care for them.

We are committed to playing a full part in addressing the healthcare challenges of the developing world by taking an innovative, responsible and, above all, sustainable approach. GSK is making a vital contribution to developing country healthcare through action in a number of areas including: preferential pricing of our anti-retrovirals and anti-malarials; tiered pricing of our vaccines; investing in R&D that targets diseases particularly affecting the developing world (see page 16); community investment activities and partnerships that foster effective healthcare (see page 22); and seeking innovative partnerships and solutions. We cover our contribution to improving access to medicines extensively in our Corporate Responsibility Report.

We were a clear leader in the first Access to Medicines (ATM) Index produced by the ATM Foundation in 2008. We will continue to build on our product, pricing and partnership commitments to help improve healthcare in the developing world. In February 2009, we announced a series of commitments for the UN defined list of least developed countries, including a more flexible approach to intellectual property for research into neglected diseases, a commitment to invest in healthcare infrastructure and price caps on our patented medicines. A significant increase in resources from the global community is still needed to support R&D and to provide access to the resultant medicines and vaccines.

While much has been achieved, sustainable progress will only occur if the significant barriers that stand in the way of better access to healthcare are tackled as a shared responsibility by all sectors of global society – governments, international agencies, charities, academic institutions, the pharmaceutical industry and others.

**Access to medicines in the developed world****Programmes in the USA**

We are working to provide access to medicines for people with limited financial resources and without prescription drug insurance.

For uninsured Americans who do not qualify for Medicare or Medicaid, GSK and nine other pharmaceutical companies created Together Rx Access, a programme for qualified individuals offering reductions in the pharmacy cost on more than 300 medicines. Over 2 million Together Rx Access cardholders saved about \$20 million in 2009.

**Programmes in other countries**

We have also introduced Orange Cards providing discounts on certain GSK prescription medicines for eligible patients in a number of other countries. The nature of the discounts varies between countries and the ways in which the healthcare systems operate.

**Patient Advocacy**

The Patient Advocacy initiative has demonstrated significant progress since its inception in 2002. Initially launched as a US programme, it is now a critical initiative throughout GSK. Patient Advocacy teams in the USA and Europe share best practices and established processes to optimise interaction with patient groups. Typically these relationships provide mutual opportunities: to learn about patient needs and priorities and for patient groups to develop an understanding of drug development challenges.

In 2009, we continued to partner with patient groups on common issues: advocating for access to medicines and treatment, increasing funding for health programs and improving health care delivery. We are considered to be a trustworthy partner with patient groups and we have worked with patient groups and our trade associations to increase the transparency of all of our interactions.

**Our work with communities**

We work as a partner with under-served communities in the developed and developing world supporting programmes that are innovative, sustainable and bring real benefits to these communities. Our global community investment in 2009 was £163 million. This compares with £124 million in 2008 on a like for like basis. This increase is due to expansion of our US patient assistance programme, increased humanitarian product donations and scale up of our donation of albendazole for the Lymphatic Filariasis (LF) programme. Our 2009 giving comprised product donations of £101 million, cash giving of £43 million, in-kind donations of £2 million plus costs of £17 million to manage and deliver community programmes in almost 100 countries. The product donations include £80 million for GSK's patient assistance programmes, £13 million worth of albendazole for the programme and £8 million for humanitarian product donations. Since 2008 our product donations have been valued at cost (average cost of goods) rather than wholesale price (WAC) as this is a more accurate reflection of the cost to GSK. We believe we are the first pharmaceutical company to adopt this practice. For comparative purposes the total value of donations in 2009 using WAC for products would be £467 million compared with £343 million in 2008.

We do not operate a single charitable foundation for our community investment programmes, but have a number of country-based foundations and their 2009 grants are included in the investment total.

Our responsibility

Our cash giving was targeted primarily at health and education initiatives as follows:

### **Global Health Programmes**

#### **Eliminating lymphatic filariasis (LF)**

Our effort to eliminate LF, one of the world's most disabling diseases, continued in close partnership with the governments of countries where the disease is endemic, the World Health Organization and over 40 partner organisations. As a founding partner and leader in the global elimination effort, we are committed to donating as much of the anti-parasitic drug albendazole as required to reach the one billion people at risk in over 80 countries. In 2009, 425 million albendazole treatments were donated to 28 countries. We have donated over 1.4 billion albendazole treatments since the global elimination programme started in 2000.

#### **Positive Action on HIV/AIDS**

Positive Action is our pioneering global programme working with communities affected by AIDS. Started in 1992, it supports community-based organisations to deliver effective HIV and AIDS education, prevention and healthcare services. In July 2009 we announced the creation of a new Positive Action for Children Fund. The Fund will make £50 million available over ten years to help prevent mother-to-child transmission of HIV and to support orphans and vulnerable children. This new Fund will complement our ongoing work and support to the HIV community. With the launch of ViiV Healthcare, our Positive Action programmes will be managed by this new HIV-focused company.

#### **The GlaxoSmithKline African Malaria Partnership**

In 2009, Coalitions Against Malaria created by our malaria advocacy programme Mobilising for Malaria continued to increase awareness of malaria and mobilise resources in the target countries: UK, Belgium, France, Ethiopia, Mozambique and Cameroon. This year we announced the launch of the next phase of the African Malaria Partnership with projects focused on community health workers and education/behaviour change in the community. Four new malaria grants were awarded in 2009, with a total commitment of £1.5 million over three years. They include partnerships with: Save the Children (UK) in Kenya; Family Health International in Ghana; African Medical and Research Foundation (AMREF) in Tanzania; and Planned Parenthood Federation of Nigeria.

#### **PHASE**

The PHASE programme (Personal Hygiene And Sanitation Education), initiated by us in 1998, is now providing education to hundreds of thousands of school children in 13 countries to improve their health and hygiene to fight infectious diseases. In 2009 we expanded our programme in Uganda, and extended PHASE to the slum areas of Mumbai, India. We have also brought PHASE to the UK and it is being piloted in three schools in Hounslow, near our global headquarters.

#### **Humanitarian product donations**

During 2009, we donated essential products, such as antibiotics, through non-profit partners including AmeriCares, Direct Relief International, MAP International and Project HOPE, to support humanitarian relief efforts and community healthcare. Following a series of natural disasters in the Asia-Pacific region and Central America, the total value of our international humanitarian product donations was £8 million at average cost.

Immediately following the devastating earthquake that struck Haiti in January 2010, GSK provided donations of medicines of over £1 million from stocks held in warehouses of several non-profit partners. We are continuing to donate requested medicines to support medium and longer-term needs. We have also donated £250,000 to the British Red Cross to support the deployment of a Mass Sanitation Unit for water and sanitation needs.

#### **Community initiatives**

We are dedicated to strengthening the fabric of communities through providing health and education initiatives and support for local civic and cultural institutions that improve the quality of life. In the UK, we contributed £5.6 million in 2009 to our continuing programme of charitable activities supporting over 80 organisations in health, medical research, science education, the arts and the environment.

Programmes in North America at a national and local level focused on improving public education, increasing access to healthcare for children and the homeless, and healthcare (prevention/access) for people dealing with breast or

gynaecologic cancers. GSK's IMPACT Awards recognise organisations that have significantly improved the health of their local communities and were expanded beyond UK and Philadelphia to reach communities near our Research Triangle Park, North Carolina facility. Total funding for our North American programmes was \$20 million. GSK continues to be a CommunityMark company – this award for excellence in community investment was awarded in 2008 for three years.

Our responsibility

### Health initiatives

Our contribution to improve healthcare included the following grants:

| Non-profit partner               | Amount in 2009 | Purpose of grant   |
|----------------------------------|----------------|--|
| Children's Health Fund<br>USA    | \$1,461,000    | To continue the Referral Management Initiative (RMI) which ensures continuity of specialist medical care for high-risk children who are often homeless and for general support                       |
| GSK IMPACT Awards UK<br>and USA  | £787,000       | To recognise excellence in non-profit community health organisations. Charities receive unrestricted grants for their work dealing with diverse and difficult social issues and access to healthcare |
| Medical Research Charities<br>UK | £400,000       | To support medical research programmes   |

### Education initiatives

#### Employee involvement

Our employees are encouraged to contribute to their local communities through employee volunteering schemes. Support includes employee time, cash donations to charities where employees volunteer and matching gift programmes.

Through the US GSK Matching Gift Program, we matched 15,000 employee and retiree gifts at a value of \$4.7 million in 2009 plus over \$1 million to the United Way campaign. GSK's GIVE programme provided grants of over \$314,000 to 353 organisations where US employees volunteered and £272,000 to 410 UK-based non-profit organisations via the GSK Making a Difference programme.

In 2009, our Group-wide volunteer initiative was launched to give every GSK employee one paid day off each year to volunteer for a good cause. Employees supported a wide range of charities and projects including work in local schools, shelters for the homeless, community gardens, nursing homes and aiding communities affected by natural disasters.

The GSK PULSE Volunteer Partnership is a new initiative launched in April 2009 that empowers high-performing employees to volunteer for a period of three to six months lending their professional expertise. PULSE volunteers work full-time with one of our partner non-governmental organisations (NGO) to create sustainable change for impoverished communities around the world. From our 2009 in-take, we had 58 PULSE volunteers, working in 18 different countries for 25 non-governmental organisations. Employees continue to receive their GSK salary during their placement and in 2009 this represented an in-kind donation of £428,000.

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Our responsibility

### **Responsibility and the environment**

GlaxoSmithKline's environmental responsibility spans our demand for raw materials, through converting them into products, to their impacts after use.

Our vision for environmental sustainability is ultimately to transform how we do business following the principles of industrial ecology, using renewable resources and converting wastes to by-products that become inputs to other processes.

The first steps towards this goal are to optimise the efficiency of our processes, minimising the use of energy and other resources and the amount of waste we generate. In doing so, we also need to reduce carbon dioxide emissions from energy used, as a contribution to tackling climate change.

Our environmental activities are overseen by a Sustainability Council composed of senior executives. We manage environmental issues (as well as occupational health and safety) using a management system aligned with recognised international standards. Our central audit group includes environmental issues in its routine audits of our sites and processes.

### **Strategy and plans**

Our strategy has three elements, beginning with embedding the environmental fundamentals such as energy management and waste reduction to eliminate adverse impacts from our operations. The second stage is to embrace sustainability in all of our businesses, developing a culture of product stewardship and sustainable resource use. The strategy also requires transparency, informing stakeholders of our actions and performance – we provide fuller disclosure in our Corporate Responsibility Report.

We have a ten-year strategic plan with targets that are refreshed every five years. In 2010 we will update the plan with new, more challenging targets to 2020. Key targets for 2010 that we have been pursuing since 2006, and progress towards them, include:

- a 20% reduction per unit of sales in energy use and emissions from operations and transport – we have achieved 6% reduction in energy use and 5% in emissions

- 2% average material efficiency for products transferred from research and development – the current average is 2.8%

- 2% annual reduction in water use per unit of sales – we have achieved 15% reduction since 2006

### **Mass efficiency**

Increasing the efficiency with which we use materials is a priority. In 2009 we increased a target originally introduced in 2005, aiming for a 2.5% efficiency by 2015 for new products launched after 2010. For the first time, we also set a mass efficiency target for our manufacturing sites to achieve additional improvements after they take over processes from R&D. Our long-term aspiration is to achieve 5% efficiency by 2020 – five times the typical level in the pharmaceutical industry, which will reduce input materials and waste by 80%.

Mass efficiency (average 2005-2009)

### **Climate change**

Our biggest direct climate impact comes from propellants used in inhalers for diseases such as asthma. We have reduced this impact by replacing CFC gases and continue to research ways to minimise greenhouse gases released by these products.

Since 2007 we have been implementing a climate change programme with ambitious targets for our emissions and energy use in operations and transport. We are aiming for a 20% reduction per unit of sales by 2010 and a cut of 45% by 2015 (from 2006 levels). In 2009 emissions and energy consumption per unit of sales fell by 5% and 6% respectively. These reductions follow two years of limited progress, which means that we need an outstanding performance in 2010 to meet our interim 20% target.

Energy reduction has been identified as a key objective for the business. As a result, energy consumption is now included in the key business metrics and in 2009 the remuneration of senior managers in manufacturing was linked to the achievement of energy reduction targets. We have also created a central fund to finance energy saving projects. A



climate change team has identified more than 800 energy saving projects which have helped in the last two years to avoid around 85,000 tonnes of greenhouse gas emissions.

#### Our responsibility

As well as mitigating our climate change impact, we also aim to identify ways that we can respond to changing disease patterns caused by climate change.

GSK's carbon footprint

#### **Other environmental concerns**

Sustainability requires a holistic view of everything that we do, especially relating to the optimal use of all resources. Water is a particularly important natural resource, and we recognise that businesses can play a positive role in managing it more sustainably. We endorsed the United Nations CEO Water Mandate in 2009. Water consumption in 2009 fell by 5% (per unit of sales), which exceeds our target.

We also have targets for improving the quality of wastewater, reducing waste disposal and emissions to air. In 2009 we exceeded targets in each of these areas and are on track to completely eliminate ozone-depleting CFCs by the end of 2010. Our environmental audit scores are also moving close to our 2010 targets.

Packaging provides opportunities to reduce resources use and we have several projects to reduce the environmental impact of packaging. For instance, we are now using lighter toothpaste caps, saving 90 tonnes of plastic a year.

**Regulation****Regulation Pharmaceuticals**

Region and country-specific laws and regulations define the information needed to show the safety and efficacy of pharmaceutical products, as well as governing their testing, approval, manufacturing, labelling and marketing. These regulatory requirements are a major factor in determining whether a marketable product may be successfully developed and approved.

In this highly regulated environment, there is increasing cooperation and exchange of information among the major regulatory authorities. Consequently, in 2009 we have transformed the structure of our Regulatory Affairs department to better match the global regulatory environment in which we operate. The existing US, EU and International groups have been integrated into one department, Global Regulatory Affairs. This change enables us to more effectively formulate global strategies to obtain regulatory approvals for GSK products, based on regional expertise. The new structure will also make us better positioned to interact with our regulatory customers in this dynamic, globally-connected external environment.

Although the evaluation of benefit and risk continue to be paramount considerations for the approval of a new drug in the USA, there is an increased focus on the safety of medicines. The FDA Amendments Act of 2007 mandates a rigorous FDA review of safety from approval through the post-marketing phase of the product, and the FDA is examining better ways to identify counterfeit medicines and to communicate new risk information to the public. We remain engaged in these key areas of interest.

In Europe, new regulations aimed at strengthening the safety monitoring of medicines, improving citizens' access to reliable information on medicines and strengthening EU laws to protect citizens better from the threats posed by fake medicines are under discussion by EU legislators. Meanwhile, preparation continues for the implementation in 2010 of new rules aimed at simplifying and harmonising the EU regulatory framework on changes to authorised medicinal products. It is hoped that these changes will minimise inefficiencies in the procedures, and reduce the overall administrative burden.

The regulatory environment in Emerging Markets and Asia-Pacific continues to evolve, with a number of countries continuing to develop their regulatory review systems. GSK actively participates in a number of specific regional and national regulatory initiatives, which provide opportunities for meaningful scientific and regulatory dialogue between industry, agencies and other stakeholders. GSK continues to include broader sets of patient populations from a number of these countries in medicine development programmes in order to increase global patient access to new innovative medicines, and optimise regulatory approvals.

**Regulation Consumer Healthcare**

The consumer healthcare industry is subject to national regulation comparable to that for prescription medicines for the testing, approval, manufacturing, labelling and marketing of products. High standards of technical appraisal frequently involve a lengthy approval process before a new product is launched.

January 2009 saw the history-making first for the OTC industry when the European Medicines Agency granted centralised approval of the weight loss medicine *alli*. This resulted in the pan-European launch of *alli* as the first licenced weight loss treatment available without a prescription across all 27 EU countries. With additional national licences, *alli* has now been granted approval in 38 countries.

**Value for money**

Payers around the world are concerned about the cost of healthcare and the pricing of medicines. The requirement to satisfy healthcare purchasers on value for money is becoming an additional hurdle for product acceptance over and above the regulatory tests of safety, efficacy and quality.

**Price controls**

In many countries the prices of pharmaceutical products are controlled by law. Governments may also influence prices through their control of national healthcare organisations, which may bear a large part of the cost of supplying medicines to consumers.

Recent government healthcare reforms in countries such as France, Spain and Germany may restrict pricing and reimbursement.

Currently in the USA, there are no government price controls over private sector purchases, but federal law requires pharmaceutical manufacturers to pay prescribed rebates on certain drugs to be eligible for reimbursement under several state and federal healthcare programmes. In 2009, the US President and Congress dedicated much of the year's legislative process to reforming America's healthcare system to drive down cost, improve quality, and increase access to millions of Americans without health insurance. These reforms had the potential to create positive changes in the US healthcare system and expand access to GSK's products. They also had the potential to increase prescribed rebates under government-run programmes and change the balance between private and public sector purchases. The pressure to control healthcare costs and the need for health reform will continue into 2010 and beyond. Issues such as cross-border trade, the acceleration of generics to market, comparative effectiveness research, and pharmaceutical pricing will continue to be part of the ongoing reform debate in the USA. Fortunately, GSK is positioned to be a constructive contributor to these debates since there has been increased recognition that chronic disease is the primary driver of healthcare spending and pharmaceutical products deliver important interventions that help hold down healthcare costs.

**World market, economy and outlook****World market pharmaceuticals**

Global pharmaceutical sales in 2009 were £468 billion compared with £366 billion in 2008.

| <b>World market by geographic region</b> | Value<br>£bn | % of<br>total |
|--|--------------|---------------|
| <b>USA</b>                               | <b>187</b>   | <b>40</b>     |
| <b>Europe</b>                            | <b>131</b>   | <b>28</b>     |
| France                                   | 25           | 5             |
| Germany                                  | 24           | 5             |
| Italy                                    | 16           | 3             |
| UK                                       | 12           | 3             |
| <b>Rest of World</b>                     | <b>150</b>   | <b>32</b>     |
| Emerging markets                         | 66           | 14            |
| Asia Pacific                             | 20           | 4             |
| Japan                                    | 50           | 11            |
| Canada                                   | 11           | 2             |
| Total                                    | 468          | 100           |

Market growth on a CER basis was USA 3.6%, Europe 4% and Rest of World 9.9%.

At 30th September 2009, GSK had two of the world's top 60 pharmaceutical products. These were *Seretide/Advair* and *Valtrex*.

| <b>World market top six therapeutic classes</b>                     | Value<br>£bn | % of<br>total |
|---|--------------|---------------|
| Central nervous system  | 74           | 16            |
| Cardiovascular  | 68           | 15            |
| Alimentary tract and metabolic                                      | 57           | 12            |
| Antineoplastic/Immunomodulatory                                     | 52           | 11            |
| Anti-infectives (bacterial, viral and fungal)<br>excluding vaccines | 50           | 11            |
| Respiratory   | 32           | 7             |

(Note: data based on  
12 months to 30th  
September 2009)

Data for market share and market growth rates are GSK estimates based on the most recent data from independent external sources, and where appropriate, are valued in Sterling at relevant exchange rates. Figures quoted for product market share reflect sales by GSK and licensees.

**World economy**

The world economy deteriorated further during the early part of 2009 as the international financial crisis deepened. The economies of many countries contracted during the year, although some emerging markets still showed growth.

Aggressive cuts in official interest rates, fiscal stimulus measures and national initiatives to support the international banking system led to some improvements towards the end of the year. However, the economic recovery during 2010 is likely to remain fragile and uneven, with the emerging markets providing the strongest growth.

Equity prices strengthened during 2009, with the FTSE 100 Index increasing by 22% and the Dow Jones Industrial Average by 19%. Inflationary pressures remained well under control, however, and only a modest increase in inflation is expected in 2010.

The potential healthcare reforms in the USA create some uncertainty for 2010 but our strategy is designed to put the Group in a position to be able to deliver long-term sustainable financial performance despite such uncertainties.

**Outlook**

In 2009, GSK returned to sales growth. The company's strategy is delivering and it is confident of its prospects in 2010. GSK believes it is moving to a position where it can deliver its goal of long-term sustainable financial performance.

**Financial review 2009****Pharmaceutical turnover**

All growth rates included in the review of turnover are at constant exchange rates (CER) unless otherwise stated. Sterling growth rates may be found in the tables of pharmaceutical turnover by therapeutic areas on page 29 and by geographic region on page 30.

Pharmaceutical turnover grew 2% to £23.7 billion. Pharmaceuticals growth was helped by sales of pandemic related products, including *Relenza* and H1N1 vaccine products. On a regional basis, the USA declined 13% reflecting continued erosion of several products due to generic competition. Strong performances were delivered in Europe (up 9%), Emerging Markets (up 20%) and Asia Pacific/Japan (up 16%). The sales contribution of Stiefel, which was acquired on 22nd July 2009, totalled £248 million.

**Pharmaceutical turnover by therapeutic area**

GSK turnover grew by 2% in 2009 as the impact of US generic competition to a range of GSK's products, lower *Avandia* sales and a declining HIV business was more than offset by strong growth of key products such as *Seretide/Advair*, *Avodart*, *Lovaza*, *Relenza* and the vaccines franchise including the H1N1 pandemic vaccine.

**Respiratory**

Respiratory sales increased 5% to £7.0 billion.

*Seretide/Advair* grew 5% to £5.0 billion, with especially strong growth in Emerging Markets (up 21% to £276 million) and Japan (up 79% to £195 million). *Ventolin* sales grew 26% to £477 million, driven by its performance in the USA where sales more than doubled to £153 million. *Veramyst* sales rose 72% to £142 million.

**Anti-virals**

Anti-virals increased 12% to £4.2 billion.

*Relenza* sales were £720 million in 2009 (2008 £57 million) reflecting the successful capacity expansion to meet government orders across the world and a strong retail performance in Japan (£191 million). Sales of *Valtrex* declined 8% to £1.3 billion as a result of generic competition to the product in the USA which began in November 2009. Sales of HIV medicines totalled £1.6 billion (down 7%) for the year. *Epzicom* sales grew 8% to £546 million but this was more than offset by declines across the rest of the portfolio. ViiV Healthcare, the new specialist HIV company established by GSK and Pfizer, was officially launched on 3rd November 2009.

**CNS**

CNS sales decreased 44% to £1.9 billion.

The majority of GSK's CNS franchise is impacted by generic competition in the USA. The *Wellbutrin* decline of 67% primarily reflected the sale of *Wellbutrin XL* in the USA to Biovail in the second quarter of 2009.

**Cardiovascular and urogenital**

Cardiovascular and urogenital sales increased 8% to £2.3 billion.

Continued strong growth of key products such as *Arixtra*, up 29% to £254 million, *Avodart*, up 16% to £530 million, and *Lovaza*, up 31% to £450 million, were partly offset by generic competition to *Coreg*.

**Metabolic**

Metabolic sales decreased 14% to £1.2 billion.

Sales of *Avandia*, down 16% to £771 million, continued to decline across all regions. *Bonviva/Boniva* sales declined in the USA by 16% but grew in Europe and the Rest of the World.

**Oncology and emesis**

Oncology and emesis sales increased 10% to £0.6 billion.

*Tyverb/Tykerb*, up 45% to £169 million, grew strongly in Europe and the Rest of World following product approvals gained during 2008. *Zofran* declined 11% as a result of generic competition.

**Vaccines**

Vaccine sales increased 30% to £3.7 billion.

Pandemic vaccine sales of £883 million were recorded during the year, most of which were delivered in the fourth quarter, as GSK partnered with governments to respond to the H1N1 pandemic.

Sales of GSK's new *Synflorix* vaccine totalled £73 million, reflecting launches in several markets and the beginning of shipments to the Brazilian Government as part of the 10-year, \$1.5 billion agreement signed in August 2009. Other strong contributors to growth for the year included *Boostrix* (up 73% to £139 million), *Cervarix* (up 38% to £187 million) and *Rotarix* (up 50% to £282 million). Partially offsetting these performances, sales of *Infanrix/Pediarix* fell 15% to £649 million primarily as a result of the continued impact of increased competition in the DTPa sector in the USA. Hepatitis vaccines sales also fell (down 11% to £665 million) in part due to a competitor product returning to the US market.



## Financial review 2009

## Pharmaceutical turnover by therapeutic area 2009

| Therapeutic area/<br>major products      | % of<br>total | 2009<br>£m   | 2008<br>£m   | Total<br>Growth |             | 2009<br>£m   | USA<br>Growth |             | 2009<br>£m   | Europe<br>Growth |           | 2009<br>£m   | Rest of World<br>Growth |           |
|--|---------------|--------------|--------------|-----------------|-------------|--------------|---------------|-------------|--------------|------------------|-----------|--------------|-------------------------|-----------|
|  |               |              |              | CER%            | £%          |              | CER%          | £%          |              | CER%             | £%        |              | CER%                    | £%        |
| <b>Respiratory</b>                       | <b>29</b>     | <b>6,977</b> | <b>5,817</b> | <b>5</b>        | <b>20</b>   | <b>3,323</b> | <b>3</b>      | <b>22</b>   | <b>2,201</b> | <b>3</b>         | <b>11</b> | <b>1,453</b> | <b>14</b>               | <b>30</b> |
| <i>Avamys/Veramyst</i>                   |               | 142          | 72           | 72              | 97          | 68           | 2             | 21          | 45           | >100             | >100      | 29           | >100                    | >100      |
| <i>Flixonase/Flonase</i>                 |               | 171          | 186          | (20)            | (8)         | 27           | (56)          | (48)        | 43           | (21)             | (17)      | 101          | 2                       | 23        |
| <i>Flixotide/Flovent</i>                 |               | 775          | 677          |                 | 14          | 396          | 5             | 25          | 178          | (4)              | 2         | 201          | (6)                     | 9         |
| <i>Seretide/Advair</i>                   |               | 4,977        | 4,137        | 5               | 20          | 2,592        | 1             | 20          | 1,609        | 5                | 14        | 776          | 23                      | 39        |
| <i>Serevent</i>                          |               | 236          | 263          | (19)            | (10)        | 73           | (14)          | 1           | 116          | (18)             | (15)      | 47           | (31)                    | (15)      |
| <i>Ventolin</i>                          |               | 477          | 339          | 26              | 41          | 153          | >100          | >100        | 150          | 1                | 9         | 174          | 2                       | 12        |
| <i>Zyrtec</i>                            |               | 75           | 38           | 58              | 97          |              |               |             |              |                  |           | 75           | 58                      | 97        |
| <b>Anti-virals</b>                       | <b>18</b>     | <b>4,150</b> | <b>3,206</b> | <b>12</b>       | <b>29</b>   | <b>1,897</b> |               | <b>19</b>   | <b>1,074</b> | <b>16</b>        | <b>26</b> | <b>1,179</b> | <b>32</b>               | <b>56</b> |
| HIV                                      |               | 1,605        | 1,513        | (7)             | 6           | 716          | (6)           | 12          | 635          | (10)             |           | 254          | (3)                     | 7         |
| <i>Agenerase, Lexiva</i>                 |               | 178          | 160          | (4)             | 11          | 99           | 1             | 19          | 62           | (8)              | 2         | 17           | (13)                    | 6         |
| <i>Combivir</i>                          |               | 425          | 433          | (13)            | (2)         | 187          | (12)          | 4           | 151          | (17)             | (9)       | 87           | (7)                     |           |
| <i>Epivir</i>                            |               | 129          | 139          | (19)            | (7)         | 48           | (13)          | 2           | 49           | (24)             | (16)      | 32           | (18)                    | (6)       |
| <i>Epzicom/Kivexa</i>                    |               | 546          | 442          | 8               | 24          | 223          | 6             | 25          | 244          | 6                | 17        | 79           | 25                      | 44        |
| <i>Trizivir</i>                          |               | 201          | 212          | (17)            | (5)         | 104          | (17)          | (2)         | 82           | (21)             | (11)      | 15           |                         | 7         |
| <i>Ziagen</i>                            |               | 105          | 106          | (13)            | (1)         | 51           | (4)           | 13          | 35           | (14)             | (3)       | 19           | (28)                    | (24)      |
| <i>Valtrex</i>                           |               | 1,294        | 1,195        | (8)             | 8           | 942          | (9)           | 8           | 160          |                  | 11        | 192          | (13)                    | 6         |
| <i>Relenza</i>                           |               | 720          | 57           | >100            | >100        | 137          | >100          | >100        | 212          | >100             | >100      | 371          | >100                    | >100      |
| <i>Zeffix</i>                            |               | 217          | 188          | (1)             | 15          | 17           | (7)           | 13          | 29           | (4)              | 7         | 171          |                         | 17        |
| <b>Central nervous<br/>system</b>        | <b>8</b>      | <b>1,870</b> | <b>2,897</b> | <b>(44)</b>     | <b>(35)</b> | <b>651</b>   | <b>(69)</b>   | <b>(64)</b> | <b>574</b>   | <b>(7)</b>       | <b>2</b>  | <b>645</b>   | <b>4</b>                | <b>25</b> |
| <i>Imigran/Imitrex</i>                   |               | 266          | 687          | (65)            | (61)        | 123          | (79)          | (78)        | 96           | (8)              |           | 47           | (2)                     | 15        |
| <i>Lamictal</i>                          |               | 500          | 926          | (53)            | (46)        | 267          | (68)          | (62)        | 154          | (4)              | 5         | 79           | 6                       | 16        |
| <i>Requip</i>                            |               | 209          | 266          | (30)            | (21)        | 26           | (78)          | (75)        | 138          | (5)              | 4         | 45           | 16                      | 45        |
| <i>Requip XL</i>                         |               | 123          | 43           | >100            | >100        | 32           | >100          | >100        | 89           | >100             | >100      | 2            |                         |           |
| <i>Seroxat/Paxil</i>                     |               | 523          | 514          | (15)            | 2           | 42           | (51)          | (47)        | 99           | (21)             | (14)      | 382          | (5)                     | 19        |
| <i>Treximet</i>                          |               | 55           | 25           | 88              | >100        | 55           | 84            | >100        |              |                  |           |              |                         |           |
| <i>Wellbutrin,<br/>Wellbutrin XL</i>     |               | 132          | 342          | (67)            | (61)        | 88           | (76)          | (72)        | 30           | 50               | 67        | 14           | (7)                     |           |
| <b>Cardiovascular<br/>and urogenital</b> | <b>10</b>     | <b>2,298</b> | <b>1,847</b> | <b>8</b>        | <b>24</b>   | <b>1,415</b> | <b>8</b>      | <b>28</b>   | <b>583</b>   | <b>3</b>         | <b>14</b> | <b>300</b>   | <b>18</b>               | <b>32</b> |
| <i>Arixtra</i>                           |               | 254          | 170          | 29              | 49          | 141          | 35            | 60          | 95           | 18               | 34        | 18           | 55                      | 64        |
| <i>Avodart</i>                           |               | 530          | 399          | 16              | 33          | 319          | 11            | 32          | 148          | 13               | 25        | 63           | 51                      | 62        |
| <i>Coreg</i>                             |               | 172          | 203          | (29)            | (15)        | 171          | (28)          | (15)        |              |                  |           | 1            | (67)                    | (67)      |
| <i>Fraxiparine</i>                       |               | 229          | 226          | (7)             | 1           |              |               |             | 173          | (10)             | (3)       | 56           | 6                       | 17        |

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|   |            |               |               |             |            |              |             |            |              |             |            |              |            |           |
|---|------------|---------------|---------------|-------------|------------|--------------|-------------|------------|--------------|-------------|------------|--------------|------------|-----------|
| <i>Levitra</i>  |            | 75            | 60            | 7           | 25         | 70           | 4           | 23         | 4            | 33          | 33         | 1            |            |           |
| <i>Lovaza</i>   |            | 450           | 290           | 31          | 55         | 448          | 31          | 55         |              |             |            | 2            | 100        | 100       |
| <i>Vesicare</i>                                       |            | 104           | 71            | 24          | 46         | 104          | 24          | 46         |              |             |            |              |            |           |
| <i>Volibris</i>                                       |            | 19            | 2             | >100        | >100       |              |             |            | 18           | >100        | >100       | 1            |            |           |
| <b>Metabolic</b>                                      | <b>5</b>   | <b>1,181</b>  | <b>1,191</b>  | <b>(14)</b> | <b>(1)</b> | <b>581</b>   | <b>(17)</b> | <b>(2)</b> | <b>275</b>   | <b>(15)</b> | <b>(6)</b> | <b>325</b>   | <b>(8)</b> | <b>6</b>  |
| <i>Avandia</i> products                               |            | 771           | 805           | (16)        | (4)        | 425          | (17)        | (2)        | 171          | (21)        | (14)       | 175          | (9)        | 1         |
| <i>Avandia</i>  |            | 462           | 512           | (21)        | (10)       | 276          | (22)        | (8)        | 67           | (24)        | (18)       | 119          | (18)       | (9)       |
| <i>Avandamet</i>                                      |            | 268           | 256           | (8)         | 5          | 122          | (6)         | 12         | 99           | (19)        | (11)       | 47           | 19         | 31        |
| <i>Bonviva/Boniva</i>                                 |            | 255           | 237           | (7)         | 8          | 155          | (16)        | (1)        | 89           | 7           | 20         | 11           | 57         | 57        |
| <b>Anti-bacterials</b>                                | <b>7</b>   | <b>1,592</b>  | <b>1,429</b>  | <b>2</b>    | <b>11</b>  | <b>173</b>   | <b>(16)</b> | <b>(1)</b> | <b>662</b>   | <b>(4)</b>  | <b>4</b>   | <b>757</b>   | <b>13</b>  | <b>22</b> |
| <i>Augmentin</i>                                      |            | 667           | 587           | 4           | 14         | 45           | (22)        | (8)        | 295          |             | 8          | 327          | 14         | 23        |
| <b>Oncology and emesis</b>                            | <b>3</b>   | <b>629</b>    | <b>496</b>    | <b>10</b>   | <b>27</b>  | <b>308</b>   | <b>7</b>    | <b>27</b>  | <b>204</b>   | <b>10</b>   | <b>21</b>  | <b>117</b>   | <b>23</b>  | <b>39</b> |
| <i>Hycamtin</i>                                       |            | 172           | 140           | 7           | 23         | 100          | 4           | 23         | 59           | 10          | 20         | 13           | 20         | 30        |
| <i>Promacta</i>                                       |            | 13            |               |             |            | 13           |             |            |              |             |            |              |            |           |
| <i>Tyverb/Tykerb</i>                                  |            | 169           | 102           | 45          | 66         | 54           | (4)         | 15         | 75           | 62          | 79         | 40           | >100       | >100      |
| <i>Zofran</i>   |            | 109           | 110           | (11)        | (1)        | 9            | >100        | >100       | 52           | (24)        | (17)       | 48           | (5)        | 9         |
| <b>Vaccines</b>                                       | <b>16</b>  | <b>3,706</b>  | <b>2,539</b>  | <b>30</b>   | <b>46</b>  | <b>815</b>   | <b>9</b>    | <b>30</b>  | <b>1,744</b> | <b>37</b>   | <b>51</b>  | <b>1,147</b> | <b>37</b>  | <b>52</b> |
| <i>Boostrix</i>                                       |            | 139           | 70            | 73          | 99         | 73           | 77          | >100       | 40           | 38          | 54         | 26           | >100       | >100      |
| <i>Cervarix</i>                                       |            | 187           | 125           | 38          | 50         | 4            |             |            | 138          | 23          | 33         | 45           | 100        | >100      |
| <i>Fluarix/FluLaval</i>                               |            | 211           | 215           | (13)        | (2)        | 73           | (27)        | (14)       | 71           | (18)        | (9)        | 67           | 17         | 29        |
| Flu pandemic  |            | 883           | 66            | >100        | >100       | 187          | >100        | >100       | 525          | >100        | >100       | 171          | >100       | >100      |
| Hepatitis (Engerix/ <i>Fendrix, Havrix, Twinrix</i> ) |            | 665           | 665           | (11)        |            | 257          | (21)        | (7)        | 262          | (8)         |            | 146          | 2          | 15        |
| <i>Infanrix, Pediarix</i>                             |            | 649           | 682           | (15)        | (5)        | 134          | (47)        | (37)       | 406          | (3)         | 8          | 109          | 5          | 17        |
| <i>Rotarix</i>  |            | 282           | 167           | 50          | 69         | 76           | >100        | >100       | 53           | 14          | 23         | 153          | 33         | 49        |
| <i>Synflorix</i>                                      |            | 73            |               |             |            |              |             |            | 32           |             |            | 41           |            |           |
| <b>Other</b>  | <b>4</b>   | <b>1,063</b>  | <b>959</b>    | <b>1</b>    | <b>11</b>  | <b>17</b>    |             | <b>6</b>   | <b>364</b>   | <b>7</b>    | <b>13</b>  | <b>682</b>   | <b>(2)</b> | <b>10</b> |
|   |            | <b>23,466</b> | <b>20,381</b> | <b>1</b>    | <b>15</b>  | <b>9,180</b> | <b>(13)</b> | <b>3</b>   | <b>7,681</b> | <b>9</b>    | <b>18</b>  | <b>6,605</b> | <b>16</b>  | <b>32</b> |
| Stiefel products                                      |            | 248           |               |             |            |              |             |            |              |             |            |              |            |           |
|   | <b>100</b> | <b>23,714</b> |               | <b>2</b>    | <b>16</b>  |              |             |            |              |             |            |              |            |           |

CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates. Turnover by quarter is given in the financial record

on pages 180 to 183.

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**Regional analysis**

The turnover reported in the table below represents sales invoiced by GSK's local entity to its customers in the local market plus co-promotion income within each market.

|                    | 2009<br>£m | 2008<br>£m | CER% | Growth*<br>£% |
|--------------------|------------|------------|------|---------------|
| USA                | 9,180      | 8,894      | (13) | 3             |
| Europe             | 7,681      | 6,483      | 9    | 18            |
| Emerging Markets   | 2,973      | 2,290      | 20   | 30            |
| Asia Pacific/Japan | 2,700      | 1,918      | 16   | 41            |
| Other trading      | 1,180      | 796        | 31   | 48            |
|                    | 23,714     | 20,381     | 2    | 16            |

\* CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates.

Including Stiefel

**USA**

Sales in the USA declined 13% to £9.2 billion, principally reflecting continued decline of *Avandia* (down 22%), competition to *Infanrix/Pediarix* (down 47%), a return to market of a competitor to the Hepatitis franchise (down 21%) and generic competition to significant products such as *Lamictal* (down 68%), *Imigran* (down 79%), *Valtrex* (down 9%), *Requip* (down 78%) and *Coreg* (down 28%). In addition, *Wellbutrin XL* (down 82%), was sold to Biovail in Q2 2009. These declines were partly offset by significant sales of *Relenza* and pandemic vaccines, a doubling of *Ventolin* sales, good growth of *Lovaza* (up 31%) and contributions from recently launched products such as *Boostrix* and *Rotarix*.

**Europe**

Sales in Europe increased 9% to £7.7 billion with continued growth of *Seretide* and *Relenza* and particularly strong vaccines growth, driven by pandemic vaccine, offsetting the impact of generic competition to a number of products and continued price cuts from governments across the region.

**Emerging Markets**

Sales in Emerging Markets increased 20% to £3.0 billion with strong growth across the region and all therapeutic areas, helped by the acquisitions of the UCB and BMS businesses in different countries of the region.

**Asia Pacific/Japan**

Sales in Asia Pacific/Japan grew 16% to £2.7 billion reflecting continued *Seretide/Advair* growth, strong *Relenza* sales, particularly to the retail market in Japan, and strong vaccines growth.

**Consumer Healthcare turnover**

|                                   | % of<br>total | 2009<br>£m   | 2008<br>£m | CER%     | Growth*<br>£% |
|-----------------------------------|---------------|--------------|------------|----------|---------------|
| <b>Over-the-counter medicines</b> | <b>50</b>     | <b>2,319</b> | 1,935      | <b>8</b> | <b>20</b>     |
| <i>alli</i>                       |               | 203          | 75         | >100     | >100          |
| <i>Breathe Right</i>              |               | 92           | 81         | (1)      | 14            |
| Cold sore franchise               |               | 96           | 89         | (3)      | 8             |
| Nicotine replacement therapy      |               | 339          | 299        | (1)      | 13            |
| <i>Panadol</i> franchise          |               | 393          | 324        | 10       | 21            |
| <i>Tums</i>                       |               | 106          | 91         | (1)      | 16            |
| <b>Oral healthcare</b>            | <b>32</b>     | <b>1,484</b> | 1,240      | <b>7</b> | <b>20</b>     |
| <i>Aquafresh</i> franchise        |               | 496          | 452        | (1)      | 10            |
| <i>Biotene</i>                    |               | 26           | 1          | >100     | >100          |
| Denture care                      |               | 336          | 271        | 8        | 24            |
| <i>Sensodyne</i> franchise        |               | 457          | 363        | 13       | 26            |
| <b>Nutritional healthcare</b>     | <b>18</b>     | <b>851</b>   | 796        | <b>3</b> | <b>7</b>      |
| <i>Lucozade</i>                   |               | 376          | 382        | (3)      | (2)           |
| <i>Horlicks</i>                   |               | 255          | 204        | 17       | 25            |
| <i>Ribena</i>                     |               | 160          | 161        | (4)      | (1)           |
|                                   | <b>100</b>    | <b>4,654</b> | 3,971      | <b>7</b> | <b>17</b>     |

\* CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates. Turnover by quarter is given in the financial record on pages 184 to 185.

Total Consumer Healthcare sales for the year rose 7% to £4.7 billion, with growth in all regions and categories.

#### OTC medicines

OTC product sales grew 8% to £2.3 billion in 2009, driven by sales of *Panadol* (up 10% to £393 million) and *alli*, which more than doubled to £203 million, as a result of launches throughout Europe which began in April 2009. Sales of nicotine replacement therapy products declined by 1%.

#### Oral healthcare

Sales of Oral healthcare products rose 7% to £1.5 billion. *Sensodyne* performed strongly with sales up 13% to £457 million. Denture care sales grew 8% to £336 million. Sales of *Aquafresh* declined 1%, as a reduction in the US white trays market offset growth of 5% in the US *Aquafresh* toothpaste brands, which were helped by the launch of the new iso-active product.

#### Nutritional healthcare

Nutritional healthcare sales grew 3% to £0.9 billion, driven by the very strong performance of *Horlicks* (up 17% to £255 million) partly offset by a decline in *Lucozade* sales (down 3% to £376 million) which was impacted by lower

sales in the impulse market of the UK market.

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**Results before major restructuring and total results**

In October 2007 the Board approved the implementation of a detailed formal plan for, and GSK announced, a significant new Operational Excellence restructuring programme. A second formal plan, representing a significant expansion of the Operational Excellence programme, was approved by the Board and announced in February 2009. Having conducted a further series of business reviews, GSK has announced a further expansion of the restructuring programme to deliver £0.5 billion of incremental pre-tax savings by 2012. Approximately 70% of these savings will be directed to the bottom line to enhance profitability, with the remainder being reinvested in the business. The charges for this incremental programme are expected to total £0.9 billion and be phased: 65% in 2010 and 30% in 2011, with the balance mostly in 2012. In total, approximately 70% will be cash expenditures and 30% will be asset write-downs. Cumulative savings for the new programme will be phased approximately as follows: £150 million in 2010, £350 million in 2011 and the majority of the balance in 2012.

The restructuring programme, comprising these detailed formal plans, covers all areas of GSK's business, including manufacturing, selling, R&D and infrastructure. With an estimated total cost of approximately £4.5 billion, the expanded programme is expected to deliver annual pre-tax savings of approximately £2.2 billion by the time it is substantially complete in 2012. Approximately 50% of these costs were incurred by 31st December 2009, approximately 30% are expected to be incurred in 2010 and the balance mostly in 2011. In total, approximately 75% of these costs are expected to be cash expenditures and 25% are expected to be accounting write-downs.

Uncertainties exist over the exact amount and timing of cash outflows, as a result of potential future exchange rate fluctuations and as many elements of the restructuring programme are subject to employee consultation procedures, making it difficult to predict with precision when these procedures will be completed. However, the majority of the remaining cash payments are expected to be made in 2010 and 2011. Given the extent and cost of the Operational Excellence restructuring programme, management believes it has a material impact on GSK's operating results and on the manner in which GSK's business is conducted. GSK presents the restructuring costs incurred solely as a direct result of the Operational Excellence restructuring programme, which in 2009 amounted to £764 million before tax (2008 £1,089 million), in a separate column in the income statement titled Major restructuring.

In addition to the restructuring costs of the Operational Excellence programme, the major restructuring column in the income statement includes restructuring costs incurred solely as a direct result of any restructuring programmes that follow, and relate to, material acquisitions where the operations of the acquired business overlap extensively with GSK's existing operations.

The restructuring activities that follow, and relate to, such acquisitions are of the same nature as those undertaken under the Operational Excellence programme and are also carried out following a detailed formal plan. Management therefore considers it appropriate to present the costs of these restructuring activities in the same manner. The acquisition of Stiefel Laboratories, Inc. in July 2009 is the only acquisition during the year that meets the criteria set out above. This is the only acquisition during the year where the costs incurred as a direct result of a related restructuring programme has been included in the major restructuring column. The restructuring costs expected to be incurred as a direct result of this acquisition are estimated to be approximately £205 million, of which £71 million was charged in 2009. The restructuring costs incurred as a direct result of the acquisition of Reliant Pharmaceuticals Inc., the only other acquisition since October 2007 that meets the criteria set out above, were all charged and paid in 2008. The Group's results before the costs of the Operational Excellence programme and acquisition-related restructuring programmes meeting the criteria described above are also presented in a separate column in the income statement and are described as Results before major restructuring. This presentation, which GSK intends to apply consistently to future major restructuring programmes that have a material impact on GSK's operating results and on the manner in which GSK's business is conducted, has been adopted to show clearly the Group's results both before and after the costs of these restructuring programmes. Management believes that this presentation assists shareholders in gaining a clearer understanding of the Group's financial performance and in making projections of future financial performance,

as results that include such costs, by virtue of their size and nature, have limited comparative value. This presentation is also consistent with the way management assesses the Group's financial performance.

Only the restructuring costs incurred solely as a direct result of the Operational Excellence programme and the restructuring programmes following the Reliant and Stiefel acquisitions have been reported in the major restructuring column in the income statement. These restructuring costs principally have arisen from impairments to property, plant and equipment and the termination of the employment contracts of staff made redundant as part of the restructuring activities. As set out in Note 7 to the financial statements, Major restructuring programme, asset impairments and staff redundancies together accounted for £574 million of the £835 million restructuring costs incurred in 2009 and reported in the major restructuring column.

The remaining costs of £261 million in 2009 arose from miscellaneous expenditures incurred solely as a direct result of the restructuring programmes, including the termination of leases, accelerated depreciation, site closure costs and consultancy and project management fees. No costs arising from GSK's ongoing operating activities have been reported in the major restructuring column.



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Any restructuring costs that do not arise solely as a direct result of the Operational Excellence programme and restructuring programmes following, and relating to, acquisitions meeting the criteria described above continue to be reported in operating expenses within results before major restructuring. These costs included restructuring costs related to minor acquisitions and £4 million of costs in 2009 (2008 £20 million) that related to restructuring activity initiated before the commencement of the Operational Excellence programme. None of this restructuring activity had a material impact on GSK's operating results or on the manner in which its business is conducted.

During the anticipated duration of the Operational Excellence programme, GSK does not currently expect to incur any material restructuring costs except those related to that programme and acquisitions meeting the criteria described above. If any further, unanticipated material restructuring costs were to arise during this period, GSK would expect to include them also in the major restructuring column.

GSK's operating profit, profit before taxation, taxation and profit for the year are discussed below in terms of both total results, which include major restructuring costs, and results before major restructuring.

**Operating profit – total results**

Total results include restructuring costs related to the Operational Excellence programme and the acquisitions of Reliant and Stiefel.

|  | £m             | 2009<br>%     | £m      | 2008<br>% | CER% | Growth<br>£% |
|--|----------------|---------------|---------|-----------|------|--------------|
| Turnover                               | <b>28,368</b>  | <b>100</b>    | 24,352  | 100       | 3    | 16           |
| Cost of sales                          | <b>(7,380)</b> | <b>(26.0)</b> | (6,415) | (26.3)    | 6    | 15           |
| Selling, general and<br>administration | <b>(9,592)</b> | <b>(33.8)</b> | (7,656) | (31.4)    | 6    | 25           |
| Research and development               | <b>(4,106)</b> | <b>(14.4)</b> | (3,681) | (15.2)    | 1    | 12           |
| Other operating income                 | <b>1,135</b>   | <b>3.9</b>    | 541     | 2.2       | 95   | 110          |
| Operating profit                       | <b>8,425</b>   | <b>29.7</b>   | 7,141   | 29.3      | 4    | 18           |

**Cost of sales**

Cost of sales as a percentage of turnover reduced marginally to 26.0% of turnover (2008 26.3%), principally reflecting the impact of generic competition to higher margin products in the USA and changes to the product mix, offset by benefits from the restructuring programme and lower restructuring costs of £285 million (2008 £639 million).

**Selling, general and administration**

SG&A costs as a percentage of turnover increased by 2.4 percentage points to 33.8%. This included full year legal charges of £591 million (2008 £611 million) and charges related to the major restructuring programme of £392 million (2008 £304 million). Excluding legal and restructuring costs, SG&A costs were 30.3% of turnover (2008 27.7%). This reflected investment in growth markets, the acquisition of Stiefel, increased pension costs, the donation of H1N1 product to WHO and exchange losses on inter-company transactions (compared with exchange gains last year), partially offset by the benefits of the current restructuring programme.

**Research and development**

R&D expenditure was 14.4% (2008 15.2%) of total turnover, which included £167 million of intangible asset write-offs (2008 £85 million) partially offset by lower charges relating to the major restructuring programme of £155 million (2008 £175 million) and a provision release due to reassessment of a receivable balance. Increased investment in vaccines R&D and late stage pharmaceutical R&D were broadly offset by savings from the

restructuring programme.

**Other operating income**

Other operating income was £1,135 million including gains from asset disposals of £579 million (2008 £293 million) primarily reflecting the disposal of *Wellbutrin XL* and various assets to Aspen Pharmacare, royalty income of £296 million (2008 £307 million), a royalty dispute settlement gain of £78 million, and a one-time accounting gain of £296 million on the creation of ViiV Healthcare, partially offset by equity investment impairments of £135 million.

**Operating profit total results**

Total operating profit for the year was £8,425 million, an increase of 4% CER and 18% in Sterling terms, compared with 2008. The operating profit margin increased 0.4 percentage points reflecting higher other operating income and broadly flat R&D expenditure, partially offset by increases in cost of sales and SG&A.

**Profit before taxation total results**

**Net finance costs**

|                                       | <b>2009</b>  | 2008  |
|---------------------------------------|--------------|-------|
|                                       | <b>£m</b>    | £m    |
| <b>Finance income</b>                 |              |       |
| Interest and other finance income     | <b>67</b>    | 321   |
| Unwinding of discounts on assets      | <b>2</b>     | 1     |
| Fair value adjustments and hedges     | <b>1</b>     | (9)   |
|                                       | <b>70</b>    | 313   |
| <br><b>Finance costs</b>              |              |       |
| Interest costs                        | <b>(770)</b> | (829) |
| Unwinding of discounts on liabilities | <b>(11)</b>  | (16)  |
| Fair value adjustments and hedges     | <b>(2)</b>   | 2     |
|                                       | <b>(783)</b> | (843) |

Financial review 2009

### Profit on disposal of interest in associate

Profit on disposal of interest in associate was £115 million as 5.7 million shares from the Group's holding in Quest Diagnostics Inc. were sold in the first quarter of 2009.

### Share of after tax profits of associates and joint ventures

The share of after tax profits of associates of £64 million (2008 £48 million) arises principally from the Group's holding in Quest.

### Profit before taxation – total results

Taking account of net finance costs, the profit on disposal of interest in associates and the share of profits of associates, total profit before taxation was £7,891 million compared with £6,659 million in 2008, a 4% CER increase and a 19% sterling increase.

### Operating profit – results before major restructuring

The results before major restructuring are set out below:

|                                     | £m      | 2009<br>% | £m      | 2008<br>% | CER% | Growth<br>£% |
|-------------------------------------|---------|-----------|---------|-----------|------|--------------|
| Turnover                            | 28,368  | 100       | 24,352  | 100       | 3    | 16           |
| Cost of sales                       | (7,095) | (25.0)    | (5,776) | (23.7)    | 13   | 23           |
| Selling, general and administration | (9,200) | (32.4)    | (7,352) | (30.2)    | 6    | 25           |
| Research and development            | (3,951) | (13.9)    | (3,506) | (14.4)    | 2    | 13           |
| Other operating income              | 1,135   | 3.9       | 541     | 2.2       | 95   | 110          |
| Operating profit                    | 9,257   | 32.6      | 8,259   | 33.9      | (1)  | 12           |

### Cost of sales

Cost of sales increased to 25.0% of turnover (2008 23.7%), principally reflecting the impact of generic competition to higher margin products in the USA and changes to the product mix, partly offset by benefits from the restructuring programme. In 2010 cost of sales as a percentage of turnover is expected to be around 26%.

### Selling, general and administration

SG&A costs as a percentage of turnover increased by 2.2 percentage points to 32.4%, including full year legal charges of £591 million. The increase reflected investment in growth markets, the acquisition of Stiefel, increased pension costs, the donation of H1N1 product to WHO and exchange losses on inter-company transactions (compared with exchange gains last year), partially offset by the benefits of the current restructuring programme. In 2010 SG&A costs excluding legal charges are expected to be around 29% of turnover.

### Research and development

R&D expenditure was 13.9% (2008 14.4%) of total turnover, which included £167 million of intangible asset write-offs

(2008 £85 million) partially offset by a provision release due to reassessment of a receivable balance. Increased investment in vaccines R&D and late-stage pharmaceutical R&D were broadly offset by savings from the restructuring programme. In 2010 R&D costs as a percentage of turnover are expected to remain at around 14%.

### Other operating income

Other operating income was £1,135 million including gains from asset disposals of £579 million (2008 £293 million) primarily reflecting the disposal of *Wellbutrin XL* and various assets to Aspen Pharmacare, royalty income of £296

million (2008 £307 million), a royalty dispute settlement gain of £78 million, and a one-time accounting gain of £296 million on the creation of ViiV Healthcare, partially offset by equity investment impairments of £135 million.

In 2009 other operating income and profit on disposal of associates amounted to £1,250 million. An equivalent overall income of around £800-900 million is expected for 2010.

#### **Operating profit results before major restructuring**

Operating profit before major restructuring for the year was £9,257 million, a 1% CER decline, but up 12% in Sterling terms, compared with 2008. The operating profit margin was 32.6% compared with a 2008 margin of 33.9%. The decline in margin was primarily due to generic competition in the USA which impacted cost of goods and increased investment to support the Group's diversification strategy which impacted SG&A, partly offset by a higher level of other operating income.

As the impact of generic competition reduces and SG&A investment levels stabilise, GSK's operating profit margin in 2010 is currently expected to be broadly similar to 2009 (excluding legal costs and the ViiV Healthcare accounting gain).

Further information on operating profit before major restructuring is provided in Note 6, Segment information.

#### **Profit before taxation results before major restructuring**

##### **Net finance costs**

|                                       | <b>2009</b>  | 2008  |
|---------------------------------------|--------------|-------|
|                                       | <b>£m</b>    | £m    |
| <b>Finance income</b>                 |              |       |
| Interest and other income             | <b>67</b>    | 321   |
| Unwinding of discounts on assets      | <b>2</b>     | 1     |
| Fair value adjustments and hedges     | <b>1</b>     | (9)   |
|                                       | <b>70</b>    | 313   |
| <b>Finance costs</b>                  |              |       |
| Interest costs                        | <b>(770)</b> | (829) |
| Unwinding of discounts on liabilities | <b>(8)</b>   | (11)  |
| Fair value adjustments and hedges     | <b>(2)</b>   | 2     |
|                                       | <b>(780)</b> | (838) |

#### **Profit on disposal of interest in associate**

Profit on disposal of interests in associates was £115 million as 5.7 million Quest shares were sold in the first quarter of 2009.

## Financial review 2009

**Share of after tax profits of associates and joint ventures**

The share of after tax profits of associates of £64 million (2008 £48 million) arises principally from the Group's holding in Quest Diagnostics Inc.

**Profit before taxation results before major restructuring**

Taking account of net finance costs, the profit on disposal of interests in associates and the share of profits of associates, profit before tax before major restructuring was £8,726 million compared with £7,782 million in 2008, a 1% CER decline but 12% increase in sterling terms.

**Taxation**

|                           | <b>2009</b>  | 2008  |
|---------------------------|--------------|-------|
|                           | <b>£m</b>    | £m    |
| UK corporation tax        | <b>456</b>   | 289   |
| Overseas taxation         | <b>1,958</b> | 1,589 |
| Current taxation          | <b>2,414</b> | 1,878 |
| Deferred taxation         | <b>(192)</b> | 69    |
| Taxation on total profits | <b>2,222</b> | 1,947 |

The charge for taxation on total profits amounted to £2,222 million and represented an effective tax rate of 28.2% (2008 29.2%). The charge for taxation on profit before major restructuring charges amounting to £2,443 million represents an effective tax rate of 28.0% (2008 28.7%). GSK currently expects a similar effective tax rate in 2010. The Group's balance sheet at 31st December 2009 included a tax payable liability of £1,451 million and a tax recoverable asset of £58 million.

On 19th November 2009 the IRS conceded all asserted tax deficiencies and penalties arising from its reclassification of an intercompany financing arrangement from debt to equity resulting in no additional tax cost to GSK. The IRS claim had previously been estimated at \$864 million for 2001-2003. GSK and the IRS are now in the process of finalising the tax computations for the 2001-2003 tax years. It is anticipated that resolution of the issue in the years 2004 to 2008 will be reflected in a closing agreement. Resolution of the issue had no impact on the Group's results. GSK continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings and negotiations with the relevant tax authorities.

**Profit for the year**

|   | <b>2009</b>   | 2008   |      | Growth |
|---|---------------|--------|------|--------|
|   | <b>£m</b>     | £m     | CER% | £%     |
| Total profit after taxation for the year                              | <b>5,669</b>  | 4,712  | 6    | 20     |
| Total profit attributable to shareholders                             | <b>5,531</b>  | 4,602  | 6    | 20     |
| Basic earnings per share (pence)                                      | <b>109.1p</b> | 88.6p  |      |        |
| Basic earnings per ADS (US\$)   | <b>\$3.40</b> | \$3.28 |      |        |
| Results before major restructuring profit after taxation for the year | <b>6,283</b>  | 5,551  |      | 13     |
|   | <b>6,145</b>  | 5,441  |      | 13     |

Results before major restructuring profit attributable to shareholders

|  |               |        |   |    |
|--|---------------|--------|---|----|
| Adjusted earnings per share (pence)                  | <b>121.2p</b> | 104.7p | 2 | 16 |
| Adjusted earnings per ADS (US\$)                     | <b>\$3.78</b> | \$3.87 |   |    |
| Weighted average number of shares (millions)         | <b>5,069</b>  | 5,195  |   |    |
| <br>   |               |        |   |    |
| Diluted total earnings per share (pence)             | <b>108.2p</b> | 88.1p  |   |    |
| Diluted total earnings per ADS (US\$)                | <b>\$3.38</b> | \$3.26 |   |    |
| Diluted weighted average number of shares (millions) | <b>5,108</b>  | 5,226  |   |    |

Total results including restructuring costs produced a basic EPS of 109.1p compared with 88.6p in 2008. This was an 8% growth in CER terms and a 23% growth in sterling terms. Excluding major restructuring costs, EPS was 121.2p compared with 104.7p. This was a 2% growth at CER and a 16% increase in sterling terms. The 14 percentage point currency benefit arose from the weakness of Sterling against most major currencies during the year.

#### **Dividend**

The Board has declared a fourth interim dividend of 18 pence per share resulting in a dividend for the year of 61 pence; a four pence increase over the 57 pence per share for 2008. The equivalent interim dividend receivable by ADR holders is 57.3696 cents per ADS based on an exchange rate of £1/\$1.5936. The ex-dividend date was 10th February 2010, with a record date of 12th February 2010 and a payment date of 8th April 2010.

#### **Critical accounting policies**

The consolidated financial statements are prepared in accordance with IFRS, as adopted for use in the European Union, and also with IFRS as issued by the IASB, following the accounting policies approved by the Board and described in Note 2 to the financial statements, Accounting principles and policies. 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.

## Financial review 2009

The critical accounting policies adopted relate to the following areas:

- Turnover
- Taxation
- Legal and other disputes
- Property, plant & equipment
- Goodwill
- Other intangible assets
- Pensions and other post-employment benefits.

Information on the judgements and estimates made in these areas is given in Note 3 to the financial statements, Key accounting judgements and estimates .

In respect of the Turnover accounting policy, the Group's largest business is US pharmaceuticals, and the US market has the most complex arrangements for rebates, discounts and allowances. The following briefly describes the nature of the arrangements in existence in the Group's US pharmaceuticals business.

GSK has arrangements with certain indirect customers whereby the customer is able to buy products from wholesalers at reduced prices. A chargeback represents the difference between the invoice price to the wholesaler and the indirect customer's contractual discounted price. Accruals for estimating chargebacks are calculated based on the terms of each agreement, historical experience and product growth rates.

Customer rebates are offered to key managed care and group purchasing organisations (GPO) and other direct and indirect customers. These arrangements require the customer to achieve certain performance targets relating to value of product purchased, formulary status or pre-determined market shares relative to competitors. The accrual for customer rebates is estimated based on the specific terms in each agreement, historical experience and product growth rates.

The US Medicaid programme is a state-administered programme providing assistance to certain poor and vulnerable patients. In 1990, the Medicaid Drug Rebate Program was established to reduce state and federal expenditure on prescription drugs. GSK participates by providing rebates to states. Accruals for Medicaid rebates are calculated based on the specific terms of individual state agreements using a combination of historical experience, product and population growth, anticipated price increases and the impact of contracting strategies. Cash discounts are offered to customers to encourage prompt payment. These are accrued for at the time of invoicing and adjusted subsequently to reflect actual experience.

Where there is historical experience of customer returns, GSK records an accrual for estimated sales returns by applying historical experience of customer returns to the amounts invoiced, together with market related information such as stock levels at wholesalers, anticipated price increases and competitor activity.

A reconciliation of gross turnover to net turnover for the US pharmaceuticals business is as follows:

|   | 2009           |            | 2008   |     | 2007   |     |
|---|----------------|------------|--------|-----|--------|-----|
|   | £m             | %          | £m     | %   | £m     | %   |
| Gross turnover                                | <b>12,504</b>  | <b>100</b> | 11,602 | 100 | 11,826 | 100 |
| Chargebacks                                   | <b>(1,193)</b> | <b>10</b>  | (892)  | 8   | (917)  | 8   |
| Managed care, Medicare Part D and GPO rebates | <b>(917)</b>   | <b>7</b>   | (764)  | 6   | (727)  | 6   |
| US government and state programmes            | <b>(663)</b>   | <b>5</b>   | (554)  | 5   | (481)  | 4   |
| Cash discounts                                | <b>(219)</b>   | <b>2</b>   | (207)  | 2   | (208)  | 2   |
| Customer returns                              | <b>(179)</b>   | <b>1</b>   | (126)  | 1   | (131)  | 1   |

|                        |                |           |         |    |         |    |
|------------------------|----------------|-----------|---------|----|---------|----|
| Prior year adjustments | <b>30</b>      |           | 38      |    | 73      |    |
| Other items            | <b>(183)</b>   | <b>2</b>  | (203)   | 1  | (162)   | 1  |
| Total deductions       | <b>(3,324)</b> | <b>27</b> | (2,708) | 23 | (2,553) | 22 |
| Net turnover           | <b>9,180</b>   | <b>73</b> | 8,894   | 77 | 9,273   | 78 |

Sterling values have increased by approximately 16% compared with 2008 as a result of average exchange rate movements.

Chargebacks have increased in 2009 as a result of higher direct chargebacks on *Relenza* sales. Managed care, Medicare Part D and GPO rebates increased slightly as a result of higher contracting discounts arising from competitive pressures in the market place.

The total accruals for rebates, discounts, allowances and returns in the US pharmaceuticals business were as follows:

|  | <b>At 31st<br/>December<br/>2009<br/>£m</b> | At 31st<br>December<br>2008<br>£m |
|--|---|-----------------------------------|
| Chargebacks                                      | <b>46</b>                                   | 50                                |
| Managed care, Medicare Part D<br>and GPO rebates | <b>429</b>                                  | 474                               |
| US government and state programmes               | <b>354</b>                                  | 345                               |
| Cash discounts                                   | <b>20</b>                                   | 25                                |
| Customer returns                                 | <b>205</b>                                  | 259                               |
| Other  | <b>27</b>                                   | 50                                |
| Total  | <b>1,081</b>                                | 1,203                             |

Sterling values have decreased largely as a result of year-end exchange rate movements; in dollar terms, the 2009 provision is largely unchanged from 2008.

A monthly process is operated to monitor inventory levels at wholesalers for any abnormal movements. This process uses gross sales volumes, prescription volumes based on third party data sources and information received from key wholesalers. The aim of this is to maintain inventories at a consistent level from year to year based on the pattern of consumption.

On this basis, US pharmaceutical inventory levels at wholesalers and in other distribution channels at 31st December 2009 were estimated to amount to approximately one month of turnover. This calculation uses third party information, the accuracy of which cannot be totally verified, but is believed to be sufficiently reliable for this purpose.



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**Financial position and resources****Financial position**

|  | <b>2009</b>     | 2008     |
|--|-----------------|----------|
|  | <b>£m</b>       | £m       |
| <b>Assets</b>                                |                 |          |
| <b>Non-current assets</b>                    |                 |          |
| Property, plant and equipment                | <b>9,374</b>    | 9,678    |
| Goodwill                                     | <b>3,361</b>    | 2,101    |
| Other intangible assets                      | <b>8,183</b>    | 5,869    |
| Investments in associates and joint ventures | <b>895</b>      | 552      |
| Other investments                            | <b>454</b>      | 478      |
| Deferred tax assets                          | <b>2,374</b>    | 2,760    |
| Derivative financial instruments             | <b>68</b>       | 107      |
| Other non-current assets                     | <b>583</b>      | 579      |
| <b>Total non-current assets</b>              | <b>25,292</b>   | 22,124   |
| <b>Current assets</b>                        |                 |          |
| Inventories                                  | <b>4,064</b>    | 4,056    |
| Current tax recoverable                      | <b>58</b>       | 76       |
| Trade and other receivables                  | <b>6,492</b>    | 6,265    |
| Derivative financial instruments             | <b>129</b>      | 856      |
| Liquid investments                           | <b>268</b>      | 391      |
| Cash and cash equivalents                    | <b>6,545</b>    | 5,623    |
| Assets held for sale                         | <b>14</b>       | 2        |
| <b>Total current assets</b>                  | <b>17,570</b>   | 17,269   |
| <b>Total assets</b>                          | <b>42,862</b>   | 39,393   |
| <b>Liabilities</b>                           |                 |          |
| <b>Current liabilities</b>                   |                 |          |
| Short-term borrowings                        | <b>(1,471)</b>  | (956)    |
| Trade and other payables                     | <b>(6,772)</b>  | (6,075)  |
| Derivative financial instruments             | <b>(168)</b>    | (752)    |
| Current tax payable                          | <b>(1,451)</b>  | (780)    |
| Short-term provisions                        | <b>(2,256)</b>  | (1,454)  |
| <b>Total current liabilities</b>             | <b>(12,118)</b> | (10,017) |
| <b>Non-current liabilities</b>               |                 |          |
| Long-term borrowings                         | <b>(14,786)</b> | (15,231) |
| Deferred tax liabilities                     | <b>(645)</b>    | (714)    |
| Pensions and other post-employment benefits  | <b>(2,981)</b>  | (3,039)  |
| Other provisions                             | <b>(985)</b>    | (1,645)  |

|                                      |                 |                 |
|--------------------------------------|-----------------|-----------------|
| Derivative financial instruments     |                 | (2)             |
| Other non-current liabilities        | (605)           | (427)           |
| <b>Total non-current liabilities</b> | <b>(20,002)</b> | <b>(21,058)</b> |
| <b>Total liabilities</b>             | <b>(32,120)</b> | <b>(31,075)</b> |
| <b>Net assets</b>                    | <b>10,742</b>   | <b>8,318</b>    |
| <b>Equity</b>                        |                 |                 |
| Share capital                        | 1,416           | 1,415           |
| Share premium account                | 1,368           | 1,326           |
| Retained earnings                    | 6,321           | 4,622           |
| Other reserves                       | 900             | 568             |
| <b>Shareholders equity</b>           | <b>10,005</b>   | <b>7,931</b>    |
| Minority interests                   | 737             | 387             |
| <b>Total equity</b>                  | <b>10,742</b>   | <b>8,318</b>    |

### Property, plant and equipment

GSK's business is science-based, technology-intensive and highly regulated by governmental authorities. The Group allocates significant financial resources to the renewal and maintenance of its property, plant and equipment to minimise risks of interruption of production and to achieve compliance with regulatory standards. A number of its processes use chemicals and hazardous materials.

The total cost of the Group's property, plant and equipment at 31st December 2009 was £18,757 million, with a net book value of £9,374 million. Of this, land and buildings represented £3,762 million, plant and equipment £3,433 million and assets in construction £2,179 million. In 2009, GSK invested £1,423 million in new and renewal property, plant and equipment. This is mainly related to a large number of projects for the renewal, improvement and expansion of facilities at various worldwide sites. Property is mainly held freehold. New investment is financed from Group liquid resources. At 31st December 2009, GSK had capital contractual commitments for future expenditure of £416 million and operating lease commitments of £337 million. GSK believes that its facilities are adequate for its current needs.

The Group observes stringent procedures and uses specialist skills to manage environmental risks from these activities. Environmental issues, sometimes dating from operations now modified or discontinued, are reported under

Responsibility and the environment (page 24) and in Note 44 to the financial statements, Legal proceedings .

### Goodwill

Goodwill has increased during the year from £2,101 million at 31st December 2008 to £3,361 million. The increase primarily reflects the goodwill arising on the acquisition of Stiefel Laboratories, Inc. of £885 million, the Pfizer HIV business of £255 million and certain businesses from UCB S.A. of £87 million.

### Other intangible assets

Other intangible assets include the cost of intangibles acquired from third parties and computer software. The net book value of other intangible assets as at 31st December 2009 was £8,183 million (2008 £5,869 million). The increase in 2009 reflects additions of £3,167 million partly offset by currency movements and the amortisation and impairment of existing intangibles. The largest element of the additions is £1,513 million relating to the acquisition of Stiefel Laboratories, Inc. reflecting the brands acquired together with the Stiefel trade name. In addition, £595 million relates to the fair value of the Pfizer HIV intellectual property acquired following the creation of the ViiV Healthcare business during the year and a further £445 million arises from the acquisition of certain businesses from UCB S.A.



## Financial position and resources

**Investments**

GSK held investments, including associates and joint ventures, with a carrying value at 31st December 2009 of £1,349 million (2008 £1,030 million). The market value at 31st December 2009 was £2,225 million (2008 £1,883 million). The largest of these investments are in two associates: Quest Diagnostics Inc., which had a book value at 31st December 2009 of £410 million (2008 £463 million) and Aspen Pharmacare Holdings Limited, acquired this year, which had a book value at 31st December 2009 of £372 million. The investments include equity stakes in companies where the Group has research collaborations, which provide access to biotechnology developments of potential interest and interests in companies that arise from business divestments.

**Derivative financial instruments: assets**

GSK had both non-current and current derivative financial instruments held at fair value of £197 million (2008 £963 million). The decrease primarily reflects lower currency volatility in Euro, US dollar and Yen market rates.

**Inventories**

Inventory of £4,064 million has increased by £8 million during the year. The increase arises from H1N1 vaccine and *Synflorix* stock-builds following regulatory approval in key markets; the acquisition of Stiefel Laboratories, Inc.; strategic stock building to support growth in Emerging Markets and Japan, offset by a weakening of overseas currencies and improvements following implementation of the working capital reduction programme.

**Trade and other receivables**

Trade and other receivables of £6,492 million have increased from 2008 reflecting the relatively high vaccine sales of H1N1 in the last quarter together with the Stiefel acquisition, partly offset by the impact of a weakening of overseas currencies on the translation of foreign currency receivables, the sale of long outstanding debt in certain European markets and Taiwan and reductions in overdue receivables in certain European and Asian markets.

**Derivative financial instruments: liabilities**

GSK held current derivative financial instruments held at fair value of £168 million (2008 £752 million current and £2 million non-current) relating primarily to hedging exchange on translation of currency assets on consolidation. The decrease again reflects lower currency volatility on the Euro, US dollar and Yen.

**Trade and other payables**

Trade and other payables amounting to £6,772 million have increased from 2008 primarily reflecting working capital improvement initiatives to extend supplier terms towards the Group's 60 day term objective and the acquisition of Stiefel Laboratories Inc., partly offset by a weakening of year-end foreign exchange rates.

**Provisions**

The Group carried deferred tax provisions and other short-term and non-current provisions of £3,886 million at 31st December 2009 (2008 £3,813 million) in respect of estimated future liabilities, of which £2,020 million related to legal and other disputes. Provision has been made for legal and other disputes, indemnified disposal liabilities and the costs of restructuring programmes to the extent that at the balance sheet date an actual or constructive obligation existed and could be reasonably estimated.

**Pensions and other post-employment benefits**

The Group accounts for pension and other post-employment arrangements in accordance with IAS 19. The deficits, net of surpluses before allowing for deferred taxation were £1,745 million (2008 £1,697 million) on pension arrangements and £1,213 million (2008 £1,303 million) on unfunded post-employment liabilities. The pension liabilities increased following a weakening of long term interest rates, including a reduction in the rate used to discount UK pension liabilities from 6.20% to 5.70% and an increase in the estimated long term inflation rate in the UK, partly offset by a positive impact of exchange movements and higher asset values.

**Net debt**

| 2009 | 2008 |
|------|------|
| £m   | £m   |

|   |                 |          |
|---|-----------------|----------|
| Cash, cash equivalents and liquid investments | <b>6,813</b>    | 6,014    |
| Borrowings repayable within one year          | <b>(1,471)</b>  | (956)    |
| Borrowings repayable after one year           | <b>(14,786)</b> | (15,231) |
| Net debt                                      | <b>(9,444)</b>  | (10,173) |

Net debt decreased by £729 million primarily from a weakening of the foreign currencies in which Group debt is denominated.

### **Total equity**

A summary of the movements in equity is set out below.

|  | <b>2009</b>    | 2008    |
|--|----------------|---------|
|  | <b>£m</b>      | £m      |
| Total equity at beginning of year                            | <b>8,318</b>   | 9,910   |
| Total comprehensive income for the year                      | <b>4,996</b>   | 4,829   |
| Dividends to shareholders                                    | <b>(3,003)</b> | (2,929) |
| Ordinary Shares issued                                       | <b>43</b>      | 62      |
| Ordinary Shares purchased and cancelled                      |                | (3,706) |
| Changes in minority shareholdings                            | <b>338</b>     |         |
| Put option over minority interest                            | <b>(2)</b>     |         |
| Consideration received for shares transferred by ESOP Trusts | <b>13</b>      | 10      |
| Ordinary Shares acquired by ESOP Trusts                      | <b>(57)</b>    | (19)    |
| Share-based incentive plans                                  | <b>171</b>     | 241     |
| Tax on share-based incentive plans                           | <b>14</b>      | (1)     |
| Distributions to minority interests                          | <b>(89)</b>    | (79)    |
| Total equity at end of year                                  | <b>10,742</b>  | 8,318   |

At 31st December 2009, total equity had increased from £8,318 million at 31st December 2008 to £10,742 million. The increase arises principally from retained profit for the year partly offset by actuarial losses on defined benefit pension plans.

## Financial position and resources

**Share purchases**

In 2009, the Employee Share Ownership Plan (ESOP) Trusts acquired £57 million of shares in GSK plc (2008 £19 million). Shares are held by the Trusts to satisfy future exercises of options and awards under the Group share option and award schemes. A proportion of the shares held by the Trusts are in respect of awards where the rules of the scheme require GSK to satisfy exercises through market purchases rather than the issue of new shares. The shares held by the Trusts are matched to options and awards granted.

At 31st December 2009, the ESOP Trusts held 118 million (2008 129 million) GSK shares against the future exercise of share options and share awards. The carrying value of £1,138 million (2008 £1,445 million) has been deducted from other reserves. The market value of these shares was £1,554 million (2008 £1,657 million).

GSK did not repurchase any shares for cancellation in 2009

(2008 £3,706 million) or any shares to be held as Treasury shares

(2008 £nil). In order to ensure that GSK has sufficient flexibility to deliver its strategic priorities the company does not expect to make any significant repurchases under the existing share buy-back programme during 2010. The exact amount and timing of future purchases, and the extent to which repurchased shares will be held as Treasury shares rather than being cancelled, will be determined by the company and is dependent on market conditions and other factors. At 31st December 2009, GSK held 474.2 million shares as Treasury shares (2008 474.2 million shares), at a cost of £6,286 million (2008 £6,286 million), which has been deducted from retained earnings.

There have been no purchases since 31st December 2009 under the existing programme.

**Commitments and contingent liabilities**

Financial commitments are summarised in Note 39 to the financial statements, Commitments . Other contingent liabilities and obligations in respect of short and long-term debt are set out in Note 31 to the financial statements,

Contingent liabilities and Note 32 to the financial statements, Net debt .

Amounts provided for pensions and post-retirement benefits are set out in Note 28 to the financial statements,

Pensions and other post-employment benefits . Amounts provided for restructuring programmes and legal, environmental and other disputes are set out in Note 29 to the financial statements, Other provisions .

**Contractual obligations and commitments**

The following table sets out the Group's contractual obligations and commitments at 31st December 2009 as they fall due for payment.

|                             | Total  | Under |         |         |        |
|-----------------------------|--------|-------|---------|---------|--------|
|                             | £m     | 1 yr  | 1-3 yrs | 3-5 yrs | 5 yrs+ |
|                             |        | £m    | £m      | £m      | £m     |
| Loans                       | 16,127 | 1,431 | 2,647   | 2,538   | 9,511  |
| Interest on loans           | 10,733 | 757   | 1,507   | 1,130   | 7,339  |
| Finance lease obligations   | 130    | 40    | 56      | 19      | 15     |
| Finance lease charges       | 16     | 4     | 8       | 3       | 1      |
| Operating lease commitments | 337    | 111   | 122     | 35      | 69     |
| Intangible assets           | 12,280 | 694   | 1,189   | 2,022   | 8,375  |
| Property, plant & equipment | 416    | 300   | 74      | 42      |        |
| Investments                 | 86     | 37    | 12      | 37      |        |
| Purchase commitments        | 82     | 60    | 21      | 1       |        |
| Pensions                    | 1,460  | 365   | 730     | 365     |        |
| Other commitments           | 52     | 8     | 17      | 22      | 5      |

|       |        |       |       |       |        |
|-------|--------|-------|-------|-------|--------|
| Total | 41,719 | 3,807 | 6,383 | 6,214 | 25,315 |
|-------|--------|-------|-------|-------|--------|

Commitments in respect of loans and future interest payable on loans are disclosed before taking into account the effect of derivatives. The Group has entered into a number of research collaborations to develop new compounds with other pharmaceutical companies. The terms of these arrangements can include upfront fees, equity investments, loans and commitments to fund specified levels of research. In addition, the Group will often agree to make further payments if future milestones 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. The payments shown above within intangible assets represent the maximum that would be paid if all milestones are achieved.

A number of new commitments were made in 2009 under licensing and other agreements, including arrangements with Chroma Therapeutics Limited, Concert Pharmaceuticals, Inc., Idenix Pharmaceuticals, Inc. Prosensa B.V. and Seattle Genetics, Inc.

In 2009, GSK reached an agreement with the trustees of the UK pension schemes to make additional contributions over a five year period, to eliminate the pension deficit identified at the 31st December 2008 actuarial funding valuation. The table above shows this commitment but excludes the normal ongoing annual funding requirement of approximately £150 million. For further information on pension obligations, see Note 28 to the financial statements, Pensions and other post-employment benefits .

## Financial position and resources

**Contingent liabilities**

The following table sets out contingent liabilities, comprising discounted bills, performance guarantees, letters of credit and other items arising in the normal course of business, and when they are expected to expire.

|                              | Total      | Under     |           |          |           |
|------------------------------|------------|-----------|-----------|----------|-----------|
|                              | £m         | 1 yr      | 1-3 yrs   | 3-5 yrs  | 5 yrs+    |
|                              |            | £m        | £m        | £m       | £m        |
| Guarantees                   | 110        | 72        | 28        |          | 10        |
| Other contingent liabilities | 40         | 5         | 12        | 2        | 21        |
| <b>Total</b>                 | <b>150</b> | <b>77</b> | <b>40</b> | <b>2</b> | <b>31</b> |

In the normal course of business, GSK has provided various indemnification guarantees in respect of business disposals in which legal and other disputes have subsequently arisen. A provision is made where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome of the dispute and this is included in Note 29 to the financial statements, Other provisions .

It is the Group's policy to provide for the settlement costs of asserted claims and environmental disputes when an outflow of resources is considered probable and a reasonable estimate may be made. Prior to this point no liability is recorded. Legal and environmental costs are discussed in Risk factors on pages 43 to 47 and Note 44 to the financial statements, Legal proceedings . GSK continues to believe that it has made adequate provision for the liabilities likely to arise from open taxation assessments. The ultimate liability for such matters may vary significantly from amounts provided and is dependent upon the outcome of litigation proceedings and negotiations with the relevant tax authorities. This is discussed further in Note 14 to the financial statements, Taxation .

**Cash flow**

A summary of the consolidated cash flow is set out below.

|   | <b>2009</b>    | 2008    |
|---|----------------|---------|
|   | <b>£m</b>      | £m      |
| Net cash inflow from operating activities         | <b>7,841</b>   | 7,205   |
| Net cash outflow from investing activities        | <b>(4,013)</b> | (1,149) |
| Net cash outflow from financing activities        | <b>(2,774)</b> | (4,908) |
| Increase in cash and bank overdrafts              | <b>1,054</b>   | 1,148   |
| Exchange adjustments                              | <b>(158)</b>   | 1,103   |
| Cash and bank overdrafts at beginning of year     | <b>5,472</b>   | 3,221   |
| <b>Cash and bank overdrafts at end of year</b>    | <b>6,368</b>   | 5,472   |
| Cash and bank overdrafts at end of year comprise: |                |         |
| Cash and cash equivalents                         | <b>6,545</b>   | 5,623   |
| Overdrafts  | <b>(177)</b>   | (151)   |
|   | <b>6,368</b>   | 5,472   |



The net cash inflow from operating activities after taxation paid was £7,841 million, an increase of £636 million over 2008 reflecting higher profit before tax, excluding the impact of the significant increase in non-cash charges made in the year, primarily from the major restructuring programmes.

The net cash outflow from investing activities was £4,013 million, an increase of £2,864 million which primarily reflected a significant increase in the cost of business purchases during 2009, including Stiefel Laboratories, Inc. for £1,993 million net of cash acquired of £74 million, certain businesses from UCB S.A. for £472 million net of cash acquired of £5 million, and AZ Tika for £146 million. In 2008, the comparable acquisitions comprised Sirtris Pharmaceuticals for £324 million net of cash acquired of £52 million, and the Egyptian business of BMS for £130 million net of deferred consideration of £10 million. In addition sales of liquid investments realised cash of £905 million in 2008.

#### **Free cash flow**

Free cash flow is the amount of cash generated by the business after meeting its obligations for interest, tax and dividends paid to minority interests, and after capital expenditure on non-current tangible and intangible assets. For 2009 free cash flow was £5,254 million, an increase of 12% over 2008. This principally reflected the higher operating profit before non-cash charges (primarily from the major restructuring programmes) and lower expenditure on intangible assets. This was partly offset by higher levels of net interest paid as a result of the debt issuance during the year of 1.6 billion under the EMTN programme and reduced interest income on deposits.

Free cash flow is used by GSK's management for planning and reporting purposes and in discussions with and presentations to investment analysts and rating agencies. GSK's free cash flow measure is not defined in IFRS. This measure may not be directly comparable with similarly described measures used by other companies. A reconciliation of net cash inflow from operating activities, which is the closest equivalent IFRS measure, to free cash flow is shown below.

#### **Reconciliation of free cash flow**

|   | <b>2009</b>    | 2008    |
|---|----------------|---------|
|   | <b>£m</b>      | £m      |
| Net cash inflow from operating activities                         | <b>7,841</b>   | 7,205   |
| Purchase of property, plant and equipment                         | <b>(1,418)</b> | (1,437) |
| Purchase of non-current intangible assets                         | <b>(455)</b>   | (632)   |
| Disposal of property, plant and equipment                         | <b>48</b>      | 20      |
| Interest paid   | <b>(780)</b>   | (730)   |
| Interest received   | <b>90</b>      | 320     |
| Dividends received from joint ventures and associated undertaking | <b>17</b>      | 12      |
| Dividends paid to minority interests                              | <b>(89)</b>    | (79)    |
| Free cash flow  | <b>5,254</b>   | 4,679   |

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## Financial position and resources

**Movements in net debt**

|  | <b>2009</b>     | 2008     |
|--|-----------------|----------|
|  | <b>£m</b>       | £m       |
| Net debt at beginning of year            | <b>(10,173)</b> | (6,039)  |
| Increase in cash and bank overdrafts     | <b>1,054</b>    | 1,148    |
| Cash inflow from liquid investments      | <b>(87)</b>     | (905)    |
| Net increase in long-term loans          | <b>(1,358)</b>  | (5,523)  |
| Net repayment of short-term loans        | <b>102</b>      | 3,059    |
| Debt of subsidiary undertakings acquired | <b>(9)</b>      |          |
| Exchange movements                       | <b>1,041</b>    | (1,918)  |
| Other movements                          | <b>(14)</b>     | 5        |
| Net debt at end of year                  | <b>(9,444)</b>  | (10,173) |

**Investment appraisal**

GSK has a formal process for assessing potential investment proposals in order to ensure decisions are aligned with the Group's overall strategy. This process includes an analysis of the impact of the project on earnings, its return on invested capital and an assessment of the return based on discounted cash flows. The discount rate used to perform financial analysis is decided internally, to allow determination of the extent to which investments cover the Group's cost of capital. For specific investments the discount rate may be adjusted to take into account country or other risk weightings.

**Capital expenditure and financial investment**

Cash payments for tangible and intangible fixed assets amounted to £1,873 million (2008 £2,069 million; 2007 £2,143 million). Disposals realised £404 million (2008 £191 million; 2007 £44 million). Cash payments to acquire equity investments of £154 million (2008 £87 million; 2007 £186 million) were made in the year and sales of equity investments realised £59 million (2008 £42 million; 2007 £45 million).

**Future cash flow**

The Group expects that future operating cash flow will be sufficient to fund its operating and debt service costs, to satisfy normal levels of capital expenditure, to meet obligations under existing licensing agreements, to meet the expenditure arising from the major restructuring programmes (the precise timing of which is uncertain) outlined in Note 7 to the financial statements, Major restructuring programmes and to meet other routine outflows including tax and dividends, subject to the Risk factors discussed on pages 43 to 47. GSK may from time to time have additional demands for finance, such as for acquisitions. It has access to other sources of liquidity from short and long-term capital markets and banks and other financial institutions, in addition to the cash flow from operations, for such needs.

**Payment policies**

Group companies are responsible for monitoring and managing their working capital. The terms of sales collections and supplier payments reflect local commercial practice.

In the UK, the company and each of its UK subsidiaries have policies to ensure that suppliers are paid on time. In particular, the UK companies seek:

- to settle terms of payment with suppliers when agreeing the terms of the transaction

- to ensure that suppliers are made aware of the agreed terms of payment

- to abide by the terms of payment.

The policy permits arrangements for accelerated payment to small suppliers.

**Payment performance**

At 31st December 2009, the average number of days payable outstanding represented by trade payables of the parent company was nil (2008 nil) and in respect of the company and its UK subsidiaries in aggregate was 44 days (2008 20 days).

**Treasury policies**

GSK reports in Sterling and pays dividends out of Sterling profits. The role of Corporate Treasury is to manage and monitor our external and internal funding requirements and financial risks in support of our strategic objectives.

Treasury activities are governed by policies and procedures approved by the Board of Directors, most recently on 1st October 2009.

A Treasury Management Group ( TMG ) chaired by our Chief Financial Officer, meets on a monthly basis to review treasury activities. Its members receive management information relating to treasury activities.

**Capital management**

GSK operates on a global basis, primarily through subsidiary companies established in the markets in which we trade. With significant levels of patent or trademark protection, our products compete largely on product efficacy or differentiation rather than on price. Selling margins are sufficient to cover normal operating costs and our operating subsidiaries are generally cash generative.

Operating cash flow is used to fund investment in research and development of new products. It is also used to make the routine outflows of capital expenditure, tax, dividends, repayment of maturing debt and, to the extent determined by the Board, share repurchases.

Our policy is to borrow centrally using a variety of capital market issues and borrowing facilities to meet anticipated funding requirements.

These borrowings, together with cash generated from operations, are on-lent, contributed as equity to certain subsidiaries or used to pay dividends and make acquisitions. GSK did not make any share repurchases in 2009.

## Financial position and resources

**Liquidity**

As at 31st December 2009, our cash and liquid investments were held as follows:

|  | <b>2009</b>  | 2008  |
|--|--------------|-------|
|  | <b>£m</b>    | £m    |
| Bank balances and deposits                               | <b>5,206</b> | 3,778 |
| US Treasury and Treasury repo<br>only money market funds | <b>1,305</b> | 1,852 |
| Corporate debt instruments                               | <b>10</b>    | 75    |
| Government securities                                    | <b>292</b>   | 309   |
|  | <b>6,813</b> | 6,014 |

£4.9 billion of this amount is managed centrally and available within three months. We had net debt at 31st December 2009 of £9.4 billion. The table below summarises cash and gross debt after the effects of hedging.

|                             | <b>2009</b>     | 2008     |
|-----------------------------|-----------------|----------|
|                             | <b>£m</b>       | £m       |
| Cash and liquid investments | <b>6,813</b>    | 6,014    |
| Gross debt fixed            | <b>(13,706)</b> | (13,814) |
| floating                    | <b>(2,550)</b>  | (2,373)  |
| non-interest bearing        | <b>(1)</b>      |          |
| Net debt                    | <b>(9,444)</b>  | (10,173) |

At 31st December 2009, we had centrally available cash reserves of £4.9 billion and committed undrawn bank facilities of \$3.9 billion. As at that date we had short-term debt and bank overdrafts and loans repayable within one year of £1.5 billion.

We manage our net borrowing requirements through a portfolio of long-term borrowings, including bonds, together with short-term finance under a \$10 billion commercial paper programme. The commercial paper programme is backed by \$3.9 billion of committed facilities. The facilities were last renewed in October 2009. We consider this level of committed facilities to be adequate given our current cash holdings. For further information on these facilities, see Note 32 to the financial statements, Net debt. We also benefit from strong positive cash flow from operating units. We have a European Medium Term Note programme of £15 billion. At 31st December 2009, we had £8.5 billion of notes in issue under this programme. We also have a US shelf registration statement. At 31st December 2009, we had \$11 billion (£6.9 billion) of notes in issue under this programme. The TMG monitors the cash flow forecast on a monthly basis.

The long-term borrowings mature at dates between 2012 and 2042. Our long-term debt ratings have remained stable since February 2008. Currently we are rated A+ stable outlook by Standard and Poor's and A1 stable outlook by Moody's. Our short-term debt ratings are A-1 and P-1 with Standard and Poor's and Moody's respectively.

The maturity profile of gross debt is shown in the table below:

**Maturity profile of gross debt**

Financial position and resources

### **Treasury operations**

The objective of treasury activity is to manage the post-tax net cost or income of financial operations to the benefit of earnings. Corporate Treasury does not operate as a profit centre. We use a variety of financial instruments to finance our operations and derivative financial instruments to manage market risks from these operations. These derivatives, principally comprising forward foreign currency contracts, interest rate and currency swaps, are used to swap borrowings and liquid assets into our required currencies and to manage exposure to funding risks from changes in foreign exchange and interest rates.

We do not hold or issue derivatives for speculative purposes. Our treasury policies specifically prohibit such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

### **Foreign exchange management**

Foreign currency transaction exposures arising on internal and external trade flows are not hedged. The exposure of overseas operating subsidiaries to transaction risk is minimised by matching local currency income with local currency costs.

For this purpose, our internal trading transactions are matched centrally and we manage intercompany payment terms to reduce foreign currency risk. Exceptional foreign currency cash flows are hedged selectively under the management of Corporate Treasury.

We manage the short-term cash surpluses or borrowing requirements of subsidiary companies centrally using forward contracts to hedge future repayments back into the originating currency.

We seek to denominate borrowings in the currencies of our principal assets and cash flows. These are primarily denominated in US dollars, Euros and Sterling. Certain borrowings are swapped into other currencies as required. Borrowings denominated in, or swapped into, foreign currencies that match investments in our overseas assets may be treated as a hedge against the relevant assets. Forward contracts are also used in major currencies to reduce our exposure to our investment in overseas Group assets (see *Net Investment Hedges* section of Note 41 for further details). The TMG reviews the ratio of borrowings to assets for major currencies.

### **Interest rate risk management**

The policy on interest rate risk management limits the amount of floating interest payments to a prescribed percentage of trading profit.

We use an interest rate swap to re-denominate one of our external borrowings into the interest rate coupon required by GSK. The duration of this swap matches the duration of the principal instrument. Interest rate derivative instruments are accounted for as fair value or cash flow hedges of the relevant assets or liabilities.

### **Counterparty risk management**

Our policy on counterparty risk management is to work with a select group of relationship banks. Global counterparty limits are assigned to each of GSK's banking and investment counterparties based on long-term credit ratings from Moody's and Standard and Poor's. Corporate Treasury's usage of these limits is monitored daily by a Corporate Compliance Officer (CCO) who operates independently of Corporate Treasury. Any breach of these limits is reported to the CFO immediately. The CCO also monitors the credit rating of these counterparties and, when changes in ratings occur, notifies Corporate Treasury so that changes can be made to investment levels or authority limits as appropriate. A full counterparty analysis is presented to the TMG annually for approval.

### **Financial assets and liabilities**

An analysis of net debt is given in Note 32 to the financial statements, *Net debt*. An analysis of financial assets and liabilities at carrying value and fair value is given in Note 41 to the financial statements, *Financial instruments and related disclosures*.

We continue to benefit from strong positive cash flow from operating activities. Our net debt has decreased in the year to 31st December 2009, despite GSK's acquisition activities in the period which totalled approximately £2.8 billion. For further information on these activities, see Note 38 to the financial statements, *Acquisitions and Disposals*.

The financial assets and liabilities at 31st December 2009 are representative of our treasury policies and strategies applied since July 2007. In 2009 GSK raised approximately £1.4 billion (2008 £6.3 billion) in the Capital Markets. We did not make any share repurchases in 2009.

**Risk factors**

There are risks and uncertainties relevant to the Group's business, financial condition and results of operations that may affect the Group's performance and ability to achieve its objectives. The factors below are among those that the Group thinks, based on the CET's most recent annual workshop to identify the most significant risks facing the Group, could cause its actual results to differ materially from expected and historical results. There are other risks and uncertainties not currently known to the Group or which are deemed immaterial.

For each of the risks described below, the Group has implemented a system of internal control that involves policies and procedures, communication and training programmes, supervision and monitoring and processes for escalating issues to the appropriate level of senior management. Such a system helps facilitate the Group's ability to respond appropriately to risks and to achieve Group objectives and helps ensure compliance with applicable laws, regulations and internal policies. It is not possible, however, for the Group to implement controls to respond to all the risks that it may face, and there can be no assurance that the steps the Group has taken to address certain risks will manage these risks effectively or at all.

The Group's management of these risks is further discussed on page 66 Corporate Governance .

The major risks that might affect GSK's business are:

**Risk that R&D will not deliver commercially successful new products**

Continued development of commercially viable new products as well as the development of additional uses for existing products is critical to the Group's ability to replace sales of older products that decline upon expiration of exclusive rights, and to increase overall sales. Developing new products is a costly, lengthy and uncertain process. A new product candidate can fail at any stage of the process, and one or more late stage product candidates could fail to receive regulatory approval.

New product candidates may appear promising in development but, after significant investment, fail to reach the market or have only limited commercial success. This, for example, could be as a result of efficacy or safety concerns, an inability to obtain necessary regulatory approvals, difficulty manufacturing or excessive manufacturing costs, erosion of patent terms as a result of a lengthy development period, infringement of patents or other intellectual property rights of others or an inability to differentiate the product adequately from those with which it competes. Furthermore, health authorities such as the US FDA, the European Medicines Agency and the Japan Pharmaceuticals and Medicines Device Agency have increased their focus on safety when assessing the benefit/risk balance of drugs, which has made it more difficult for pharmaceutical products to gain regulatory approval.

There is also increasing pressure on healthcare budgets as the average age of the population in developed markets increases and the absolute population in developing markets grows. Payers have therefore increasingly demanded greater incremental benefit from drugs before agreeing to reimburse suppliers at prices suppliers consider appropriate. A failure to develop commercially successful products or develop additional uses for existing products for any of these reasons could materially and adversely affect the Group's financial results.

**Patent infringement litigation**

The Group's patents, in common with all patents, can be challenged at any time. Efforts by generic manufacturers may involve challenges to the validity or enforceability of a patent or assertions that their generic product does not infringe the Group's patents. If GSK is not successful in defending an attack on its patents and maintaining exclusive rights to market one or more of its major products, particularly in the USA where the Group has its highest turnover and margins, the Group's financial results may be materially and adversely affected. See Note 44 to the financial statements, Legal proceedings , for a discussion of patent-related proceedings in which the Group is involved and page 12 for a description of the resolutions of prior proceedings which affect the dates on which generic versions of the Group's products may be introduced.

Generic drug manufacturers are seeking to market generic versions of many of the Group's most important products, prior to the expiration of the Group's patents, and have exhibited a readiness to do so for other products in the future. The US launch of generic products competing with *Lamictal*, *Imitrex*, *Paxil CR*, *Requip*, *Wellbutrin XL* and *Valtrex*



had a significant impact on the Group's overall turnover and earnings for 2009.

**Potential changes in intellectual property laws and regulations**

Proposals to change existing patent and data exclusivity laws and regulations in major markets in which the Group sells its products are a continuing feature of the political process in those countries. These include proposals that could have the effect of making prosecution of patents for new products more difficult and time-consuming or adversely affect the exclusivity period for the Group's products, including biological products. Should such proposals be enacted they may materially and adversely affect the Group's financial results.

**Weakness of intellectual property protection in certain countries**

In some of the countries in which the Group operates, patent protection may be significantly weaker than in the USA or the European Union. Some developing countries have reduced, or threatened to reduce, effective patent protection for pharmaceutical products generally, or in particular therapeutic areas, to facilitate early competition within their markets from generic manufacturers. Any loss of patent protection, including reducing the scope of patent rights or compulsory licensing, could materially and adversely affect the Group's financial results in those national markets but is not expected to be material to the Group overall. Absence of adequate patent protection could limit the opportunity to look to such markets for future sales growth.

**Risk of substantial adverse outcome of litigation and government investigations**

See Note 44 to the financial statements, "Legal proceedings", for a discussion of proceedings and governmental investigations - involving matters which if proven could give rise to civil and/or criminal liabilities - in which the Group is currently involved. Unfavourable resolution of these and similar future proceedings or investigations may have a material adverse effect on the Group's financial condition and results of operations. The Group has made material provisions in 2009 and prior years related to legal proceedings and investigations which reduced its earnings.

**Risk factors**

The Group may also make additional significant provisions related to legal proceedings and investigations in the future, which would reduce its earnings. In many cases the practice of the plaintiff bar is to claim damages in amounts that bear no relationship to the underlying harm. Accordingly it may be potentially misleading for the Group to quantify, based on the amount of damages claimed, its potential exposure to claims, proceedings and investigations of the type described in Note 44 to the financial statements, Legal proceedings .

Recent insurance loss experience, including pharmaceutical product liability exposures, has increased the cost of, and narrowed the coverage afforded by, insurance for pharmaceutical companies generally, including the Group.

In order to contain insurance costs in recent years the Group has continued to adjust its coverage profile, accepting a greater degree of un-insured exposure. In addition, where claims are made under insurance policies, insurers may reserve the right to deny coverage on various grounds. If denial of coverage is ultimately upheld on these claims, this could result in additional charges that may materially and adversely affect the Group's financial results.

**Product liability litigation**

Pre-clinical and clinical trials are conducted during the development of potential products to determine the safety and efficacy of products for use by humans following approval by regulatory bodies. Notwithstanding these efforts, when drugs and vaccines are introduced into the marketplace, unanticipated side effects may become evident.

In other instances third parties may perform analyses of published clinical trial results which, although not necessarily accurate or meaningful, may raise questions regarding the safety of pharmaceutical products which may be publicised by the media and may result in product liability claims. The Group is currently a defendant in a number of product liability lawsuits, including class actions, that involve substantial claims for damages related to the Group's pharmaceutical products. Litigation, particularly in the USA, is inherently unpredictable and excessive verdicts that are not justified by the evidence can occur. Class actions that sweep together all persons who were prescribed the Group's products can inflate the potential liability by the force of numbers. Claims for pain and suffering and punitive damages are frequently asserted in product liability actions and, if allowed, can represent potentially open ended exposure and thus could materially and adversely affect the Group's financial results.

**Anti-trust litigation**

In the USA it has become increasingly common for patent infringement actions to prompt claims that anti-trust laws have been violated during the initial prosecution of the patent or during litigation involving the defence of that patent. Such claims by direct and indirect purchasers and other payers are typically filed as class actions. The relief sought may include treble damages and restitution claims. Damages in adverse anti-trust verdicts are subject to automatic trebling in the USA. Similarly, anti-trust claims may be brought following settlement of patent litigation, alleging that such settlements are anti-competitive and in violation of anti-trust laws. A successful anti-trust claim against the Group could materially and adversely affect the Group's financial results.

**Sales, marketing and regulation**

The Group operates globally in complex legal and regulatory environments that often vary among jurisdictions. The failure to comply with applicable laws, rules and regulations in these jurisdictions may result in civil and criminal legal proceedings. As those rules and regulations change or as governmental interpretation of those rules and regulations evolve, prior conduct may be called into question.

In the USA, for example, the Group is responding to federal and state governmental investigations into pricing, marketing and reimbursement of its prescription drug products. These investigations could result in related restitution or civil false claims act litigation on behalf of the federal or state governments, as well as related proceedings initiated against the Group by or on behalf of consumers and private payers. Such proceedings may result in trebling of damages awarded or fines in respect of each violation of law. Criminal proceedings may also be initiated against the Group. Any of these consequences could materially and adversely affect the Group's financial results.

**Third party competition**

The Group operates in highly competitive markets. In the pharmaceuticals business, it faces competition both from proprietary products of large international manufacturers and producers of generic pharmaceuticals. Significant

product innovations, technical advances or the intensification of price competition by competitors may materially and adversely affect the Group's financial results. The Group cannot predict the timing or impact of competitive products or their potential impact on sales of the Group's products. Continued consolidation in the pharmaceutical industry may adversely affect the Group's competitive position, while continued consolidation among the Group's customers may increase pricing pressures.

The Group had nine pharmaceutical products with over £500 million in annual global sales in 2009. Among these products are *Augmentin IR* and *ES*, *Lamictal IR*, *Paxil* and *Valtrex* for which there is generic competition in the USA. If any of the Group's major products were to become subject to a problem such as unplanned loss of patent protection, unexpected side effects, regulatory proceedings, publicity affecting doctor or patient confidence or pressure from competitive products, or if a new, more effective treatment should be introduced, the Group's financial results may be materially and adversely affected.

In particular, the Group faces intense competition from manufacturers of generic pharmaceutical products in all of its major markets. Generic products often enter the market upon expiration of patents or data exclusivity periods for the Group's products. Introduction of generic products typically leads to a dramatic loss of sales and reduces the Group's revenues and margins for its proprietary products. The expiration dates for patents for the Group's major products and a description of litigation settlements which may affect the dates on which generic versions of the Group's products may be introduced are set out on page 12. Legal proceedings involving patent challenges are set out in Note 44 to the financial statements, Legal proceedings .

#### **Governmental and payer controls**

Pharmaceutical products are subject to price controls or pressures and other restrictions in many markets, including Japan, Germany, Spain, France and Italy. Some governments intervene directly in setting prices.

#### Risk factors

In addition, in some markets major purchasers of pharmaceutical products (whether governmental agencies or private health care providers) have the economic power to exert substantial pressure on prices or the terms of access to formularies.

The Group cannot accurately predict whether existing controls, pressures or restrictions will increase or whether new controls, pressures or restrictions will be introduced. Such measures may materially and adversely affect the Group's ability to introduce new products profitably and its financial results.

For example, in the USA, where the Group has its highest margins and the most sales for any country, pricing pressures could significantly increase as experience continues to develop under the outpatient pharmaceutical programme covering Medicare beneficiaries that began in 2006. Also, changes to the related enabling legislation could afford the US government a direct role in negotiating prices under the Medicare programme.

In addition, the US Congress is considering comprehensive health care reform legislation that could significantly expand the scope of government health care programs that include specific price control mechanisms or that could increase the Group's rebate liability with respect to those programs.

Additionally, a number of states have proposed or implemented various schemes to control prices for their low-income and senior citizens' programmes, including increasing the rebate liability of pharmaceutical companies, importation from other countries and bulk purchases of drugs. The growth in the number of patients covered through large managed care institutions in the USA, which has increased with implementation of the Medicare benefit, also increases pricing pressures on the Group's products. Any of these trends may materially and adversely affect the Group's financial results.

#### **Regulatory controls**

The Group must comply with a broad range of regulatory controls on the testing, approval, manufacturing and marketing of many of its pharmaceutical and consumer healthcare products, particularly in the USA and countries of the European Union, that affect not only the cost of product development but also the time required to reach the market and the uncertainty of successfully doing so. Health authorities have increased their focus on safety when assessing the benefit risk/balance of drugs in the context of not only initial product approval but also in the context of approval of additional indications and review of information regarding marketed products. Stricter regulatory controls also heighten the risk of changes in product profile or withdrawal by regulators on the basis of post-approval concerns over product safety, which could reduce revenues and can result in product recalls and product liability lawsuits. There is also greater regulatory scrutiny, especially in the USA, on advertising and promotion and in particular on direct-to-consumer advertising.

In addition, in some cases the Group may voluntarily cease marketing a product or face declining sales based on concerns about efficacy or safety (for example, the decline in sales of Avandia beginning in 2007 following publicity around questions regarding risks associated with the product), whether or not scientifically justified, even in the absence of regulatory action. The development of the post-approval adverse event profile for a product or the product class may materially and adversely affect the Group's financial results.

#### **Risk of interruption of product supply**

The manufacture of pharmaceutical products and their constituent materials requires compliance with good manufacturing practice regulations. The Group's manufacturing sites are subject to review and approval by the FDA and other regulatory agencies. Compliance failure by suppliers of key services and materials or the Group's own manufacturing facilities could lead to product recalls and seizures, interruption of production and delays in the approvals of new products pending resolution of manufacturing issues. Non-compliance can also result in fines and disgorgement of profits. Any interruption of supply or the incurrence of fines or disgorgement could materially and adversely affect the Group's financial results.

Although the Group undertakes business continuity planning, single sourcing for certain components, bulk active materials and finished products creates a risk of failure of supply in the event of regulatory non-compliance or physical disruption at the manufacturing sites.

**Risk from concentration of sales to wholesalers**

In the USA, in line with other pharmaceutical companies, the Group sells its products through a small number of wholesalers in addition to hospitals, pharmacies, physicians and other groups. Sales to the three largest wholesalers amounted to approximately 85% of the Group's US pharmaceutical sales in 2009. At 31st December 2009 the Group had trade receivables due from these three wholesalers totalling £867 million (31st December 2008 £1,067 million). The Group is exposed to a concentration of credit risk in respect of these wholesalers such that, if one or more of them is affected by financial difficulty, it could materially and adversely affect the Group's financial results.

**Global political and economic conditions**

As described on page 27, many of the world's largest economies, including the major markets in which the Group operates, and financial institutions have recently faced extreme financial difficulty, including a decline in asset prices, liquidity problems and limited availability of credit. Many of these economies have experienced sharp recessions. While some economies have shown signs of recovery, the rate of recovery may be slow.

Continued economic weakness may have a material adverse effect on the Group's sales, results of operations, financial condition and ability to raise capital. Some of the Group's businesses, including Consumer Healthcare, may be particularly sensitive to declines in consumer spending. In addition, further or renewed declines in asset prices may result in a lower return on the Group's financial investments and may cause the value of the Group's investments in its pension plans to decrease, requiring the Group to increase its funding of those pension plans.

The Group conducts a substantial portion of its operations outside the UK. The Group's management of foreign exchange rates is discussed in Business Review, Foreign exchange management (see page 42). Fluctuations in exchange rates between Sterling and other currencies, especially the US dollar, the Euro and the Japanese Yen, could materially and adversely affect the Group's financial results.

The Group has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its businesses or the possibility of political unrest, legal and regulatory changes or nationalisation in jurisdictions in which the Group operates.

## Risk factors

**Taxation and treasury**

The Group's effective tax rate is driven by rates of tax in jurisdictions that are both higher and lower than that applied in the UK. In addition, many jurisdictions such as the UK, Belgium and the USA currently offer regimes that encourage innovation and new scientific endeavours by providing tax incentives, for example R&D tax credits. Furthermore, given the scale and international nature of the Group's business, intra-group transfer pricing is an inherent tax risk as it is for other international businesses. Changes in tax laws or in their application with respect to matters such as transfer pricing, foreign dividends, controlled companies, R&D tax credits or a restriction in tax relief allowed on the interest on intra-Group debt, could increase the Group's effective tax rate and materially and adversely affect its financial results.

The tax charge included in the financial statements is the Group's best estimate of its tax liability but, until such time as audits by tax authorities are concluded, there is a degree of uncertainty regarding the final tax liability for the period. The Group's policy is to submit tax returns within the statutory time limits and engage tax authorities to ensure that the Group's tax affairs are as current as possible and that any differences in the interpretation of tax legislation and regulation are resolved as quickly as possible. In exceptional cases where matters cannot be settled by agreement with tax authorities GSK may have to resolve disputes through formal appeals or other proceedings. The Group is currently appealing a court decision in respect of transfer pricing with the Canadian Tax Authorities as discussed in Note 14 to the financial statements, *Taxation*.

The Group deals in high value transactions on a frequent basis which may result in an increased risk of financial loss due to the mismanagement of cash or entering into high risk positions on hedge transactions, any of which could materially and adversely affect the Group's financial results.

**Pandemic influenza**

The market for pandemic influenza vaccines is experiencing significant volatility given changes in risk perception, developing epidemiology and the relative mild nature of the virus, which was not anticipated by governments or the medical community. Some governments that have placed orders for the pandemic vaccine or that have announced changes in their planned immunisation programmes have renegotiated their contracts, and other governments are seeking, or may in the future seek, to renegotiate their contracts. While deliveries of pandemic vaccines provided significant contributions to the Group's results in 2008 (H5N1 vaccines) and 2009 (H1N1 vaccines), and the Group expects the level of sales in 2010 (H1N1, possibly stockpile agreements) to be roughly the same as in 2009, there can be no assurance that sales of influenza vaccines will meet these estimates or contribute significantly to the Group's results in 2011 or beyond.

**Environmental liabilities**

The environmental laws of various jurisdictions impose actual and potential obligations on the Group to remediate contaminated sites. The Group has also been identified as a potentially responsible party under the US Comprehensive Environmental Response Compensation and Liability Act at a number of sites for remediation costs relating to the Group's use or ownership of such sites.

Failure to manage properly the environmental risks could result in additional remedial costs that may materially and adversely affect the Group's financial results. See Note 44 to the financial statements, *Legal proceedings*, for a discussion of environmental-related proceedings in which the Group is involved.

**Accounting standards**

New or revised accounting standards, rules and interpretations circulated from time to time by an international standard setting board could result in changes to the recognition of income and expense that may materially and adversely affect the Group's financial results.

International standard changes in the market valuation of certain financial instruments are reflected in the Group's reported results before those gains or losses are actually realised and could have a significant impact on the income statement in any given period. Accounting for deferred taxation on inter-company inventory may give rise to volatility depending upon the ownership of the inventory.

Regulators regularly review the financial statements of listed companies for compliance with accounting and regulatory requirements.

The Group believes that it complies with the appropriate regulatory requirements concerning its financial statements and disclosures. However, other companies have experienced investigations into potential non-compliance with accounting and disclosure requirements that have resulted in restatements of previously reported results and sometimes significant penalties, which may materially and adversely affect the Group's financial results.

**Failure of third party providers**

Unaffiliated third-party suppliers provide a number of goods and services to the Group's operations. Many of these services, for example services provided by clinical research organisations to support development of key products, are very important to the operations of the Group's businesses. Materials provided by third-party suppliers are necessary for the commercial production of our products, including speciality chemicals, commodities and components necessary for the manufacture, fill-finish and packaging of many of the Group's pharmaceutical and Consumer Healthcare products. While the Group does not believe that any of these third-party relationships are individually significant in the context of the overall Group, the failure of any third-party supplier to fulfil its contractual obligations in a timely manner may result in delays or service interruptions, which may materially and adversely affect the Group's financial results.

**Protection of electronic information and assets**

The Group relies on critical and sensitive data, such as personally identifiable information, trade secrets, intellectual property and corporate strategic plans. The security of such data is exposed to increasing threats. The Group is also subject to various standards for the protection of personally identifiable information. Failure to implement appropriate safeguards to adequately protect against any unauthorised or unintentional access, acquisition, use, modification, loss or disclosure of this critical or sensitive data may adversely affect the Group's operations.

## Risk factors

### **Alliances and acquisitions**

As part of the Group's strategy to diversify into new product areas and markets, the Group has grown, and expects to continue to grow, in part through acquisitions and business alliances. There is intense competition for alliance and acquisition candidates in the pharmaceutical industry, and, as such, the Group may be unable to make these deals on acceptable terms or at all. In acquiring or forming alliances with companies, the Group may assume significant debt, become subject to unknown or contingent liabilities or fail to realise the benefits expected from these transactions. For example, most pharmaceutical companies, including those that the Group may consider acquiring, are involved in patent disputes, product liability litigation, government investigations and other legal proceedings whose outcome is subject to considerable uncertainty. The assumption of debt or unknown or contingent liabilities or the failure to realise the expected benefits may materially and adversely affect the Group's financial results.

The process of integrating companies the Group may acquire may result in disruption to the ongoing business as the effort of integrating organisations in different locations and with, among other things, differing systems and corporate cultures may divert attention and resources, result in the loss of key employees or have other adverse consequences, any of which may materially and adversely affect the Group's financial results.

### **Attraction and retention**

The Group relies heavily on recruiting and retaining talented employees with a range of skills to meet its objectives. The Group faces intense competition for qualified individuals, as the supply of people with specific skills or in specific geographic regions may be limited, particularly given the Group's plans to expand its operations in emerging markets, Biologicals and Consumer Healthcare.

The inability to attract staff with specific technical and leadership skills, retain key employees or ensure effective succession planning for critical positions may materially and adversely affect the Group's financial results.

### **Implementing the Group's strategic priorities**

The Group has established three strategic priorities: to grow a diversified business, deliver more products of value and simplify its operating model. There can be no assurance that the Group will be able to implement its strategic priorities fully or that the strategic priorities will deliver the expected benefits.

For example, the strategic priority to grow a diversified business involves expanding the Group's business into emerging markets. The Group's pharmaceutical sales in emerging markets grew 20% in 2009 to nearly £3 billion, which represents 10% of the Group's 2009 turnover. There is no guarantee that the Group's sales in emerging markets will continue to grow or that these markets will continue to experience relatively high growth rates. Some emerging markets may be especially vulnerable to the after-effects of the recent global financial crisis, or may have very limited resources to spend on healthcare. Competition in these markets for staff with the skills and training suitable for employment at an enterprise such as the Group's may be intense. In some emerging markets, the Group may be required to rely on third-party agents, which may put the Group at risk of liability, and some emerging markets lack sufficient protection against crimes such as counterfeiting. A failure to continue to expand its business in emerging growth markets could materially and adversely affect the Group's financial results.

In addition, the Group is undertaking an Operational Excellence restructuring programme that has an estimated cost of approximately £4.5 billion and is expected to deliver annual pre-tax savings of approximately £2.2 billion by the time it is substantially complete in 2012. There can be no assurance that the Group will be able to execute fully this transformation of its business. Furthermore, changes in the Group's structure, operations, revenues, costs or efficiency resulting from these restructuring activities or other strategic initiatives could result in higher than expected costs or other difficulties. Failure to realise the expected cost savings by the end of the restructuring programme or to achieve and maintain a competitive cost base could materially and adversely affect the Group's financial results.



**Financial review 2008**

In accordance with US SEC disclosure requirements, the following discussion compares results for the year to 31st December 2008 with the results for the year to 31st December 2007.

**Exchange**

The currencies that most influence the Group's results remain the US dollar, the Euro and the Japanese Yen.

In 2008, the pound weakened by 28% against the US dollar, to \$1.44/£1 at year-end. In addition, the pound weakened by 24% against the Euro and by 40% against the Yen. A new £/ record low of 1.02 was set in December.

**World market pharmaceuticals**

Global pharmaceutical sales in 2008 were £366 billion compared with £329 billion in 2007.

| <b>World market by geographic region</b> | Value<br>£bn | % of<br>total |
|--|--------------|---------------|
| <b>USA</b>                               | <b>145</b>   | <b>39</b>     |
| <b>Europe</b>                            | <b>112</b>   | <b>31</b>     |
| France                                   | 21           | 6             |
| Germany                                  | 20           | 6             |
| Italy                                    | 13           | 3             |
| UK                                       | 12           | 3             |
| <b>Rest of World</b>                     | <b>109</b>   | <b>30</b>     |
| Emerging markets                         | 49           | 13            |
| Asia Pacific                             | 17           | 5             |
| Japan                                    | 33           | 9             |
| Canada                                   | 10           | 3             |
| Total                                    | 366          | 100           |

At 30th September 2008, GSK had three of the world's top 60 pharmaceutical products. These were *Lamictal*, *Seretide/Advair* and *Valtrex*.

| <b>World market - top six therapeutic classes</b>                | Value<br>£bn | % of<br>total |
|--|--------------|---------------|
| Central nervous system   | 60           | 16            |
| Cardiovascular   | 54           | 15            |
| Alimentary tract and metabolic                                   | 44           | 12            |
| Antineoplastic/Immunomodulatory                                  | 40           | 11            |
| Anti-infectives (bacterial, viral and fungal) excluding vaccines | 38           | 10            |
| Respiratory  | 25           | 7             |

(Note: data based on 12 months to 30th September 2008.)

**Pharmaceutical turnover**

All growth rates included in the review of turnover are at constant exchange rates (CER) unless otherwise stated. Sterling growth rates may be found in the tables of pharmaceutical turnover by therapeutic areas on page 49.

Total pharmaceutical turnover declined 3% for the year to £20.4 billion, driven largely by US performance, down 11% to £8.9 billion, which was impacted by expected generic competition to several mature brands and further declines in *Avandia* sales. Sales in Asia Pacific and Japan fell 1% to £1.9 billion, reflecting lower government orders for *Relenza* and the impact of pharmaceutical price cuts in Japan. These declines were partly offset by growth in Europe, up 3% to £6.5 billion, and Emerging Markets, up 12% to £2.3 billion. In sterling terms, pharmaceutical turnover grew by 6%, reflecting the weakness of Sterling against most major currencies.

**Pharmaceutical turnover by therapeutic area**

GSK turnover declined by 3% in 2008 as the impact of lower *Avandia* sales, US generic competition to a range of GSK's products and lower flu pre-pandemic sales was partly offset by strong growth of key products such as *Advair*, *Valtrex*, *Epzicom*, *Avodart*, *Lovaza* and the vaccines franchise.

**Respiratory**

Respiratory sales increased 5% to £5.8 billion.

Sales of *Seretide/Advair* for asthma and COPD rose 8% to £4.1 billion. In the USA, *Advair* sales rose 6% to £2.2 billion, with a return to volume growth in the second half of the year. During 2008, the FDA granted *Advair* an indication in COPD for prevention of exacerbations and this has helped grow the COPD sector of our *Advair* business. In Europe, sales increased by 4% to £1.4 billion. *Advair* performance was particularly strong in Emerging Markets, up 26% to £215 million, and Japan, where sales of the product more than doubled to £83 million following its launch in 2007.

**Anti-virals**

Anti-virals decreased 4% to £3.2 billion.

GSK's HIV business continues to experience strong competition. *Epzicom/Kivexa* grew by 23% to £442 million but this was more than offset by declines across the rest of the portfolio. Sales of *Valtrex*, for herpes, rose 16% to £1.2 billion with US sales up 20% fuelling the growth. Sales of flu anti-viral *Relenza* fell 80% to £57 million reflecting fewer government orders for pre-pandemic stockpiling.

Financial review 2008

**Pharmaceutical turnover by therapeutic area 2008**

| Therapeutic area/<br>major products      | % of<br>total | 2008<br>£m   | 2007<br>£m   | Total<br>Growth |             | 2008<br>£m   | USA<br>Growth |             | 2008<br>£m   | Europe<br>Growth |           | 2008<br>£m   | Rest of World<br>Growth |           |
|--|---------------|--------------|--------------|-----------------|-------------|--------------|---------------|-------------|--------------|------------------|-----------|--------------|-------------------------|-----------|
|  |               |              |              | CER%            | £%          |              | CER%          | £%          |              | CER%             | £%        |              | CER%                    | £%        |
| <b>Respiratory</b>                       | <b>29</b>     | <b>5,817</b> | <b>5,032</b> | <b>5</b>        | <b>16</b>   | <b>2,720</b> | <b>6</b>      | <b>14</b>   | <b>1,982</b> | <b>2</b>         | <b>14</b> | <b>1,115</b> | <b>9</b>                | <b>22</b> |
| <i>Seretide/Advair</i>                   |               | 4,137        | 3,499        | 8               | 18          | 2,161        | 6             | 14          | 1,416        | 4                | 17        | 560          | 29                      | 42        |
| <i>Flixotide/Flovent</i>                 |               | 677          | 621          | (2)             | 9           | 317          | 3             | 12          | 175          | (4)              | 11        | 185          | (9)                     | 3         |
| <i>Serevent</i>                          |               | 263          | 269          | (12)            | (2)         | 72           | (9)           | (3)         | 136          | (9)              | 1         | 55           | (23)                    | (10)      |
| <i>Veramyst</i>                          |               | 72           | 21           | >100            | >100        | 56           | >100          | >100        | 11           |                  |           | 5            | >100                    | >100      |
| <i>Flixonase/Flonase</i>                 |               | 186          | 199          | (15)            | (7)         | 52           | (29)          | (28)        | 52           | (6)              | 6         | 82           | (8)                     | 5         |
| <b>Anti-virals</b>                       | <b>16</b>     | <b>3,206</b> | <b>3,027</b> | <b>(4)</b>      | <b>6</b>    | <b>1,600</b> | <b>(1)</b>    | <b>7</b>    | <b>850</b>   | <b>(12)</b>      |           | <b>756</b>   | <b>(1)</b>              | <b>10</b> |
| HIV                                      |               | 1,513        | 1,442        | (5)             | 5           | 640          | (7)           |             | 636          | (6)              | 7         | 237          | 4                       | 13        |
| <i>Epzicom/Kivexa</i>                    |               | 442          | 324          | 23              | 36          | 178          | 15            | 25          | 209          | 25               | 40        | 55           | 48                      | 67        |
| <i>Combivir</i>                          |               | 433          | 455          | (14)            | (5)         | 180          | (14)          | (8)         | 166          | (19)             | (8)       | 87           | 1                       | 10        |
| <i>Trizivir</i>                          |               | 212          | 233          | (18)            | (9)         | 106          | (18)          | (12)        | 92           | (18)             | (6)       | 14           | (20)                    | (7)       |
| <i>Agenerase, Lexiva</i>                 |               | 160          | 141          | 2               | 13          | 83           | (1)           | 6           | 61           |                  | 15        | 16           | 40                      | 60        |
| <i>Epivir</i>                            |               | 139          | 156          | (20)            | (11)        | 47           | (19)          | (11)        | 58           | (22)             | (9)       | 34           | (18)                    | (13)      |
| <i>Ziagen</i>                            |               | 106          | 109          | (11)            | (3)         | 45           | (9)           |             | 36           | (11)             |           | 25           | (14)                    | (11)      |
| <i>Valtrex</i>                           |               | 1,195        | 934          | 16              | 28          | 870          | 20            | 30          | 144          | 9                | 25        | 181          | 4                       | 20        |
| <i>Zeffix</i>                            |               | 188          | 168          |                 | 12          | 15           | 8             | 15          | 27           |                  | 17        | 146          | (1)                     | 11        |
| <i>Relenza</i>                           |               | 57           | 262          | (80)            | (78)        | 20           | (86)          | (85)        | 6            | (92)             | (92)      | 31           | (49)                    | (44)      |
| <b>Central nervous<br/>system</b>        | <b>14</b>     | <b>2,897</b> | <b>3,348</b> | <b>(21)</b>     | <b>(13)</b> | <b>1,815</b> | <b>(29)</b>   | <b>(24)</b> | <b>565</b>   | <b>(1)</b>       | <b>12</b> | <b>517</b>   | <b>(3)</b>              | <b>11</b> |
| <i>Lamictal</i>                          |               | 926          | 1,097        | (22)            | (16)        | 711          | (26)          | (20)        | 147          | (8)              | 3         | 68           | 2                       | 10        |
| <i>Imigran/Imitrex</i>                   |               | 687          | 685          | (8)             |             | 550          | (9)           | (1)         | 96           | (3)              | 8         | 41           | (8)                     | 8         |
| <i>Seroxat/Paxil</i>                     |               | 514          | 553          | (19)            | (7)         | 79           | (49)          | (45)        | 115          | (14)             | (4)       | 320          | (7)                     | 10        |
| <i>Wellbutrin</i>                        |               | 342          | 529          | (40)            | (35)        | 310          | (44)          | (39)        | 18           | >100             | >100      | 14           | 8                       | 8         |
| <i>Requip</i>                            |               | 266          | 346          | (31)            | (23)        | 102          | (60)          | (57)        | 133          | 29               | 46        | 31           | 65                      | 82        |
| <i>Requip XL</i>                         |               | 43           |              |                 |             | 9            |               |             | 34           |                  |           |              |                         |           |
| <i>Treximet</i>                          |               | 25           |              |                 |             | 25           |               |             |              |                  |           |              |                         |           |
| <b>Cardiovascular<br/>and urogenital</b> | <b>9</b>      | <b>1,847</b> | <b>1,554</b> | <b>8</b>        | <b>19</b>   | <b>1,107</b> | <b>6</b>      | <b>14</b>   | <b>512</b>   | <b>10</b>        | <b>28</b> | <b>228</b>   | <b>15</b>               | <b>25</b> |
| <i>Avodart</i>                           |               | 399          | 285          | 27              | 40          | 242          | 27            | 38          | 118          | 21               | 39        | 39           | 48                      | 56        |
| <i>Lovaza</i>                            |               | 290          | 5            | >100            | >100        | 289          | >100          | >100        |              |                  |           | 1            |                         |           |
| <i>Coreg</i>                             |               | 203          | 587          | (68)            | (65)        | 200          | (68)          | (66)        |              |                  |           | 3            | (67)                    | (50)      |
| <i>Coreg CR</i>                          |               | 165          | 88           | 73              | 88          | 163          | 72            | 85          |              |                  |           | 2            |                         |           |
| <i>Coreg IR</i>                          |               | 38           | 499          | (93)            | (92)        | 37           | (93)          | (92)        |              |                  |           | 1            | (83)                    | (83)      |
| <i>Fraxiparine</i>                       |               | 226          | 184          | 7               | 23          |              |               |             | 178          |                  | 18        | 48           | 36                      | 45        |
| <i>Arixtra</i>                           |               | 170          | 100          | 53              | 70          | 88           | 49            | 60          | 71           | 56               | 82        | 11           | 67                      | 83        |

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|                                |            |               |               |             |             |              |             |             |              |             |           |              |             |            |
|--------------------------------|------------|---------------|---------------|-------------|-------------|--------------|-------------|-------------|--------------|-------------|-----------|--------------|-------------|------------|
| <i>Vesicare</i>                |            | 71            | 50            | 32          | 42          | 71           | 32          | 42          |              |             |           |              |             |            |
| <i>Levitra</i>                 |            | 60            | 49            | 12          | 22          | 57           | 11          | 21          | 3            |             | 50        |              |             |            |
| <b>Metabolic</b>               | <b>6</b>   | <b>1,191</b>  | <b>1,508</b>  | <b>(28)</b> | <b>(21)</b> | <b>590</b>   | <b>(39)</b> | <b>(34)</b> | <b>294</b>   | <b>(11)</b> | <b>1</b>  | <b>307</b>   | <b>(14)</b> | <b>(5)</b> |
| <i>Avandia products</i>        |            | 805           | 1,219         | (40)        | (34)        | 434          | (49)        | (44)        | 198          | (22)        | (12)      | 173          | (25)        | (19)       |
| <i>Avandia</i>                 |            | 512           | 877           | (46)        | (42)        | 299          | (53)        | (49)        | 82           | (33)        | (26)      | 131          | (30)        | (25)       |
| <i>Avandamet</i>               |            | 256           | 292           | (21)        | (12)        | 109          | (32)        | (26)        | 111          | (13)        |           | 36           |             | 6          |
| <i>Bonviva/Boniva</i>          |            | 237           | 161           | 34          | 47          | 156          | 25          | 36          | 74           | 48          | 68        | 7            | >100        | >100       |
| <b>Anti-bacterials</b>         | <b>7</b>   | <b>1,429</b>  | <b>1,323</b>  | <b>(2)</b>  | <b>8</b>    | <b>174</b>   | <b>(17)</b> | <b>(11)</b> | <b>635</b>   | <b>(6)</b>  | <b>8</b>  | <b>620</b>   | <b>7</b>    | <b>15</b>  |
| <i>Augmentin</i>               |            | 587           | 530           |             | 11          | 49           | (31)        | (27)        | 272          |             | 14        | 266          | 11          | 18         |
| <i>Altabax</i>                 |            | 16            | 11            | 36          | 45          | 15           | 27          | 36          | 1            |             |           |              |             |            |
| <b>Oncology and<br/>emesis</b> | <b>2</b>   | <b>496</b>    | <b>477</b>    | <b>(6)</b>  | <b>4</b>    | <b>243</b>   | <b>(17)</b> | <b>(11)</b> | <b>169</b>   | <b>9</b>    | <b>25</b> | <b>84</b>    | <b>9</b>    | <b>20</b>  |
| <i>Hycamtin</i>                |            | 140           | 119           | 7           | 18          | 81           | 7           | 16          | 49           | 5           | 23        | 10           | 11          | 11         |
| <i>Zofran</i>                  |            | 110           | 196           | (51)        | (44)        | 3            | (97)        | (96)        | 63           | (21)        | (10)      | 44           | (17)        | (8)        |
| <i>Tykerb</i>                  |            | 102           | 51            | 80          | 100         | 47           | 22          | 31          | 42           | >100        | >100      | 13           | >100        | >100       |
| <b>Vaccines</b>                | <b>12</b>  | <b>2,539</b>  | <b>1,993</b>  | <b>15</b>   | <b>27</b>   | <b>629</b>   | <b>(7)</b>  |             | <b>1,155</b> | <b>28</b>   | <b>44</b> | <b>755</b>   | <b>21</b>   | <b>34</b>  |
| <i>Hepatitis</i>               |            | 665           | 529           | 14          | 26          | 275          | 28          | 38          | 263          |             | 14        | 127          | 16          | 27         |
| <i>Infanrix/Pediarix</i>       |            | 682           | 543           | 12          | 26          | 212          | 1           | 8           | 377          | 21          | 39        | 93           | 11          | 22         |
| <i>Fluarix, FluLaval</i>       |            | 215           | 174           | 11          | 24          | 85           | (20)        | (13)        | 78           | 63          | 90        | 52           | 37          | 49         |
| <i>Flu pandemic</i>            |            | 66            | 146           | (55)        | (55)        | 1            | (99)        | (99)        | 64           | 25          | 25        | 1            |             |            |
| <i>Cervarix</i>                |            | 125           | 10            | >100        | >100        |              |             |             | 104          | >100        | >100      | 21           | >100        | >100       |
| <i>Rotarix</i>                 |            | 167           | 91            | 71          | 84          | 21           |             |             | 43           | 61          | 87        | 103          | 46          | 51         |
| <i>Boostrix</i>                |            | 70            | 66            | (5)         | 6           | 35           | (20)        | (13)        | 26           | 21          | 37        | 9            | 14          | 29         |
| <b>Other</b>                   | <b>5</b>   | <b>959</b>    | <b>901</b>    | <b>(3)</b>  | <b>6</b>    | <b>16</b>    | <b>(78)</b> | <b>(75)</b> | <b>321</b>   | <b>14</b>   | <b>26</b> | <b>622</b>   | <b>(1)</b>  | <b>7</b>   |
|                                | <b>100</b> | <b>20,381</b> | <b>19,163</b> | <b>(3)</b>  | <b>6</b>    | <b>8,894</b> | <b>(11)</b> | <b>(4)</b>  | <b>6,483</b> | <b>3</b>    | <b>17</b> | <b>5,004</b> | <b>5</b>    | <b>16</b>  |

CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates.

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**CNS**

CNS sales decreased 21% to £2.9 billion.

The majority of GSK's CNS franchise is now impacted by generic competition in the USA, as generic competition to *Lamictal*, *Imigran* and the remaining presentation of *Wellbutrin* started during the course of 2008. There was, however, some positive news as *Treximet* was approved for migraine by the FDA in April 2008.

**Cardiovascular and urogenital**

Cardiovascular and urogenital sales increased 8% to £1.8 billion.

Strong growth across most of the portfolio of products was partly offset by generic competition to *Coreg IR*. *Lovaza*, for very high triglycerides, which was acquired from Reliant Pharmaceuticals in 2007, grew 71% on a proforma basis to £290 million and grew its US market share by 33%. *Avodart*, for benign prostatic hyperplasia (enlarged prostate), grew 27% to £399 million taking a further percentage point of market share, *Arixtra*, for deep vein thrombosis and pulmonary embolism, grew 53% to £170 million and *Coreg CR* grew 73% to £165 million.

**Metabolic**

Metabolic sales decreased 28% to £1.2 billion.

Strong growth of *Bonviva/Boniva*, for postmenopausal osteoporosis, up 34% to £237 million was not enough to offset a full year impact to *Avandia* whose sales started to fall in May 2007. *Avandia* product sales declined 40% during the year to £805 million, with US sales falling 49% to £434 million and European sales down 22% to £198 million. In Emerging Markets, *Avandia* product sales returned to growth in the second half of the year (Q4 sales were up 12%).

**Oncology and emesis**

Oncology and emesis sales decreased 6% to £0.5 billion.

*Tykerb*, for breast cancer, continued to grow following approval in the USA last year. Approvals in other countries were achieved throughout 2008, with the European approval being achieved in June.

**Vaccines**

Vaccine sales increased 15% to £2.5 billion.

Within the vaccines portfolio, there were strong performances from Hepatitis vaccines (up 14% to £665 million) and combination paediatric vaccines *Infanrix/Pediarix* (up 12% to £682 million). *Rotarix*, for rotavirus gastroenteritis, rose 71% to £167 million, largely driven by government tender orders in Latin America and the launch of the product in the USA in August. New cervical cancer vaccine, *Cervarix*, recorded sales of £125 million for the year, following several tender wins, including national government orders in the UK and the Netherlands.

**Regional analysis****USA**

Sales in the USA declined 11% to £8.9 billion, principally reflecting a full year impact on *Avandia* (down 49%) and generic competition to significant products such as *Lamictal* (down 26%), *Imigran* (down 9%), *Wellbutrin XL* (down 45%), *Requip* (down 60%) and *Coreg IR* (down 93%). These declines were partly offset by *Advair* (up 6%), *Valtrex* (up 20%) and *Lovaza* (up 71% on proforma basis).

**Europe**

Sales in Europe increased 3% to £6.5 billion with continued growth of *Seretide* and particularly strong vaccines growth offsetting the impact of generic competition to a number of products and continued price cuts from governments across the region.

**Emerging Markets**

Sales in Emerging Markets increased 12% to £2.3 billion with strong growth in Russia (up 36%), China (up 22%) and Latin America (up 16%). The growth was fuelled primarily by vaccines, up 32% to £0.5 billion, and the respiratory franchise, up 16% to £0.4 billion.

**Asia Pacific/Japan**

Increased sales of *Seretide/Advair* (up 48% to £204 million) were offset by lower orders for *Relenza* in Japan and some price cuts.

**Consumer Healthcare turnover**

|                                       | % of<br>total | 2008<br>£m   | 2007<br>£m | CER%       | Growth<br>£% |
|---------------------------------------|---------------|--------------|------------|------------|--------------|
| <b>Over-the-counter<br/>medicines</b> | <b>49</b>     | <b>1,935</b> | 1,788      | <b>(2)</b> | <b>8</b>     |
| <i>Panadol franchise</i>              |               | 324          | 263        | 12         | 23           |
| Smoking cessation products            |               | 299          | 314        | (12)       | (5)          |
| <i>Tums</i>                           |               | 91           | 88         | (5)        | 3            |
| Cold sore franchise                   |               | 89           | 79         | 3          | 13           |
| <i>Breathe Right</i>                  |               | 81           | 63         | 17         | 29           |
| <i>alli</i>                           |               | 75           | 150        | (53)       | (50)         |
| <b>Oral healthcare</b>                | <b>31</b>     | <b>1,240</b> | 1,049      | <b>6</b>   | <b>18</b>    |
| <i>Aquafresh franchise</i>            |               | 452          | 398        | 3          | 14           |
| <i>Sensodyne franchise</i>            |               | 363          | 293        | 12         | 24           |
| Dental care                           |               | 271          | 222        | 8          | 22           |
| <b>Nutritional healthcare</b>         | <b>20</b>     | <b>796</b>   | 716        | <b>8</b>   | <b>11</b>    |
| <i>Lucozade</i>                       |               | 382          | 347        | 7          | 10           |
| <i>Horlicks</i>                       |               | 204          | 174        | 13         | 17           |
| <i>Ribena</i>                         |               | 161          | 156        |            | 3            |
|                                       | <b>100</b>    | <b>3,971</b> | 3,553      | <b>3</b>   | <b>12</b>    |

\* CER%  
represents  
growth at  
constant  
exchange rates.  
£% represents  
growth at actual  
exchange rates.

Total Consumer Healthcare sales for the year rose 3% to £4 billion. This compares with growth of 14% in 2007, which benefited from launch stocking of new anti-obesity treatment *alli*. 2008 sales of *alli* were £75 million, down 53%. Excluding *alli*, Consumer Healthcare sales rose 5% in 2008 (up 9% in 2007).

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### **OTC medicines**

OTC product sales declined 2% to £1.9 billion in 2008, with sales of smoking cessation products down 12% to £299 million. *Panadol* sales grew 12% to £324 million, twice the global average in 2008.

### **Oral healthcare**

Sales of Oral healthcare products rose 6% to £1.2 billion, whereas the market grew just 2%. There were strong performances from *Sensodyne*, up 12% to £363 million, and *Aquafresh*, up 3% to £452 million. *Sensodyne*'s growth represented 35% of world toothpaste growth in 2008 in markets where GSK competes.

### **Nutritional healthcare**

Within Nutritionals, *Horlicks* sales rose 13% to £204 million, *Lucozade* sales rose 7% to £382 million and *Ribena* sales were flat at £161 million, although sales of *Lucozade* and *Ribena* in the second half of the year declined slightly, largely as a result of poor weather in the UK.

### **Results before major restructuring and total results**

In October 2007, GSK announced a significant new Operational Excellence restructuring programme. A second plan, representing a significant expansion of the Operational Excellence programme, was approved by the Board and announced in February 2009. This restructuring programme covers all areas of GSK's business, including manufacturing, selling, R&D and infrastructure. With an estimated total cost of approximately £3.6 billion, the expanded programme had been expected to deliver annual pre-tax savings of approximately £1.7 billion by the time it was expected to be substantially complete in 2011. Approximately 40% of these costs were incurred by 31st December 2008. Given the extent and cost of the Operational Excellence programme, GSK presents the restructuring costs incurred solely as a direct result of the Operational Excellence programme, which in 2008 amounted to £1,089 million before tax (2007 £338 million), in a separate column in the income statement titled 'Major restructuring'.

In addition to these restructuring costs, this column in the income statement includes restructuring costs incurred solely as a direct result of any restructuring programmes that follow, and relate to material acquisitions where the operations of the acquired business overlap extensively with GSK's existing operations.

The \$1.65 billion (£814 million) acquisition of Reliant Pharmaceuticals Inc. in December 2007 is the only acquisition since October 2007 that meets these criteria. The total restructuring costs incurred as a direct result of this acquisition were £34 million, all of which have been charged and paid in 2008.

As set out in Note 7 to the financial statements, 'Major restructuring programme', asset impairments and staff redundancies together accounted for £887 million of the £1,123 million restructuring costs incurred in 2008 and reported in the major restructuring column (2007 £338 million).

The remaining costs of £236 million in 2008 arose from miscellaneous expenditures incurred solely as a direct result of the restructuring programmes, including consultancy and project management fees, the termination of leases, site closure costs and, with respect to 2008, the recognition of foreign exchange losses following the liquidation of a subsidiary in Puerto Rico.

No costs arising from GSK's ongoing operating activities have been reported in the major restructuring column.

Any restructuring costs that do not arise solely as a direct result of the Operational Excellence programme and restructuring programmes following, and relating to, acquisitions meeting the criteria described above were reported in operating expenses within results before major restructuring. These costs included restructuring costs related to minor acquisitions and £20 million of costs in 2008 (2007 £92 million) that related to restructuring activity initiated before the commencement of the Operational Excellence programme. None of this restructuring activity had a material impact on GSK's operating results or on the manner in which its business is conducted.

GSK's operating profit, profit before taxation, taxation and profit for the year are discussed below in terms of both total results, which include major restructuring costs, and results before major restructuring.

### **Operating profit total results**

Total results include restructuring costs related to the new Operational Excellence programme, which commenced in October 2007, and the Reliant restructuring programme.

|                                     | £m      | 2008<br>% | £m      | 2007<br>% | CER% | Growth<br>£% |
|-------------------------------------|---------|-----------|---------|-----------|------|--------------|
| Turnover                            | 24,352  | 100       | 22,716  | 100.0     | (3)  | 7            |
| Cost of sales                       | (6,415) | (26.3)    | (5,317) | (23.4)    | 13   | 21           |
| Selling, general and administration | (7,656) | (31.4)    | (6,954) | (30.6)    | 2    | 10           |
| Research and development            | (3,681) | (15.2)    | (3,327) | (14.7)    | 4    | 11           |
| Other operating income              | 541     | 2.2       | 475     | 2.1       | 11   | 14           |
| Operating profit                    | 7,141   | 29.3      | 7,593   | 33.4      | (20) | (6)          |

#### Cost of sales

Cost of sales increased to 26.3% of turnover (2007 23.4%). At constant exchange rates, cost of sales as a percentage of turnover increased by 3.8 percentage points to 27.2%, reflecting charges related to the major restructuring programmes of £639 million (2007 £111 million) and unfavourable product and regional mix compared with 2007, partly offset by savings from the restructuring programmes.

#### Selling, general and administration

SG&A costs, including legal charges, were 31.4% of turnover (2007 30.6%), an increase of 0.8 percentage points. At constant exchange rates, the increase was 1.4 percentage points. Legal costs of £611 million (2007 £255 million) included a £278 million charge announced in January 2009 related to the US investigation into GSK's marketing and promotional practices which originated in Colorado. SG&A costs included charges of £304 million (2007 £137 million) related to the major restructuring programmes. Excluding legal costs, SG&A decreased by 1.6%.



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### Research and development

R&D expenditure increased 4% and included charges related to the major restructuring programmes of £175 million (2007 £90 million). Excluding these charges, R&D expenditure increased 2% in CER terms as investment in the late stage pipeline was partly offset by restructuring savings.

### Other operating income

Other operating income of £541 million (2007 £475 million) included strong growth in royalty income to £307 million (2007 - £216 million). Product, intellectual property and equity investment disposals realised £230 million in 2008 compared with £90 million in 2007. The Roche litigation settlement was included in 2007.

### Operating profit total results

Total operating profit of £7,141 million decreased by 6% in sterling terms and 20% in CER terms compared with 2007. Pharmaceuticals operating profit was £6,331 million, down 21%, while Consumer Healthcare operating profit fell by only 2% to £810 million.

In the year, gains from asset disposals and settlements were £293 million (2007 £213 million), costs for legal matters were £611 million (2007 £255 million), fair value movements on financial instruments resulted in a charge of £10 million (2007 - income of £41 million) and charges relating to previous restructuring programmes were £20 million (2007 £92 million). Charges related to the major restructuring programmes were £1,118 million (2007 £338 million). The impact of all these items on total operating profit was a £1,466 million charge in 2008 compared with a £431 million charge in 2007.

### Profit before taxation total results

#### Net finance costs

|                                      | <b>2008</b>  | 2007  |
|--------------------------------------|--------------|-------|
|                                      | <b>£m</b>    | £m    |
| <b>Finance income</b>                |              |       |
| Interest and other finance income    | <b>322</b>   | 255   |
| Fair value adjustments and hedges    | <b>(9)</b>   | 7     |
|                                      | <b>313</b>   | 262   |
| <br><b>Finance costs</b>             |              |       |
| Interest costs                       | <b>(829)</b> | (434) |
| Unwinding of discount on liabilities | <b>(16)</b>  | (27)  |
| Fair value adjustments and hedges    | <b>2</b>     | 8     |
|                                      | <b>(843)</b> | (453) |

### Share of after tax profits of associates and joint ventures

The share of after tax profits of associates of £48 million (2007 £50 million) arises principally from the Group's holding in Quest Diagnostics Inc.

### Profit before taxation total results

Taking account of net finance costs and the share of profits of associates, total profit before taxation was £6,659 million compared with £7,452 million in 2007, a 24% CER decline and an 11% sterling decline.

### Operating profit results before major restructuring

The results before major restructuring are set out below:

|  | £m      | 2008<br>% | £m      | 2007<br>% | CER% | Growth<br>£% |
|--|---------|-----------|---------|-----------|------|--------------|
| Turnover                               | 24,352  | 100       | 22,716  | 100.0     | (3)  | 7            |
| Cost of sales                          | (5,776) | (23.7)    | (5,206) | (22.9)    | 4    | 11           |
| Selling, general and<br>administration | (7,352) | (30.2)    | (6,817) | (30.0)    |      | 8            |
| Research and development               | (3,506) | (14.4)    | (3,237) | (14.3)    | 2    | 8            |
| Other operating income                 | 541     | 2.2       | 475     | 2.1       | 11   | 14           |
| Operating profit                       | 8,259   | 33.9      | 7,931   | 34.9      | (10) | 4            |

#### Cost of sales

Cost of sales increased by 0.8 percentage points to 23.7% of turnover. At constant exchange rates the increase was 1.5 percentage points of turnover, principally reflecting the impact of generic competition to higher margin products in the USA, lower *Avandia* sales and a higher proportion of sales generated in lower margin vaccines, brands sold in Emerging Markets and Consumer Healthcare products. This was partly offset by savings from the restructuring programmes.

#### Selling, general and administration

SG&A costs, including legal charges, were 30.2% of turnover (2007 30.0%). At constant exchange rates, SG&A costs increased by 0.7 percentage points to 30.7% of turnover. Legal costs of £611 million (2007 £255 million) included a £278 million charge announced in January 2009 related to the US investigation into GSK's marketing and promotional practices which originated in Colorado. Excluding legal costs, SG&A as a percentage of turnover fell 1.2 percentage points to 27.7% (2007 28.9%). This was a 3% growth in sterling terms, but a 4% reduction at constant exchange rates, reflecting the benefits of the restructuring programmes. Selling and distribution fell by 1%, advertising and promotion by 5% and general and administration expenditure, excluding legal charges, by 7%.

#### Research and development

R&D expenditure increased by 2% to 14.4% of turnover (2007 14.3%) as investment in the late stage pipeline was partly offset by restructuring savings.

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**Other operating income**

Other operating income of £541 million (2007 £475 million) included strong growth in royalty income to £307 million (2007 £216 million). Product, intellectual property and equity investment disposals realised £230 million in 2008 compared with £90 million in 2007. The Roche litigation settlement was included in 2007.

**Operating profit results before major restructuring**

Operating profit before major restructuring of £8,259 million for the year increased by 4% in sterling terms but decreased by 10% in CER terms compared with 2007. Pharmaceuticals operating profit was £7,427 million, down 11%, while Consumer Healthcare operating profit was flat in CER terms at £832 million. Excluding legal costs, operating profit decreased by 6%, which was greater than the turnover decline of 3%, primarily due to higher cost of sales as a percentage of turnover.

In the year, gains from asset disposals and settlements were £293 million (2007 £213 million), costs for legal matters were £611 million (2007 £255 million), fair value movements on financial instruments resulted in a charge of £10 million (2007 income of £41 million) and charges relating to previous restructuring programmes were £20 million (2007 £92 million). The impact of these items on operating profit before major restructuring was a £348 million charge in 2008 (2007 £93 million).

**Profit before taxation results before major restructuring****Net finance costs**

|                                      | <b>2008</b>  | 2007  |
|--------------------------------------|--------------|-------|
|                                      | <b>£m</b>    | £m    |
| <b>Finance income</b>                |              |       |
| Interest and other income            | <b>322</b>   | 255   |
| Fair value adjustments and hedges    | <b>(9)</b>   | 7     |
|                                      | <b>313</b>   | 262   |
| <b>Finance costs</b>                 |              |       |
| Interest costs                       | <b>(829)</b> | (434) |
| Unwinding of discount on liabilities | <b>(11)</b>  | (27)  |
| Fair value adjustments and hedges    | <b>2</b>     | 8     |
|                                      | <b>(838)</b> | (453) |

Taking account of net finance costs and the share of profits of associates, profit before tax before major restructuring was £7,782 million compared with £7,790 million in 2007, a 14% CER decline but flat in sterling terms.

**Taxation**

|                    | <b>2008</b>  | 2007  |
|--------------------|--------------|-------|
|                    | <b>£m</b>    | £m    |
| UK corporation tax | <b>289</b>   | 452   |
| Overseas taxation  | <b>1,589</b> | 1,962 |

|                           |              |       |
|---------------------------|--------------|-------|
| Current taxation          | <b>1,878</b> | 2,414 |
| Deferred taxation         | <b>69</b>    | (272) |
| Taxation on total profits | <b>1,947</b> | 2,142 |

The charge for taxation on profit before major restructuring charges, amounting to £2,231 million (2007 £2,219 million), and represents an effective tax rate of 28.7% (2007 28.5%). The charge for taxation on total profits amounted to £1,947 million (2007 £2,142 million) and represented an effective tax rate of 29.2% (2007 28.7%). The Group's balance sheet at 31st December 2008 included a tax payable liability of £780 million and a tax recoverable asset of £76 million.

The Group's main open tax issues are in the USA, Canada and Japan.

For the latest position on Taxation see Taxation in the 2009 Financial Review on page 34.

### Profit for the year

|  | <b>2008</b>   | 2007   |      | Growth |
|--|---------------|--------|------|--------|
|  | <b>£m</b>     | £m     | CER% | £%     |
| Total profit after taxation for the year                               | <b>4,712</b>  | 5,310  | (25) | (11)   |
| Total profit attributable to shareholders                              | <b>4,602</b>  | 5,214  | (26) | (12)   |
| Basic earnings per share (pence)                                       | <b>88.6p</b>  | 94.4p  | (21) | (6)    |
| Basic earnings per ADS (US\$)  | <b>\$3.28</b> | \$3.77 |      |        |
| Results before major restructuring profit after taxation for the year  | <b>5,551</b>  | 5,571  | (14) |        |
| Results before major restructuring profit attributable to shareholders | <b>5,441</b>  | 5,475  | (15) | (1)    |
| Adjusted earnings per share (pence)                                    | <b>104.7p</b> | 99.1p  | (9)  | 6      |
| Adjusted earnings per ADS (US\$)                                       | <b>\$3.87</b> | \$3.96 |      |        |
| Weighted average number of shares (millions)                           | <b>5,195</b>  | 5,524  |      |        |
| Diluted total earnings per share (pence)                               | <b>88.1p</b>  | 93.7p  |      |        |
| Diluted total earnings per ADS (US\$)                                  | <b>\$3.26</b> | \$3.75 |      |        |
| Diluted weighted average number of shares (millions)                   | <b>5,226</b>  | 5,567  |      |        |

Total results including restructuring costs produced a basic EPS of 88.6p compared with 94.4p in 2007. This was a 21% decline at CER and a 6% decline in sterling terms.

### Dividend

The Board has declared a fourth interim dividend of 17 pence per share resulting in a dividend for the year of 57 pence, a four pence increase over the dividend of 53 pence per share for 2007.

**Our Board****Sir Christopher Gent (Aged 61)**

Appointed on 1st June 2004. Chairman. Sir Christopher is a Non-Executive Director of Ferrari SpA and was the Chief Executive Officer of Vodafone Group plc, until his retirement in July 2003. He is a Non-Executive Director of Lehman Brothers Holdings Inc, a member of KPMG's Chairman's Advisory Group, a Senior Adviser at Bain & Co. and a member of the Advisory Board of Reform.

**Professor Sir Roy Anderson (Aged 62)**

Appointed on 1st October 2007. Non-Executive Director. Professor Anderson is Professor of Infectious Disease Epidemiology in the Faculty of Medicine, Imperial College, London. He is a member of the International Advisory Board of Hakluyt & Co. Ltd. He is a fellow of the Royal Society and a Foreign Associate Member of the Institute of Medicine at the US National Academy of Sciences and the French Academy of Sciences. His former positions include Rector of Imperial College and Chief Scientific Adviser at the Ministry of Defence in the UK.

**Larry Culp (Aged 46)**

Appointed on 1st July 2003. Non-Executive Director. Mr Culp is President and Chief Executive Officer of Danaher Corporation. Prior to joining Danaher, he held positions in Accenture, previously Andersen Consulting.

**Julian Heslop (Aged 56)**

Appointed on 1st April 2005. Chief Financial Officer. Mr Heslop joined Glaxo Wellcome as Financial Controller in April 1998. In January 2001 he was appointed Senior Vice President, Operations Controller. Prior to joining the Group he held senior finance roles at Grand Metropolitan.

**Andrew Witty (Aged 45)**

Appointed on 31st January 2008. Chief Executive Officer. Mr Witty was named Chief Executive Officer Designate for GSK in October 2007 and was appointed

**Dr Stephanie Burns (Aged 55)**

Appointed on 12th February 2007. Non-Executive Director. Dr Burns is Chairman, President and Chief Executive Officer of Dow Corning

**Sir Crispin Davis (Aged 60)**

Appointed on 1st July 2003. Non-Executive Director. Until March 2009 Sir Crispin was Chief Executive Officer of Reed Elsevier PLC.

**Sir Deryck Maughan (Aged 62)**

Appointed on 1st June 2004. Non-Executive Director. Sir Deryck is a Partner of Kohlberg Kravis Roberts & Co, and a Non-Executive

Chief Executive Officer (CEO) on 21st May 2008. He joined the Group in 1985 and has held senior positions in Asia, Africa and the USA. Immediately prior to being appointed CEO, Andrew was President, Pharmaceuticals Europe, a position he held from January 2003. He is a member of the Business Council for Britain, a Board Member of PhRMA, President of EFPIA, a Member of the Singapore Economic Development Board's International Advisory Council and an Adviser to the Governor of Guangzhou, China.

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Corporation. She is also a member of the American Chemical Society and sits on the Executive Committee of the Society of Chemical Industry, America Section, serves on the Board of Directors of the American Chemistry Council, and on the Board of Directors for the Society for Women's Health Research. Dr Burns holds a PhD in organic chemistry from Iowa State University.

Prior to that appointment, he was Chief Executive of Aegis Group plc, which he joined from Guinness plc, where he was a member of the main Board and Group Managing Director of United Distillers. He spent his early career with Procter & Gamble, including as President of the company's US Food Division.

Director of Thomson Reuters and BlackRock Inc. He was formerly Chairman and Chief Executive Officer of Citigroup International and of Salomon Brothers Inc.

## Our Board

**James Murdoch  
(Aged 37)**

Appointed on 20th May 2009.

Non-Executive Director.

Mr Murdoch is Chairman and Chief Executive, Europe and Asia of News Corporation. He is also Non-Executive Chairman of BSKyB and a member of the Board of News Corporation. He served as Chief Executive Officer of BSKyB from 2003 to 2007 and was also previously Chairman and Chief Executive Officer of Star TV. He also serves on the Leadership Council of The Climate Group.

**Dr Moncef Slaoui  
(Aged 50)**

Appointed on 17th May 2006.

Chairman, Research & Development.

Dr Slaoui joined GSK Biologicals in 1988 where he engineered the development of a robust vaccines pipeline and subsequently led Worldwide Business Development for pharmaceuticals before his appointment to lead R&D. He is a member of the Board of the Agency for Science, Technology & Research (A\*STAR) and has a PhD in Molecular Biology and Immunology from Université Libre de Bruxelles.

**Sir Robert Wilson  
(Aged 66)**

Appointed on 1st November 2003.

Non-Executive Director & Senior Independent Director.

Sir Robert is Non-Executive Chairman of BG Group plc. He was previously Executive Chairman of Rio Tinto plc until his retirement in October 2003 and Chairman of The Economist Group between 2003 and 2009.

**Dr Daniel Podolsky  
(Aged 56)**

Appointed on 1st July 2006.

Non-Executive Director.

Dr Podolsky is President of the University of Texas Southwestern Medical Center in Dallas and holds the Phillip O Bryan Montgomery, Jr., M.D. Distinguished Presidential Chair in

**Tom de Swaan (Aged 63)**

Appointed on 1st January 2006.

Non-Executive Director.

Mr de Swaan is Chairman of the Supervisory Board of VanLanschot Bankiers and a member of the Board of Directors of Zurich Financial Services. He is also Vice Chairman of the

**Other Directors**

Sir Ian Prosser and Dr Ronaldo Schmitz both retired from the Board on 20th May 2009.

Academic Administration, and the Doris and Bryan Wildenthal Distinguished Chair in Medical Science. He is a member of the Institute of Medicine of the US National Academy of Sciences. He is also Chairman of the Board and Scientific Co-Founder of the GI Company.

Supervisory Board and Chairman of the Audit Committee of Royal Ahold and a member of the Supervisory Board of Royal DSM. Until January 2006, he was a member of the Managing Board and Chief Financial Officer of ABN AMRO.



**Our Corporate Executive Team (CET)****Andrew Witty***Chief Executive Officer*

Andrew was appointed Chief Executive Officer in May 2008. He joined Glaxo UK in 1985. During his career with the company he has held the roles of Managing Director South Africa, Vice President and General Manager Marketing in the USA and Senior Vice President, Asia Pacific. He was appointed President, Pharmaceuticals Europe for GlaxoSmithKline in January 2003.

**Simon Bicknell***Senior Vice President,**Company Secretary & Corporate Compliance Officer*

Simon ensures that compliance and risk management are effectively embedded within the business and oversees corporate governance for the Group. He is also responsible for internal audit and assurance. Simon joined the Corporate Secretariat in 1984. He was appointed Deputy Company Secretary of Glaxo Wellcome in 1995 and Company Secretary of GlaxoSmithKline plc in 2000.

**John Clarke***President, Consumer Healthcare*

John is responsible for the Consumer Healthcare business which produces oral healthcare, over-the-counter and nutritional healthcare products. He joined Beecham in 1976 and was the President of the Future Group before his current appointment in January 2006.

**Deirdre Connelly***President, North America Pharmaceuticals*

Deirdre joined GSK in February 2009 after working at Eli Lilly and Company for 24 years. She held a variety of positions including sales professional, General Manager of Puerto Rico, Executive Director of Human Resources and most recently President of US Operations.

**Marc Dunoyer***President, Pharmaceuticals Asia Pacific/Japan*

Marc was appointed President, Pharmaceuticals Asia Pacific/ Japan in May 2008. In addition to his current role he was appointed Chairman GSK Japan in January 2010 and in February 2010 to lead the rare diseases business of GSK from R&D to commercialisation. He joined the Group in 1999 and was President, Pharmaceuticals Japan from January 2000 until his current appointment.

**Eddie Gray***President, Pharmaceuticals Europe*

Eddie became responsible for the Group's operations in Europe in January 2008. He joined Beecham in 1988 and, prior to his current appointment, was Senior Vice President and General Manager, Pharmaceuticals UK.

**Julian Heslop***Chief Financial Officer*

Julian became Chief Financial Officer in April 2005. As head of the finance function he is responsible for activities such as financial reporting and control, tax and treasury, finance systems and insurance. He joined Glaxo Wellcome as Financial Controller in April 1998.

**Abbas Hussain***President, Emerging Markets*

Abbas joined GSK in June 2008 from Eli Lilly and Company, where he spent 20 years overseeing markets throughout Europe, Africa/Middle East and Australasia.

**Duncan Learmouth***Senior Vice President, Global Communications*

Duncan is responsible for the Group's investor relations, internal and external communications, corporate responsibility and partnerships with communities. He joined Glaxo in 1991 and was Vice President, Global Investor

Relations, before appointment to his current position in July 2006.

**Bill Louv**

*Chief Information Officer*

Bill was appointed Chief Information Officer in January 2007. He is responsible for information technology across GSK. Bill joined Glaxo in 1994 as Vice President, Medical Data Sciences. Prior to his current role, Bill was Senior Vice President, R&D Information Technology.

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Our Corporate Executive Team (CET)

**Dan Phelan**

Chief of Staff

Dan is responsible for Corporate Strategy and Development, IT, HR, Real Estate and Facilities, Environmental Health and Safety, and Global Security. He joined Smith Kline & French in 1981 and previously held the role of Senior Vice President, Human Resources until his appointment as Chief of Staff in May 2008.

**David Pulman**

President, Global

Manufacturing and Supply

David is responsible for the Global Manufacturing and Supply organisation and Global Procurement. He joined Glaxo in 1978. He has broad experience of manufacturing operations having previously led the Primary Supply, European manufacturing, North American manufacturing, Global Logistics and Manufacturing Strategy organisations.

**David Redfern**

Chief Strategy Officer

David is responsible for proactive exploration of new business opportunities and strategic planning. He began his career with GSK in 1994 in Corporate Development before being appointed Finance Director of Europe Pharmaceuticals in 1999. He was appointed Area Director for Central Europe in 2003 and Northern Europe in 2005.

**Moncef Slaoui**

Chairman, Research & Development

Moncef leads the Group's drug discovery and development activities. He joined the Group in 1988 and was a key player in building GSK's vaccines pipeline. In 2003 he was appointed Senior Vice President, Worldwide Business Development until his current appointment in June 2006.

**Jean Stéphane**

President and General Manager, Biologicals

Jean has led GSK's global vaccines business since 1989. Previously he was Vice President of Human Vaccines Research and Development and Production. He joined the company in 1974 as Head of Bacterial and Viral Vaccines production. Jean was named Baron by King Albert II of the Belgians in 2000 in recognition of his leading contribution to R&D and industry in Belgium.

**Claire Thomas**

Senior Vice President, Human Resources

Claire leads the global Human Resources (HR) function. Previously, she oversaw HR in Pharmaceuticals International and in Pharmaceuticals Europe. Claire joined the company in 1996 and was appointed Director of Human Resources for UK Pharmaceuticals in 1997. Claire was honoured as an Outstanding European Woman of Achievement in 2007.

**Dan Troy**

Senior Vice President and General Counsel

Dan joined GSK as Senior Vice President and General Counsel in September 2008. Previously he was a Partner at the Washington law firm Sidley Austin LLP and Chief Counsel for the FDA. From 2006-2007 he chaired the American Bar Association's Section of Administrative Law, and was previously adjunct scholar at the American Enterprise Institute in Washington, DC.

**Corporate governance****Governance and policy**

This section discusses GSK's management structures and governance procedures. The section, together with the Remuneration Report on pages 73 and 90, includes details of how the company applies and complies with the principles and provisions of the Combined Code on Corporate Governance of the Financial Reporting Council (Combined Code) and with US laws and regulation.

**The Board and Corporate Executive Team**

The Directors are listed under 'Our Board' on pages 54 to 55.

The Board is responsible for the Group's system of corporate governance and is ultimately accountable for the Group's activities, strategy, risk management and financial performance.

**Independence**

The Board considers all its Non-Executive Directors to be independent in character and judgement.

Dr Schmitz served on the Board for more than ten years until his retirement as a Director on 20th May 2009, having been appointed to the Board of Glaxo Wellcome plc on 1st January 1997. During consideration of the Annual Review of Board effectiveness at its meeting in January 2009, the Board concluded that Dr Schmitz remained independent, notwithstanding his length of service. In the opinion of the Board, Dr Schmitz continued to demonstrate the characteristics of independence, such as objectively challenging management and taking part in rigorous debate, while at the same time possessing an outstanding knowledge of the company's business and affairs, together with his experience gained as Chairman of the Audit Committee. In a long cycle investment business, such as GSK, it was considered to be particularly important to have experienced members on the Board. Sir Ian Prosser was also considered to be independent in accordance with the recommendations of the Combined Code prior to his retirement from the Board.

When Sir Christopher Gent was appointed to the Board as Deputy Chairman, he was determined by the Board to be independent. Upon taking up the chairmanship of the Board on 1st January 2005, in accordance with the Combined Code, he was excluded from the determination of whether at least half the Board are independent Non-Executive Directors. Sir Christopher Gent is a member of the Remuneration Committee, as permitted by the Combined Code, in light of his independence upon appointment as Chairman.

The Board considers that Professor Sir Roy Anderson, Dr Burns, Mr Culp, Sir Crispin Davis, Sir Deryck Maughan, Mr Murdoch, Dr Podolsky, Mr de Swaan and Sir Robert Wilson are independent in accordance with the recommendations of the Combined Code.

At the date of publication and throughout 2009, a majority of the Board members, excluding the Chairman, were independent Non-Executive Directors.

**Chairman and CEO**

Sir Christopher Gent has chaired the company since 1st January 2005 and was Chairman throughout 2009.

Mr Witty is the Chief Executive Officer (CEO). Mr Witty's biographical details can be found on pages 54 and 56. The Chairman leads the Board, and represents the Board to the CEO and other CET members as necessary between Board meetings. The CEO manages the Group and implements the strategy and policies adopted by the Board. The Chairman and the Chairmen of Board Committees communicate regularly with the CEO and other CET members. The division of responsibilities between the role of Chairman and the CEO has been set out in writing, and agreed by the Board.

The CEO is responsible for executive management of the Group and is assisted by the CET. The CET meets at least 11 times per year and otherwise as necessary. The members and their responsibilities are listed under 'Our Corporate Executive Team' (pages 56 to 57).

**Senior Independent Director**

Sir Robert Wilson was appointed Senior Independent Director (SID) on 20th May 2009, following Sir Ian Prosser's retirement from the Board on that date. Sir Ian had held the role since January 2005.

**Board process**

The Board has the authority, and is accountable to shareholders, for ensuring that the Group is appropriately managed and achieves the strategic objectives it sets. The Board discharges those responsibilities through an annual programme of meetings which includes the approval of overall budgetary planning and business strategy. The Board reviews the Group's internal controls and risk management policies and approves its governance structure and code of ethics. The Board appraises and approves major financing, investment and licensing decisions in excess of defined thresholds. In addition, the Board evaluates and monitors the performance of the Group as a whole. This includes:

- engaging at Board meetings with the CEO, the other Executive Directors and members of the CET as appropriate, on the financial and operating performance of GSK and external issues material to the Group's prospects
- evaluating progress towards the achievement of the Group's financial and business objectives and annual plans
- monitoring, through reports received directly or from various committees, the significant risks facing the Group.

## Corporate governance

The Board has overall responsibility for succession planning for the CEO and the other Executive Directors. The Board has given the CEO broad authority to operate the business of the Group, and the CEO is accountable for, and reports to the Board on, the performance of the business. CET members make regular presentations to the Board on their areas of responsibility, and the Board meets with all the CET members on an annual basis to discuss collectively the Group's strategy.

A primary element of the induction process for new Non-Executive Directors is undertaken by members of the CET, and all Non-Executive Directors are encouraged to have separate informal discussions at their discretion with any CET members.

The Board met six times in 2009, with each member attending as follows:

|                            | Number of<br>meetings<br>held whilst a<br>Board<br>member | Number of<br>meetings<br>attended |
|----------------------------|---|-----------------------------------|
| Sir Christopher Gent       | 6   | 6                                 |
| Mr A Witty                 | 6   | 6                                 |
| Mr J Heslop                | 6   | 6                                 |
| Dr M Slaoui                | 6   | 6                                 |
| Professor Sir Roy Anderson | 6   | 6                                 |
| Dr S Burns                 | 6   | 6                                 |
| Mr L Culp                  | 6   | 6                                 |
| Sir Crispin Davis          | 6   | 6                                 |
| Sir Deryck Maughan         | 6   | 6                                 |
| Mr J Murdoch*              | 4   | 4                                 |
| Dr D Podolsky              | 6   | 6                                 |
| Mr T de Swaan              | 6   | 6                                 |
| Sir Robert Wilson          | 6   | 6                                 |
| Sir Ian Prosser*           | 3   | 3                                 |
| Dr R Schmitz*              | 3   | 3                                 |

\* Mr James Murdoch was appointed to the Board on 20th May 2009. Sir Ian Prosser and Dr Ronaldo Schmitz retired from the Board on 20th May 2009.

In addition to the six scheduled meetings, the Board also met on a quorate basis on six occasions.

### **Business environment development**

To ensure that the Board is kept up-to-date on important matters, including legal, governance and regulatory developments, presentations are made on a regular basis by both external and internal advisers.

In addition, Non-Executive Directors gain greater insight and understanding of the business through visits to Group operational facilities and attendance at various internal management meetings, including CET, Research & Development Executive and Product Marketing Board meetings, on an ad hoc basis.

A customised induction process is conducted for each of the new Non-Executive Directors focusing on their particular experience and taking account of their different backgrounds. This process includes meeting members of the CET and other senior executives and visiting particular operational facilities of the Group.

### **Independent advice**

The Board recognises that there may be occasions when one or more of the Directors feel it is necessary to take independent legal and/or financial advice at the company's expense. There is an agreed procedure to enable them to do so.

### **Indemnification of Directors**

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for the benefit of the Directors and former Directors who held office during 2009.

### **Directors' conflicts of interest**

Directors have a duty to avoid a situation in which they have, or can have, a direct or indirect conflict of interest or possible conflict of interest with the company. The duty applies in particular to the exploitation of any property, information or opportunity, whether or not GSK could take advantage of it. The company's Articles of Association include a general power for the Board to authorise such conflicts. There is no breach of duty if the relevant matter has been so authorised in advance.

The Board has established procedures for handling situational conflicts of interest, which are in line with the best practice guidance issued by the General Counsel 100 Group and in accordance with the company's Articles. It has authorised the Nominations Committee to grant and review periodically, but in any event annually, any potential or actual conflict authorisations. Directors are not counted in the quorum for the authorisation of their own actual or potential conflicts. The Company Secretary minutes the consideration of any conflict. Authorisations granted are recorded by the Company Secretary in a register of conflict authorisations which are noted by the Board at its next meeting. On an ongoing basis, the Directors are responsible for informing the Company Secretary of any new, actual or potential conflicts that may arise or, if there are any changes in circumstances that may affect an authorisation previously given. Even when provided with authorisation, a Director is not absolved from his or her duty to promote the success of the company. If an actual conflict arises post authorisation, the Board will choose to exclude the Director from the relevant information and debate, or suspend the Director from the Board, or, as a last resort, require the Director to resign.

### **Company Secretary**

The Company Secretary is responsible to the Board and is available to individual Directors in respect of Board procedures. The Company Secretary is Mr Simon Bicknell, who was appointed in May 2000. He is a barrister and joined the Group in 1984. He is Secretary to all of the Board Committees except the Remuneration Committee. The Deputy Company Secretary, Mrs Victoria Whyte, was appointed Secretary to the Remuneration Committee with effect from 27th January 2009. She is a solicitor and a Fellow of the Institute of Chartered Secretaries and Administrators.

### **Board Committees**

The Board has established a number of committees and provides sufficient resources to enable them to undertake their duties. Executive Directors are not members of the Audit & Risk, Remuneration, Nominations or Corporate Responsibility Committees, although they may be invited to attend meetings. Each Director is a member of the Corporate Administration & Transactions and Finance Committees.

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Corporate governance

**Corporate governance framework**

Current membership of these Committees is shown in the table below.

|                            | Audit &<br>Risk | Remuneration | Nominations | Corporate<br>Responsibility |
|----------------------------|-----------------|--------------|-------------|-----------------------------|
| Sir Christopher Gent       |                 | M            | C           | C                           |
| Professor Sir Roy Anderson | M               |              |             |                             |
| Dr S Burns                 |                 |              |             | M                           |
| Mr L Culp                  |                 | M            | M           |                             |
| Sir Crispin Davis          |                 | C            | M           |                             |
| Sir Deryck Maughan         | M               |              | M           |                             |
| Mr J Murdoch               |                 | M            |             | M                           |
| Dr D Podolsky              | M               |              |             | M                           |
| Mr T de Swaan              | C               | M            |             |                             |
| Sir Robert Wilson          | M               | M            | M           |                             |

Key: C = Chairman

M = Member

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## Corporate governance

Each Committee has written terms of reference which have been approved by the Board. The following is a summary of the role and terms of reference of each Committee. The current full terms of reference of each Committee may be obtained from the Company Secretary.

| <b>Committee</b>                | <b>Role and Terms of Reference</b>  | <b>Membership comprises</b>                                | <b>No of meetings per year</b> | <b>Committee Report on page</b> |
|---------------------------------|---|--|--------------------------------|---------------------------------|
| <b>Audit &amp; Risk</b>         | Reviews the financial and internal reporting process, the system of internal controls, the identification and management of risks and the external and internal audit process. The Committee also proposes to shareholders the appointment of the external auditors and is directly responsible for their remuneration and oversight of their work.   | Independent<br>Non-Executive Directors                     | 3 4                            | 67 69                           |
| <b>Remuneration</b>             | Determines the terms of service and remuneration of the Executive Directors and members of the CET and, with the assistance of external independent advisers, it evaluates and makes recommendations to the Board on overall executive remuneration policy. (The Chairman and the CEO are responsible for evaluating and making recommendations to the Board on the remuneration of Non-Executive Directors.) | Independent<br>Non-Executive Directors<br>and the Chairman | 3 4                            | 73 90                           |
| <b>Nominations</b>              | Reviews the structure, size and composition of the Board and appointment of members to the Board and the CET, and makes recommendations to the Board as appropriate. The Committee also monitors the planning of succession to the Board and Senior Management.   | Independent<br>Non-Executive Directors<br>and the Chairman | 3 2                            | 70                              |
| <b>Corporate Responsibility</b> | Provides a Board-level forum for the regular review of external issues that have the potential for serious impact upon the Group's business and   | Independent<br>Non-Executive Directors<br>and the Chairman | 3 3                            | 71                              |

reputation. The Committee is also responsible for oversight of GSK's worldwide donations and community support.

|  |   |  |              |
|--|---|--|--------------|
| <b>Finance</b>                                     | Reviews and approves, on behalf of the Board, the Annual Report and Form 20-F, and convening of the AGM, together with the preliminary and quarterly statements of trading results. It also approves certain major licensing and capital transactions and changes to the Group's Investment Instrument and Counterparty Limits. | Executive and Non-Executive Directors  | As necessary |
| <b>Corporate Administration &amp; Transactions</b> | Reviews and approves matters in connection with the administration of the Group's business and certain corporate transactions.  | Executive and Non-Executive Directors, CET members and the Company Secretary | As necessary |

Corporate governance

### **Evaluation of the Board, Board Committees and Directors**

In 2008 the Board commissioned Dr Long of Boardroom Review to act as an independent facilitator for the Board's evaluation process. The actions from this process formed the basis of the Board's internal review process for 2009 namely:

- Identify how to utilise the time spent in Board and Committee meetings more effectively and facilitate further contribution by Non-Executive Directors on a broader range of issues
- Seek to enhance further the Non-Executive Directors' continuing education process beyond their initial induction
- Provide greater visibility to the Board of GSK's executive talent and the management succession planning process.

The Senior Independent Director, Sir Robert Wilson, conducted the 2009 evaluation of the performance of the Chairman, the Board and its Committees and Directors in collaboration with the Committee Chairmen.

The Board evaluation process included a one-to-one interview with each Director. The topics discussed included a variety of aspects associated with Board effectiveness including Board and Committee roles and responsibilities, culture and dynamics, processes and support and individual effectiveness. Feedback from the evaluation was provided in the form of a written report to the Board, which then discussed its findings.

The Chairman of each of the Board Committees undertook separate evaluations and the outcome of each was reported to the respective Committee and the Board.

The Board review concluded that there was a high level of satisfaction with the way in which Mr Witty had grown into the CEO role and with the openness of dialogue between the Executive Directors and Non-Executive Directors. Board members also met separately, without the Chairman being present, to discuss the Chairman's performance and contribution. There was also a high level of confidence in Sir Christopher's Chairmanship of the Board. He had the unanimous and unequivocal support of the other Directors, both Executive and Non-Executive.

The Board and its Committees were believed to be operating effectively at a high level.

The Board agreed the following actions after discussion of the evaluation report:

- Identify how to increase further the amount of Board time devoted to strategic discussion and the indicators of success in delivery of the R&D pipeline
- Devote more time to focused consideration of the company's key risks on an ongoing basis
- Provide the Board with more regular updates and insights into the newly enhanced management succession planning process.

The Board has taken a policy decision to undertake an externally facilitated evaluation process every three years. In the intervening period the review will be facilitated by the SID or the Chairman.

### **Dialogue with shareholders**

Financial results are announced quarterly.

The company reports formally to shareholders twice a year, when its half-year and full-year results are announced.

The full-year results are included in the company's Annual Report which is published for shareholders.

The company now produces an annual Summary which is sent to all shareholders to advise them of the availability of the Annual Report and Notice of Meeting on [www.gsk.com](http://www.gsk.com). The CEO and CFO give presentations on the full-year results to institutional investors, analysts and the media.

There are normally webcast teleconferences after the release of the first, second and third quarter results for institutional investors, analysts and the media.

The AGM takes place in London, and formal notification is sent to shareholders at least one month in advance. At the Meeting, a business presentation is made to shareholders and all Directors able to attend are available, formally during the AGM, and informally afterwards, for questions. Committee Chairmen ordinarily attend the AGM to respond to shareholders' questions. The entire Board was in attendance at the company's AGM in May 2009, save for Sir Deryck Maughan who was prevented from attending due to urgent business commitments which arose shortly before the meeting. All resolutions at the AGM are decided on a poll as required by the company's Articles of Association. The

results of the poll are announced to the London Stock Exchange and posted on the company's website. Details of the 2010 AGM are set out in the section Annual General Meeting (see page 65) and the Notice of AGM is published on the company's website.

To ensure that the Non-Executive Directors are aware of and understand the views of major shareholders about the company, the Board has in place a process focusing on sector-specific issues, as well as general shareholder preferences.

The CEO, CFO and Chairman maintain a dialogue with institutional shareholders on performance, plans and objectives through a programme of regular meetings. Since his appointment as CEO in May 2008, Mr Witty has undertaken an extensive ongoing series of meetings with GSK's institutional shareholders.

The Group's Investor Relations department, with offices in London and Philadelphia, acts as a focal point for contact with investors throughout the year.

The Chairman meets regularly with institutional investors to hear their views and discuss issues of mutual importance and communicates the views of investors to the Board as a whole. The SID is also available to shareholders.

The Chairman of the Remuneration Committee, the Chairman, and the SVP, Human Resources meet annually with major shareholders to discuss executive remuneration policy.

All Non-Executive Directors, including new appointees, are available to meet with major shareholders if requested.

Corporate governance

### Share capital and control

Details of the company's authorised and issued share capital and the number of shares held in Treasury, as at 31st December 2009, can be found in Note 33 to the financial statements. Share capital and share premium account. GSK's shares are listed on the London Stock Exchange and are also quoted on the New York Stock Exchange (NYSE) in the form of American Depositary shares (ADS). Each ADS represents two Ordinary Shares.

The holders of Ordinary Shares are entitled to receive dividends, when declared, and the company's report and accounts, to attend and speak at General Meetings of the company, to appoint proxies and to exercise voting rights. There are no restrictions on transfer, or limitations on the holding of Ordinary Shares and no requirements to obtain prior approval to any transfers. No Ordinary Shares carry any special rights with regard to control of the company and there are no restrictions on voting rights. Major shareholders have the same voting rights per share as all other shareholders. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights.

Shares acquired through GSK share schemes and plans rank equally with the other shares in issue and have no special rights. The trustees of the company's Employee Share Ownership Plan (ESOP) trusts have waived their rights to dividends on shares held by the ESOP trusts.

### Change of control and essential contracts

The company does not have contracts or other arrangements which individually are essential to the businesses nor is it party to any significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid.

The company does not have agreements with any Director or Officer that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the company's share plans may cause options and awards granted under such plans to vest on a takeover. Details of the termination provisions in the company's framework contracts for Executive Directors are given on page 81.

### Interests in voting rights

Other than as stated below, as far as the company is aware, there are no persons with significant direct or indirect holdings in the company. Information provided to the company pursuant to the Financial Services Authority's (FSA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service.

At 19th February 2010, the company had received notifications in accordance with the FSA's DTRs of the following notifiable interests, in the voting rights in the company's issued share capital:

|                           | No. of<br>shares | Percentage of<br>issued<br>capital (%)* |
|---------------------------|------------------|---|
| BlackRock, Inc.           | 334,849,249      | 6.45                                    |
| Legal & General Group Plc | 217,546,535      | 4.19                                    |

\* Percentage of Ordinary Shares in issue, excluding Treasury shares as at 19th February 2010.

The Bank of New York Mellon is the Depository for the company's ADS, which are listed on the New York Stock Exchange. Ordinary Shares representing the company's ADR program, which are managed by the Depository, are registered in the name of BNY (Nominees) Limited. Details of the number of Ordinary Shares held by the Depository can be found on page 177.

The company has not acquired or disposed of any interests in its own shares during the period under review. Details of shares purchased in prior years, those cancelled, and those held as Treasury shares are disclosed in Note 33 to the financial statements – Share capital and share premium account .

#### **Directors and Officers**

The interests of Directors and Officers and their connected persons in the issued share capital of the company are given in the Remuneration Report (pages 73 to 90).

The rules about the appointment and replacement of Directors are contained in the company's Articles of Association. The company's Articles must be approved by shareholders in accordance with the legislation in force from time to time.

The Articles provide that Directors may be appointed by an ordinary resolution of the members or by a resolution of the Directors, provided that, in the latter instance, a director appointed in this way retires at the first AGM following his appointment.

The Articles also provide that Directors should be subject to re-election at the AGM at intervals of three years or annually if they have held office for a continuous period of nine years or more. The company's members may remove a director by passing an ordinary resolution of which special notice has been given, or by passing a special resolution. A Director may automatically cease to be a Director if:

he becomes bankrupt or compounds with his creditors generally

he ceases to be a Director by virtue of the Companies Acts or the Articles

he is suffering from mental ill health

he has missed Directors' meetings for a continuous period of six months without permission and the Board resolves that he shall cease to be a Director

he is prohibited from being a Director by law

he resigns

he offers to resign and the Board accept that offer, or

all other Directors (being at least three in number) require him to resign.

## Corporate governance

**Articles of Association**

The powers of the Directors are determined by UK legislation and the company's Articles of Association. The Articles may be amended by a special resolution of the members. The Directors may exercise all the company's powers provided that the Articles or applicable legislation do not stipulate that any such powers must be exercised by the members. The Directors have been authorised to issue and allot Ordinary Shares under current Article 10. The power under current Article 10 and the authority for the company to make purchases of its own shares are subject to shareholder authorities which are sought on an annual basis at the AGM. Any shares purchased by the company may be cancelled or held as Treasury shares.

**Share buy-back programme**

A £12 billion programme of share repurchases commenced in July 2007. Shares costing £6.2 billion have been repurchased under this programme. No repurchases were made during 2009, and the company does not expect to make any significant repurchases in 2010. The programme covered purchases by the company of shares for cancellation or to be held as Treasury shares, in accordance with the authority renewed by shareholders at the AGM in May 2009, when the company was authorised to purchase a maximum of just under 519 million shares. Details of shares purchased in prior years, those cancelled, and those held as Treasury shares are disclosed in Note 33 to the financial statements – Share capital and share premium account.

The exact amount and timing of any future purchases, and the extent to which repurchased shares will be held as Treasury shares rather than being cancelled, will be determined by the company and is dependent on market conditions and other factors.

**Donations to political organisations and political expenditure**

With effect from 1st January 2009, to ensure a consistent approach to political contributions across the Group, GSK introduced a global policy to stop voluntarily all political contributions.

|  | 2009     | 2008     |
|--|----------|----------|
| <b>Political donations to:</b>             | <b>£</b> | <b>£</b> |
| EU political organisations                 |          |          |
| Non-EU political organisations comprising: |          |          |
| USA  |          | 319,000  |
| Canada                                     |          | 28,000   |
|  |          | 347,000  |

Prior to the introduction of the Group's new approach to political contributions, the USA was the largest recipient of political donations. In line with US law, the corporate donations were not made at a federal level, but only to candidates and political parties at the state and local levels. In 2008, GSK supported those candidates who sought an environment that appropriately rewarded high-risk, high-investment industries.

The situation was similar in Canada, and in the Rest of the World donations were very rare and of low value.

Notwithstanding the new policy, the company continues to support a GSK Political Action Committee (PAC) for employees in the USA which gives political donations. A PAC is an employee organisation which allows employees to contribute to a fund for political donations. Employees decide upon the recipients of the PAC donations. In 2009, a total of £540,551 (£539,359 in 2008) was donated to political organisations by the GSK PAC.

At the AGM in May 2001, shareholders first authorised the company to make donations to EU political organisations and to incur EU political expenditure, under the provisions of the Political Parties, Elections and Referendums Act

2000, of up to £100,000 each year. This authority has since been renewed annually. The law requires companies to continue to obtain shareholder approval before they can make donations to EU political organisations or incur EU political expenditure. However, the company does not make and does not intend to make donations to political parties or independent election candidates, nor does it make any donations to EU political organisations or incur EU political expenditure.

The definitions of political donations, political expenditure and political organisations used in the legislation are very wide. In particular, the definition of EU political organisations may extend to bodies such as those concerned with policy review, law reform, the representation of the business community and special interest groups such as those concerned with the environment, which the company and its subsidiaries might wish to support. As a result, the definitions may cover legitimate business activities not in the ordinary sense considered to be political donations or political expenditure. Such activities are not designed to support any political party or independent election candidate. The authority which the Board has sought annually is a precautionary measure to ensure that the company and its subsidiaries do not inadvertently breach the legislation.



Corporate governance

### **Annual General Meeting**

The AGM will be held at 2.30pm on Thursday, 6th May 2010 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The business to be transacted at the meeting will include:

#### **Receiving and adopting GlaxoSmithKline's 2009 Annual Report**

#### **Approving the 2009 Remuneration Report**

The Remuneration Report on pages 73 to 90 sets out the remuneration policies operated by GlaxoSmithKline and disclosures on Directors' remuneration, including those required by the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. A resolution will be proposed to approve the Remuneration Report.

#### **Retirement and re-election of Directors**

Dr Stephanie Burns, Mr Julian Heslop, Sir Deryck Maughan, Dr Daniel Podolsky and Sir Robert Wilson will each retire and offer themselves for re-election to the Board under current Article 85 of the company's Articles of Association.

#### **Re-appointment and remuneration of auditors**

Resolutions will be proposed to authorise the Audit & Risk Committee to re-appoint PricewaterhouseCoopers LLP as auditors and to determine their remuneration.

#### **Special business**

The company will seek authority to:

- make donations to EU political organisations and incur EU political expenditure, each capped at £50,000

- allot Ordinary Shares in the company

- give the Directors authority to disapply pre-emption rights when allotting new shares in connection with rights issues or otherwise up to a maximum of 5% of the current issued share capital and purchase its own Ordinary Shares up to a maximum of just under 10% of the current issued share capital

- exempt the auditors from having to state the name of their senior statutory auditor for the company in GSK's Annual Report

- reduce the notice required to call a general meeting to not less than 14 clear days

- amend the company's Articles of Association in line with the Companies Act 2006, the Shareholder Rights Directive and to include a limit on annual fees paid to Directors.

Shareholders are entitled to appoint one or more proxies to attend the AGM and to speak and vote on their behalf provided that, in the event that a single shareholder appoints multiple proxies, each proxy is appointed to exercise the rights attached to a different share or shares held by that member.

Details on how to appoint or be appointed a corporate representative or proxy can be found on page 194. The Notice of AGM will be published on the company's website.

#### **Internal control framework**

The Board recognises its responsibility to present a balanced and understandable assessment of the Group's position and prospects.

The Board has accountability for reviewing and approving the adequacy and effectiveness of internal controls operated by the Group, including financial, operational and compliance controls and risk management. The Board has delegated responsibility for such review to the Audit & Risk Committee, which receives regular reporting aligned with GSK's Assurance Programme. It is the responsibility of management, through the CET, to implement Board policies on risk and control. The CET is responsible for identifying, approving, monitoring and enforcing key policies that go to the heart of how the Group conducts business. The internal control framework includes central direction, resource allocation and risk management of the key activities of research and development, manufacturing, marketing and sales, legal, human resources, information systems and financial practice. As part of this framework, there is a comprehensive planning system with an annual budget approved by the Board. The results of operating units are reported monthly and compared with the budget. Forecasts are prepared regularly during the year.

The Group also has in place established procedures to identify and consolidate reporting entities. The Group's control activities include policies and practices covering appropriate authorisation and approval of transactions, application of financial reporting standards and reviews of significant judgements and financial performance.

Extensive financial, regulatory and operational controls, procedures and risk activities are reviewed by the Group's internal auditors. Responsibility, however, is clearly delegated to local business units, supported by a regional management structure. These principles are designed to provide an environment of central leadership coupled with local operating autonomy as the framework for the exercise of accountability and control within the Group.

The Group also attaches importance to clear principles and procedures designed to achieve appropriate accountability and control. A Group policy, 'Risk Management and Legal Compliance', mandates that business units establish processes for managing and monitoring risks significant to their businesses and the Group.

The internal control framework also relies on the following for overseeing and reporting risk and compliance issues.

**Risk Oversight and Compliance Council (ROCC)**

The ROCC is a council of senior executives authorised by the Board to assist the Audit & Risk Committee oversee the risk management and internal control activities of the Group. Membership comprises several CET members and some of the heads of departments with internal control, risk management, assurance, audit and compliance responsibilities.

The ROCC meets on a regular basis to review and assess significant risks and their mitigation plans and provide oversight of internal controls to ensure compliance with applicable laws, regulations and internal GSK policies. The ROCC, responding to the Group policy referred to above, has provided the business units with a framework for risk management and upward reporting of significant risks. Mitigation planning and identification of a manager with overall responsibility for management of any given risk is a requirement.

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### **Risk Management and Compliance Boards (RMCBs)**

RMCBs have been established in each of the major business units. Membership often comprises members of the senior executive team of the respective business unit, augmented by specialists where appropriate. The RMCBs oversee management of all risks that are considered important for their respective business units, including those risks that are designated as significant to GlaxoSmithKline as a whole, thus increasing the number of risks that are actively managed across the Group.

Each business unit and corporate function must periodically review the significant risks facing their businesses. This review should include identifying operational risks, legal compliance risks and risks to the achievement of strategic goals and objectives. The review must occur at least annually, should be embedded within, and aligned with, the annual planning process to ensure that significant risks are identified with changes in management direction and the external environment.

### **Assurance**

In 2009, an Assurance Programme was implemented to further enhance governance and provide an independent assessment of governance, risk management and control processes for the organisation. Within GSK this comprises four main elements:

#### **Internal Audit**

GSK's Internal Audit group has responsibility for independently assessing the adequacy and effectiveness of the management over significant risk areas and reporting it to the Audit & Risk Committee in line with an agreed annual Assurance Plan. GSK's internal audit functions have undergone significant transformation as the four global audit functions (Group Internal Audit, Manufacturing Internal Audit, R&D Internal Audit, and Environment, Health, Safety and Sustainability Internal Audit) have been consolidated into a single organisation under the leadership of the Head of Audit and Assurance. The Head of Audit and Assurance reports to GSK's Company Secretary & Corporate Compliance Officer with a separate reporting responsibility to the Chairman of the Audit & Risk Committee. This new alignment of the global audit functions further strengthens GSK's governance model by affording the Internal Audit group greater independence, reduces fragmentation among global audit functions and provides a direct reporting line from the Internal Audit group to GSK's Company Secretary & Corporate Compliance Officer and to the Chairman of the Audit & Risk Committee to ensure significant issues are escalated in a timely manner. This has helped eliminate overlaps, gaps and potential for over/under auditing that existed in the previous structure. It also provides a clear platform for developing a common approach to the conduct of internal audits which helps ensure consistency and that audit activities are performed in the most efficient and effective way.

#### **Assurance reporting**

Assurance reporting to the Audit & Risk Committee will follow a structured programme integrating reporting from business units, Assurance and Internal Audit.

Business units and corporate functions are required to present reports annually to the ROCC and Audit & Risk Committee that detail its risk management and compliance approach, providing a balanced assessment of the status of internal controls over key risks, and highlighting any significant compliance issues. Management must oversee risks that are considered important for their respective business units, including those risks that are designated as significant to the Group. Information regarding the controls in place to manage these risks will be provided to assure the Audit & Risk Committee that these risks are adequately managed within the internal control framework.

Internal Audit reports to the Audit & Risk Committee at the same time as the business unit and provides an independent assessment of whether adequate controls are in place to manage significant risks.

#### Corporate governance

When issues or control deficiencies are identified, Internal Audit recommends processes for improvement. GSK managers develop corrective action plans to eliminate the causes of non-compliance and address gaps in internal controls. Internal Audit tracks these plans to completion and reports results to senior management and the Audit & Risk Committee.

Significant compliance issues and internal audit results are escalated to the Audit & Risk Committee at the earliest opportunity.

#### Risk management

The Group's risk management programme extends beyond the legal and regulatory issues and considers the Group's overall strategy and changes in the external environment. Furthermore, risk management principles are embedded within management practices and are part of the business strategy and objectives setting process.

For details of risks affecting the Group, see 'Risk factors' on pages 43 to 47 and Note 44 to the financial statements, 'Legal proceedings'.

#### Strategic Risk Evaluations (SREs)

SREs are a new approach to delivering enterprise-wide assurance on significant issues facing GSK and are conducted by our assurance teams in partnership with the business. The approach is designed to evaluate areas where there is an incomplete understanding of risk, and enable the development and implementation of appropriate mitigation plans. Each SRE is sponsored by a CET member or risk owner with oversight for each SRE provided by the ROCC.

#### Corporate Ethics & Compliance (CEC)

The ROCC is also supported by the CEC department, which is responsible for supporting the development and implementation of practices that facilitate employees' compliance with laws and Group policy. The department provides assistance to help employees meet high ethical standards and comply with applicable laws and regulations and corporate responsibility.

The thrust of the Group's compliance effort is due diligence in preventing and detecting misconduct or non-compliance with law or regulation by promoting ethical behaviour, compliance with all laws and regulations, corporate responsibility at all levels and effective compliance systems.

The CEC department is managed by the Company Secretary & Corporate Compliance Officer, who reports directly to the CEO. The Company Secretary & Corporate Compliance Officer chairs the ROCC and provides summary reports on the ROCC's activities and the Group's significant risks to the CET and the Audit & Risk Committee on a regular basis. The Corporate Compliance Officer's direct reporting line to the Audit & Risk Committee provides a mechanism for bypassing the executive management should the need ever arise.

#### Effectiveness of controls

The internal control framework has been in operation for the whole of the year under review and continues to operate up to the date of approval of this report. The system of internal controls is designed to manage rather than eliminate the risk of not achieving business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit & Risk Committee receives reports on areas of significant risk to the Group and on related internal controls. Following consideration of these reports and those received via the Assurance framework, the Audit & Risk Committee reports annually to the Board on the effectiveness of controls.

There are areas of the Group's business where it is necessary to take risks to achieve a satisfactory return for shareholders, such as investment in R&D and in acquiring new products or businesses. In these cases, it is the Group's objective to apply its expertise in the prudent management rather than elimination of risk. The Directors' review relates to the company and its subsidiaries and does not extend to material associated undertakings, joint ventures or other investments.

The Board, through the Audit & Risk Committee, has reviewed the assessment of risks and the internal control framework that operates in GlaxoSmithKline and has considered the effectiveness of the system of internal control in operation in the Group for the year covered by this report and up to the date of its approval by the Board. The process

followed by the Board in reviewing the system of internal controls accords with the guidance on internal control issued by the Turnbull Committee.

### Committee reports

Board Committees report regularly to the Board on the performance of the activities they have been assigned.

### Audit & Risk Committee Report

#### Tom de Swaan

Audit & Risk Committee Chairman

| Members   | Committee member since | Attendance at full meetings during 2009 |
|---|------------------------|---|
| Mr T de Swaan<br>(Chairman from 1st September 2006) | 1st January 2006       | 6/6                                     |
| Professor Sir Roy Anderson                          | 20th May 2009          | 2/3                                     |
| Sir Deryck Maughan                                  | 21st January 2005      | 5/6                                     |
| Dr D Podolsky                                       | 1st January 2007       | 5/6                                     |
| Sir Robert Wilson                                   | 12th December 2003     | 6/6                                     |
| Sir Ian Prosser*                                    | 27th December 2000     | 3/3                                     |
| Dr R Schmitz*                                       | 27th December 2000     | 3/3                                     |

\* Sir Ian Prosser and Dr Schmitz retired from the Board on 20th May 2009.

In addition to the six scheduled meetings, the Committee also met on a quorate basis on five occasions.

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Other attendees at Committee meetings:

CEO

CFO

Chairman

General Counsel

Head of Audit & Assurance

Company Secretary & Corporate Compliance Officer

Head of Global Internal Audit, as appropriate

External Auditors.

The Committee's main responsibilities include:

Reviewing the corporate accounting and financial reporting process

Monitoring the integrity of the financial statements

Evaluating the system of internal control and identifying and managing risks, including in relation to the financial reporting process and the preparation of consolidated accounts

Overseeing activities of each of the Group's compliance and audit functions and overseeing compliance with laws, regulations and ethical codes of practice.

The Committee's oversight role requires it to address regularly the relationships between management and the internal and external auditors and understand and monitor the reporting relationships and tiers of accountability between them. The Committee receives regular reports from members of the CET and senior managers covering the key risk management and compliance activities of the Group, including those covering R&D, manufacturing, sales and marketing and corporate functions. Further details of the reporting framework to the Committee are set out on pages 65 to 67 Internal control framework .

In December 2009 the Committee's terms of reference were amended to reflect its role in overseeing the identification and management of risk under the new assurance-based audit framework referred to on pages 66 to 67. At the same time the name of the Audit Committee was changed to the Audit & Risk Committee.

#### **Qualifications of Audit & Risk Committee Members**

Committee members, with the exception of Professor Sir Roy Anderson and Dr Podolsky, bring considerable financial and accounting experience to the Committee's work. Members have past employment experience in either finance or accounting roles or comparable experience in corporate activities. Professor Sir Roy and Dr Podolsky's backgrounds as world renowned medical scientists and researchers enable them to bring scientific expertise to the Committee's deliberations.

#### **Financial & accounting experience**

Mr Tom de Swaan

Chief Financial Officer of ABN AMRO until 31st December 2005

Determined by the Board to be the Audit Committee Financial Expert, as defined by the Sarbanes Oxley Act of 2002 (Sarbanes-Oxley)

- Sir Deryck Maughan      A Partner of Kohlberg Kravis Roberts & Co. (KKR) and Chairman of KKR Japan  
Former Chairman & CEO of Citigroup International and Vice Chairman of Citigroup  
Inc.  
Former Chairman and Co-Chief Executive Officer of Salomon Smith Barney  
Former Chairman and Chief Executive Officer of Salomon Brothers Inc.
- Sir Robert Wilson      Economist, and former Non-Executive Chairman of The Economist Group  
Chairman of BG Group plc  
Retired from Rio Tinto in 2003 where he held Senior Management positions  
culminating in his appointment as Executive Chairman

**Scientific expertise**

- Professor Sir Roy  
Anderson      A world renowned medical scientist with advanced knowledge of infectious disease  
epidemiology  
Professor of Infectious Disease Epidemiology in the Faculty of Medicine, Imperial  
College, London  
Fellow of the Royal Society  
Foreign Associate Member of the Institute of Medicine at the US National Academy of  
Sciences  
Foreign Associate Member of the French Academy of Sciences  
Former Rector of Imperial College, London  
Former Chief Scientific Adviser at the Ministry of Defence in the UK
- Dr Daniel Podolsky      A world renowned researcher with advanced knowledge of underlying mechanisms of  
disease and new therapies for gastrointestinal disorders  
President of the University of Texas Southwestern Medical Centre and Professor of  
Internal Medicine  
Member, Institute of Medical/National Academy of Sciences  
Former Mallinckrodt Professor of Medicine, Harvard Medical School  
Former Chief Academic Officer, Partners Healthcare

#### Corporate governance

In 2009, the Committee worked to a structured programme of activities, with standing items that the Committee is required to consider at each meeting together with other matters focused to coincide with key events of the annual financial reporting cycle:

|   |   |
|---|---|
| <b>External auditors</b>  | reported on all critical accounting policies, significant judgements and practices used by the Group, alternative accounting treatments which had been discussed with management and their resultant conclusion, material written communications with management and any restrictions on access to information  |
| <b>CFO</b>  | reported on the financial performance of the company and on technical financial and accounting matters  |
| <b>General Counsel</b>  | reported on material litigation   |
| <b>Company Secretary &amp; Corporate Compliance Officer</b>                     | reported on corporate governance and on the activities undertaken by the ROCC   |
| <b>Heads of audit and assurance and the Group's compliance and audit groups</b> | the majority of the Heads of these groups reported on their audit scope, annual coverage, audit resources and on the results of audits conducted throughout the year  |
| <b>Company Secretary, as Chairman of the Disclosure Committee</b>               | reported on matters that affected the quality and timely disclosure of financial and other material information to the Board, to the public markets and to shareholders. This enabled the Committee to review the clarity and completeness of the disclosures in the published annual financial statements, interim reports, quarterly and preliminary results announcements and other formal announcements relating to financial performance prior to approval by the Board. |

The Audit & Risk Committee, management, internal auditors and the full Board work together to ensure the quality of the company's corporate accounting and financial reporting. The Committee serves as the primary link between the Board and the external and internal auditors. This facilitates the necessary independence from management and encourages the external and internal auditors to communicate freely and regularly with the Committee. In 2009, the Committee met both collectively and separately with the external auditors and the Head of Audit and Assurance, and the Corporate Compliance Officer without members of management being present.

The Committee has primary responsibility for making a recommendation to shareholders on the appointment, re-appointment and removal of the external auditors by annually assessing the qualifications, expertise, resources and independence of the external auditors and the effectiveness of the audit process.

In evaluating the effectiveness of the audit process prior to making a recommendation on the re-appointment of the external auditors, the Committee reviews the effectiveness of their performance against criteria which it agrees, in conjunction with management, at the beginning of each year's audit. As part of this process, the Committee considers feedback on the prior year's external audit gathered through a survey facilitated by the auditors' client service review team, which is independent of the engagement team that undertook the audit work. The survey seeks feedback from a



number of sources, including certain members of the Board who were involved in the audit process and the financial management team at corporate and business unit level.

Before agreeing the audit fee proposed by the external auditors the Committee considers cost comparisons to ensure that it is fair and appropriate for GSK. There are no contractual obligations that restrict the Committee's capacity to recommend a particular firm as external auditors to the Group. PricewaterhouseCoopers LLP have remained in place as auditors since the Group's inception in December 2000.

In making its assessment, the Committee considers papers which detail the relevant UK legislative, regulatory and professional requirements relating to external auditors and evaluates reports from the external auditors on their compliance with the requirements, on the safeguards that have been established and on their own internal quality control procedures. Consideration is also given by the Committee to the need to include the risk of the withdrawal of the external auditors from the market in its risk evaluation and planning.

Where the external auditors provide non-audit services, the Committee ensures that auditor objectivity and independence are safeguarded by a policy requiring pre-approval by the Committee for such services. These services may include audit services, audit-related services, tax services and other services. Pre-approval is detailed as to the particular service or categories of services, and is subject to a specific budget.

The external auditors and management report regularly to the Committee regarding the extent of services provided in accordance with this pre-approval and the fees for the services performed. The Committee may also pre-approve additional services on a case-by-case basis. Expenditure on audit and non-audit services is set out in Note 9 to the financial statements, Operating profit.

The guidelines set out in the company's policy on engaging the external auditors to provide non-audit services include ascertaining that: the skills and experience of the external auditors make them a suitable supplier of the non-audit services; adequate safeguards are in place so that the objectivity and independence of the audit are not threatened or compromised; and the fee levels relative to the annual audit fee are within the limits set by the Committee.

The company also has well-established policies, including a Code of Ethics, which is available on its website, and a help-line facility for the reporting and investigation of unlawful conduct. No waivers to the Code were made in 2009.

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Corporate governance  
Nominations Committee Report

**Sir Christopher Gent**

Nominations Committee Chairman

| Members  | Committee member since | Attendance<br>at<br>full meetings<br>during 2009 |
|--|------------------------|--|
| Sir Christopher Gent<br>(Chairman from<br>1st January 2005)        | 9th December 2004      | 5/5  |
| Mr L Culp  | 28th March 2008        | 5/5  |
| Sir Crispin Davis  | 9th July 2009          | 2/2  |
| Sir Deryck Maughan   | 9th July 2009          | 2/2  |
| Sir Robert Wilson  | 28th March 2008        | 5/5  |
| Sir Ian Prosser*<br>(Committee Chairman<br>February-December 2003) | 27th December 2000     | 2/2  |
| Dr R Schmitz*  | 17th May 2004          | 2/2  |

\* Sir Ian Prosser  
and Dr Schmitz  
retired from the  
Board on 20th  
May 2009.

Other attendees at Committee meetings:

CEO

Chief of Staff

Head of HR

Company Secretary

where relevant, appropriate external advisers.

The Committee's main responsibilities include proposing the appointment of Board and Committee members. During 2009, the Committee's main focus was on the recruitment of new Non-Executive Directors to refresh the Board and on the appointment of a new Head of North American Pharmaceuticals.

When recruiting Non-Executive Directors, the Committee considers the particular skills, knowledge and experience that would benefit the Board most significantly for each appointment. Broad selection criteria are used which focus on achieving a balance between the representation of European, UK and US markets, and having individuals with CEO experience and skills developed in various sectors and specialities. During 2009, particular focus was placed upon

recruiting replacements for Sir Ian Prosser and Dr Ronaldo Schmitz who retired at the AGM in 2009. The Committee recommended the appointment of Mr James Murdoch as a Non-Executive Director.

The process continues into 2010, with the Committee placing emphasis on candidates who are current CEOs or have financial expertise. Professional search agencies are engaged specialising in the recruitment of high calibre Non-Executive Directors. Dossiers of potential Non-Executive appointees are provided to the Committee and candidates are shortlisted for interview on merit and against objective criteria after considering their relevant qualifications.

When appointing new Executive Directors or CET members, the Committee considers the skills, knowledge and experience required for the particular executive position. The Committee will consider potential external and internal candidates before recommending to the Board to approve the new appointment. All new Directors offer themselves for election at the company's next AGM. Their appointments are announced publicly.

Ms Deirdre Connelly was appointed President, North America Pharmaceuticals on 9th February 2009 and also became a member of the CET.

On the Committee's recommendation, the Board approved the following changes which took effect on the retirement of Sir Ian Prosser and Dr Schmitz from the Board at the conclusion of the AGM in May 2009: Sir Robert Wilson replaced Sir Ian as the SID, Sir Crispin Davis replaced Sir Robert as the Chairman of the Remuneration Committee, Professor Sir Roy Anderson became a member of the Audit & Risk Committee, Mr de Swaan stepped down from the Corporate Responsibility Committee and became a member of the Remuneration Committee, Mr Murdoch became a member of the Corporate Responsibility Committee. In addition, on the Committee's recommendation, the Board approved the appointment of Sir Crispin and Sir Deryck Maughan as members of the Nominations Committee with effect from 9th July 2009. The Committee also recommended and the Board approved the appointment of Mr Murdoch as a member of the Remuneration Committee with effect from 1st October 2009.

#### **Remuneration Report**

The Remuneration Report can be found on pages 73 to 90.

Corporate governance  
Corporate Responsibility Committee Report

**Sir Christopher Gent**

Corporate Responsibility Committee Chairman

| Members  | Committee member since | Attendance at full meetings during 2009 |
|--|------------------------|---|
| Sir Christopher Gent<br>(Chairman from 1st January 2005) | 9th December 2004      | 5/5                                     |
| Dr S Burns   | 6th December 2007      | 5/5                                     |
| Mr J Murdoch   | 20th May 2009          | 2/2                                     |
| Dr D Podolsky  | 1st July 2006          | 4/5                                     |
| Sir Ian Prosser*   | 17th May 2004          | 2/3                                     |
| Mr T de Swaan*   | 1st July 2006          | 3/3                                     |

\* Sir Ian Prosser retired from the Board on 20th May 2009 and Mr de Swaan also ceased to be a member of the Committee on that date.

Other attendees at Committee meetings may include:

CEO

General Counsel

Head of Corporate Communications & Community Partnerships

Head of Corporate Responsibility

Company Secretary.

To augment GSK's engagement with stakeholder opinion, in March 2009 Ms Sophia Tickell was appointed as an independent external adviser to the Committee. Ms Tickell is the Director of the Pharma Futures Series which aims to align better societal and shareholder value, and she chairs the International Advisory Group of the Medicines Transparency Alliance. Ms Tickell attends the meetings of the Committee and advises the company in this capacity. The main responsibilities of the Corporate Responsibility Committee are set out on page 61. The Committee has a rolling agenda and receives reports from the members of the CET and senior managers to ensure that progress on meeting GSK's Corporate Responsibility Principles is reviewed. Five Principles: access to medicines; standards of

ethical conduct; research and innovation; employment practices; and global community partnerships are reviewed annually. Other Principles are discussed at least once every two years. The Committee also reviews and approves the Corporate Responsibility Report.

During the year the Committee reviewed areas including:

pandemic flu, including access to vaccine and antiviral medicine in developing countries

access and pricing of medicines in developing countries

R&D on diseases of the developing world and a patent pool

community partnerships and investment

humanitarian donations

sales and marketing practices including harmonisation of GSK Codes of Practice

disclosure of payments to healthcare professionals

communication of clinical trial results

use of animals in research

employment practices including diversity and inclusion

employee wellbeing

employee relations including consultation arrangements and employment litigation in the USA

supply chain management

climate change, energy use reduction and manufacturing efficiency

data privacy

corruption prevention.

GSK publishes a comprehensive Corporate Responsibility Report.

#### **The Combined Code**

Throughout 2009, the company complied with the provisions and applied the Main Principles of Section 1 of the Combined Code, except as regards an aspect of the following provision:

D.2.3 The chairman should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM and for all directors to attend.

The entire Board was in attendance at the company's AGM in May 2009, save for Sir Deryck Maughan who was prevented from attending due to urgent business commitments which arose shortly before the meeting. He therefore needed to convey his apologies for absence.

#### **US law and regulation**

A number of provisions of US law and regulation apply to GSK because the company's shares are quoted on the NYSE in the form of ADS.

#### **NYSE rules**

In general, the NYSE rules permit the company to follow UK corporate governance practices instead of those applied in the USA, provided that the company explains any significant variations. This explanation is contained in the

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company's Form 20-F filing, which can be accessed from the Securities and Exchange Commission's (SEC) EDGAR database or via the company's website. NYSE rules that came into effect in 2005 require the company to file annual and interim written affirmations concerning the Audit & Risk Committee and the company's statement on significant differences in corporate governance.

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Corporate governance

**Sarbanes-Oxley Act of 2002**

Following a number of corporate and accounting scandals in the USA, Congress passed the Sarbanes-Oxley Act of 2002. Sarbanes-Oxley is a wide ranging piece of legislation concerned largely with financial reporting and corporate governance.

As recommended by the SEC, GSK has established a Disclosure Committee. The Committee reports to the CEO, the CFO and to the Audit & Risk Committee. It is chaired by the Company Secretary and the members consist of senior managers from finance, legal, compliance, corporate communications and investor relations.

External legal counsel and the external auditors are invited to attend its meetings periodically. It has responsibility for considering the materiality of information and, on a timely basis, determining the disclosure of that information. It has responsibility for the timely filing of reports with the SEC and the formal review of the Annual Report and Form 20-F. In 2009, the Committee met 6 times.

Sarbanes-Oxley requires that the Annual Report contains a statement as to whether a member of the company's Audit & Risk Committee is an Audit Committee Financial Expert as defined by Sarbanes-Oxley. For a summary regarding the Board's judgement on this matter, refer to page 68. Additional disclosure requirements arise under section 302 and section 404 of Sarbanes-Oxley in respect of disclosure controls and procedures and internal control over financial reporting.

**Section 302: Corporate responsibility for financial reports**

Sarbanes-Oxley also introduced a requirement for the CEO and the CFO to complete formal certifications, confirming that:

they have each reviewed the Annual Report and Form 20-F

based on their knowledge, it contains no material misstatements or omissions

based on their knowledge, the financial statements and other financial information fairly present, in all material respects, the financial condition, results of operations and cash flows as of the dates, and for the periods, presented in the Annual Report and Form 20-F

they are responsible for establishing and maintaining disclosure controls and procedures that ensure that material information is made known to them, and have evaluated the effectiveness of these controls and procedures as at the year-end, the results of such evaluation being contained in the Annual Report and Form 20-F

they are responsible for establishing and maintaining internal control over financial reporting that provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles

they have disclosed in the Annual Report and Form 20-F any changes in internal controls over financial reporting during the period covered by the Annual Report and Form 20-F that have materially affected, or are reasonably likely to affect materially, the company's internal control over financial reporting

they have disclosed, based on their most recent evaluation of internal control over financial reporting, to the external auditors and the Audit & Risk Committee, all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to affect adversely the company's ability to record, process, summarise and report financial information, and any fraud (regardless of materiality) involving persons that have a significant role in the company's internal control over financial reporting.

The Group has carried out an evaluation under the supervision and with the participation of the Group's management, including the CEO and CFO, of the effectiveness of the design and operation of the Group's disclosure controls and procedures as at 31st December 2009.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on the Group's evaluation, the CEO and CFO have concluded that, as at 31st December 2009, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that the Group files and submits under the US Securities Exchange Act of 1934, as amended, is recorded, processed, summarised and reported as and when required and that it is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding disclosure.

The CEO and CFO completed these certifications on 1st March 2010.

**Section 404: Management's annual report on internal control over financial reporting**

In accordance with the requirements of section 404 of Sarbanes-Oxley, the following report is provided by management in respect of the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the US Securities Exchange Act of 1934):

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Group. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission

Management has assessed the effectiveness of internal control over financial reporting, as at 31st December 2009 and has concluded that such internal control over financial reporting was effective. In addition, there have been no changes in the Group's internal control over financial reporting during 2009 that have materially affected, or are reasonably likely to affect materially, the Group's internal control over financial reporting

PricewaterhouseCoopers LLP, which has audited the consolidated financial statements of the Group for the year ended 31st December 2009, has also assessed the effectiveness of the Group's internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board (United States). Their audit report may be found on page 93.



## Remuneration Report

### Sir Crispin Davis

Remuneration Committee Chairman

#### Dear Shareholder

As the new Chairman of GSK's Remuneration Committee I am pleased to present the Committee's Remuneration Report for 2009 for which we will be seeking approval from shareholders at our AGM in May.

As you know, we made some important changes to GSK's remuneration policy for our UK Executive Directors last year to deliver appropriately structured pay through alignment with the market and GSK's key strategic priorities.

There was a high level of shareholder engagement in relation to these changes, and we were pleased to receive such a strong vote in favour of last year's Remuneration Report at the AGM.

#### Senior management alignment and competitiveness

Since then, we have made further progress in simplifying and aligning the remuneration structures across the Corporate Executive Team (CET). As a result of this, primary pay benchmarks will be based on the nature of each individual role rather than the industry benchmark previously used. Share options will normally no longer be granted; instead, CET members will receive Performance Share Plan awards, and will also be eligible to participate in GSK's Deferred Annual Bonus Plan. There will also be a more standardised pay mix across CET roles below the Executive Directors.

The Committee would not want to reward failure and so considers that severance terms should be more limited. We have therefore determined that the contracts of any new CET appointees would normally include severance terms of one year's base salary only, with no bonus entitlement. In addition, I am pleased to report that the CEO has agreed to remove his contractual entitlement to bonus in the event of termination of his employment and also to note the increase in his holding of GSK shares.

#### Strategic alignment

The introduction of a second performance measure in the Performance Share Plan has provided a clear focus on cash generation in the business. We are continuing to develop measures that further align our remuneration with the ongoing work to transform GSK. Given the importance of long term organic growth and R&D productivity to the future of GSK, we are assessing the most meaningful ways of measuring success in these areas so that they may be considered as performance measures for future awards.

#### Good governance

There have been a number of corporate governance developments in the past year in response to the economic turmoil, with more likely to come in 2010.

When we reviewed our arrangements last year we wanted to ensure that we did not motivate excessive risk taking. We introduced a new Deferred Annual Bonus Plan, and were one of the first companies to introduce a clawback mechanism for annual bonuses should problems arise in the years after a bonus award has been made. We continue to monitor best practice governance developments, and commit to regular reviews of our remuneration arrangements to ensure that they continue to encourage the right behaviours from our leadership team.

The following report provides further detail on GSK's current remuneration arrangements including the changes made and those to be implemented. The Committee believes that these changes support the future of the business and are in the best interests of shareholders.

### Sir Crispin Davis

Remuneration Committee Chairman

24th February 2010

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## Remuneration Report

**The Remuneration Committee****Role of the Committee**

The role of the Committee is to set the company's remuneration policy for Executive Directors and CET members (together the Executives), ensuring that it is consistent with the company's scale and scope of operations, supports the business strategy and growth plans and helps drive the creation of shareholder value. In setting remuneration policy and levels for the most senior executives, the Committee gives consideration to remuneration policy and levels for the wider employee population.

**Terms of reference**

The Committee's full terms of reference, which conform with the requirements of the Combined Code can be obtained from the Company Secretary.

**Governance**

The Board considers all of the members of the Committee to be independent Non-Executive Directors, in accordance with the Combined Code, with the exception of the Chairman of the company, Sir Christopher Gent, who was independent on appointment to the company.

The Committee met 6 times during 2009, with each member attending as follows:

| Members   | Committee member since | Number of meetings held in 2009 whilst a member | Number of meetings attended in 2009 whilst a member |
|---|------------------------|---|---|
| Sir Crispin Davis<br>(Chairman from 20th May 2009)                  | 1st July 2003          | 6   | 6   |
| Sir Robert Wilson<br>(Chairman from 17th May 2004 to 20th May 2009) | 1st January 2004       | 6   | 6   |
| Mr L Culp   | 1st January 2004       | 6   | 5   |
| Sir Christopher Gent  | 1st January 2007       | 6   | 6   |
| Mr J Murdoch  | 1st October 2009       | 1   | 1   |
| Mr T de Swaan*  | 20th May 2009          | 4   | 4   |
| Dr Ronaldo Schmitz**  | 25th May 2005          | 2   | 2   |

\* Mr de Swaan is also the Chairman of the Audit & Risk Committee.

\*\* Dr Schmitz retired from the Board on 20th May 2009 having been a

member of the  
Committee prior  
to that date.

Two quorate meetings were held during the year to approve the formal grant of long-term incentive (LTI) awards in accordance with GSK's remuneration policy.

With the exception of Mrs Whyte (Deputy Company Secretary and Secretary to the Committee), no employees of the company were involved in the conduct of Committee meetings. Mr Witty (CEO), Mr Heslop (CFO), Mr Bicknell (Senior Vice President, Company Secretary & Corporate Compliance Officer), Mr Phelan (Chief of Staff), Ms Thomas (Senior Vice President, Human Resources) and Mr Powley (Senior Vice President, Corporate Compensation) were invited to attend part of some meetings of the Committee as required. They do not attend where their individual remuneration is discussed and no director is involved in deciding his own remuneration.

The Committee has access to external advice as required. Deloitte LLP has been appointed by the Committee to provide it with independent advice on executive remuneration. During the year, Deloitte LLP provided independent commentary on matters under consideration by the Committee, and provided updates on best practice, legislative requirements and market practice.

Deloitte LLP also provided other tax and consulting services to GSK during the year, but did not provide advice on executive remuneration matters other than for the Committee. Towers Watson provided additional market data to the Committee.

#### **Commitment to shareholders**

The Committee engages in regular dialogue with shareholders and holds an annual meeting with GSK's largest investors to discuss and take feedback on its remuneration policy and any key developments during the year. In particular, the Committee discusses any significant changes to the policy or the measures used to assess performance.

#### **Summary of policy**

As a result of the remuneration review in 2008, changes were made to the remuneration packages of the CEO and the CFO for 2009.

The remuneration structure of all CET members (including the Chairman, Research & Development) has now been harmonised with that of the CEO and CFO. As a result of this, with effect from 2010, share options will normally no longer be granted to any CET members. Instead, CET members will receive additional performance share awards, and will also be eligible to participate in GSK's Deferred Annual Bonus Plan.

## Remuneration Report

**Key elements of remuneration****Policy for 2010 onwards**

|                              |     |   |
|------------------------------|-----|---|
| Salary                       |     | Salary levels reviewed annually influenced by the Executive's role and experience. Benchmarked against relevant comparator group(s)   |
| Annual bonus                 |     | <p>The majority of bonus is based on the achievement of financial targets (based on Group profit before interest and tax, and on business unit operating profit)</p> <p>Individual performance against pre-determined personal objectives is also taken into account in determining individual bonus payments</p> <p>There are R&amp;D specific key performance indicators for R&amp;D employees</p> <p>Achievement of additional operational efficiency goals will also be taken into account in determining the annual bonuses in respect of 2009 and 2010</p> <p>No individual, including the CEO, will have a maximum bonus opportunity of more than 200% of salary</p> <p>The Committee reviews the ongoing financial impact of any prior year activities and an Executive's role in them and may make appropriate adjustments to individual bonus awards to reflect the circumstances</p> |
| Deferred Annual Bonus Plan   |     | <p>Individuals may elect to defer up to 50% of any bonus earned</p> <p>In respect of 2009, only the CEO and CFO were eligible to participate</p> <p>From 2010, all Executives may participate</p> <p>Deferred bonuses may be matched up to one-for-one subject to relative Total Shareholder Return (TSR) performance over three years (TSR vesting as for PSP)</p>   |
| Performance Share Plan (PSP) | 60% | <p>Vesting based on relative TSR using a comparator group currently comprising 10 other pharmaceutical companies</p> <p>Half of TSR component is measured over three years and half over four years</p> <p>30% vesting at median, with 100% vesting for upper quartile performance</p> <p>Twelve-month averaging period for TSR</p>   |
|                              | 40% | <p>Vesting based on adjusted free cash flow measured over three years</p> <p>25% vesting at threshold, rising to 100% for stretching performance exceeding the set threshold by a specified margin</p> <p>The operating maximum face value of annual performance share awards is as follows: 500% of salary for the CEO and Chairman, Research &amp; Development and 400% for the CFO</p>   |
| Share Option Plan            |     | Options no longer normally to be granted to any Executives  |
| Pension                      |     | For UK Executives, defined contribution plan and legacy final salary plans (closed to new entrants since 2001). Executives participating in the defined contribution plan benefit from a  |

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company contribution of 20% of base salary, plus a matched contribution of 5% of base salary

For US Executives, GSK operates a US Cash Balance Plan, and Executives benefit from contributions of up to 38% of salary

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## Remuneration Report

**Total remuneration benchmarking**

The Committee reviews GSK's total remuneration against comparable companies on a regular basis, to ensure that remuneration arrangements are structured appropriately to deliver value for money for shareholders over the longer term and are competitive. The relevant comparator group(s) are now determined for each individual Executive. For benchmarking purposes, total remuneration incorporates base salary, bonus and LTIs. When setting pay, the Committee also considers pension arrangements.

## UK cross-industry comparator group

AngloAmerican  
AstraZeneca  
Barclays  
BG Group  
BHP Billiton  
BP  
British American Tobacco  
Diageo  
HSBC  
Reckitt Benckiser  
Royal Dutch Shell  
Rio Tinto  
Standard Chartered  
Tesco  
Unilever  
Vodafone

## Global pharmaceutical comparator group\*

|             |                      |
|-------------|----------------------|
| France      | Sanofi-Aventis       |
| Switzerland | Novartis             |
|             | Roche Holdings       |
| UK          | AstraZeneca          |
| USA         | Abbott Laboratories  |
|             | Amgen**              |
|             | Bristol-Myers Squibb |
|             | Eli Lilly            |
|             | Johnson & Johnson    |
|             | Merck                |
|             | Pfizer               |

\* Revised to reflect the de-listing of Schering-Plough and Wyeth during 2009 (see page 88)

\*\* Amgen is included for benchmarking but as of 2009 is not in the current TSR comparator group.

**Individual elements of remuneration**

The balance between the fixed (base salary) and variable (annual bonus and LTI) elements of remuneration varies depending on performance. The charts to the right show the anticipated mix between fixed and variable pay on an expected value basis under the new remuneration policy. The actual mix may be higher or lower, depending on the performance of GSK and the individual. Typically, a significant portion (approximately 75% – 85%) of an Executive

Director's package is variable.

**Base salary**

Base salaries are set by reference to the relevant comparator group at a level considered appropriate to secure the talent needed to deliver GSK's strategic priorities.

Until 2008, GSK's remuneration policy was based on the principle of achieving competitiveness with the global pharmaceutical industry, which was the primary pay comparator. The Committee now decides on an individual Executive basis whether the primary pay comparator should be the global pharmaceutical sector, the UK-based large cross-industry multinationals and/or some other comparator group(s).

| Primary Comparator Group | UK cross-industry | Global pharmaceutical |
|--------------------------|-------------------|-----------------------|
| Mr Witty, CEO            | ü                 |                       |
| Mr Heslop, CFO           | ü                 |                       |
| Dr Slaoui, Chairman, R&D |                   | ü                     |

Salary levels are reviewed annually and are influenced by the Executive's role, experience and the pay environment.

**CEO**

**1 Salary**

**2 Cash bonus**

**3 Deferred bonus including match**

**4 Performance shares**

**CFO**

**1 Salary**

**2 Cash bonus**

**3 Deferred bonus including match**

**4 Performance shares**

For 2010, the Committee considered the current economic conditions and the new GSK harmonised pay philosophy. Accordingly, it agreed with the CEO and CFO that their pay would be held at 2009 levels. As part of the alignment of pay structures across the CET, Dr Slaoui's base salary will be adjusted to reflect the new balance and also the market rate of pay for his responsibilities. The table immediately following sets out current base salaries and those proposed for 2010.

Salary increases typically take effect from 1st April each year.

| 2009 base salary | Effective date for | 2010 base salary | Effective date for | % change |
|------------------|--------------------|------------------|--------------------|----------|
|                  |                    |                  |                    |          |

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|           |            | 2009<br>salary |            | 2010<br>salary |       |
|-----------|------------|----------------|------------|----------------|-------|
| Mr Witty  | £1,000,000 | 1st April 2009 | £1,000,000 | 1st April 2010 | 0     |
| Mr Heslop | £525,000   | 1st April 2009 | £525,000   | 1st April 2010 | 0     |
| Dr Slaoui | \$875,000  | 1st April 2009 | \$975,000  | 1st April 2010 | 11.43 |

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## Remuneration Report

**Annual bonus**

**The annual bonus is designed to drive the achievement of GSK's annual financial and strategic business targets as well as personal objectives.**

For 2010 the on-target bonus for the Executive Directors is given in the table below.

|               | On-target bonus as a % of base salary |
|---------------|---------------------------------------|
| CEO           | 125%                                  |
| CFO           | 80%                                   |
| Chairman, R&D | 85%                                   |

Maximum bonuses are set by reference to individual on-target bonus levels. There is a cap on bonus payments of 200% of salary. That cap remains unchanged for 2010. Annual bonus is not pensionable.

Last year, the Committee revised the annual bonus plan to strengthen the alignment to the new business strategy (details of which are set out in pages 4 to 7) and budgeting process.

The majority of the annual bonus opportunity is based on a formal review of performance against stretching financial targets based on Group profit before interest and tax and business unit operating profit targets, with the remainder being based on achievements against specific individual objectives. Annual bonuses are calibrated to reflect the stretching targets which have been established to drive significant changes to GSK's business model. The bonus threshold will be 90% of target with the maximum being payable for achievement of 110% of target. The bonus threshold of 90% reflects the stretching nature of the bonus targets.

Bonus targets for the CEO are set by the Board. In setting the objectives for the CEO, the Board focuses on the strategies that have been developed for the company, which are set out on pages 4 to 7 of the Annual Report. For reasons of commercial sensitivity, the specific objectives are kept confidential. Following the end of the financial year, the Board reviews the CEO's performance generally and against the set objectives, and the Committee then determines the bonus payable.

For the other Executives, the CEO makes recommendations to the Committee regarding performance against their objectives. These recommendations are considered by the Committee when determining the level of bonuses payable. Each year, the Committee reviews the ongoing financial impact of any prior year activities and the role of individual Executives in such activities, and the Committee may make appropriate adjustments to individual bonus awards to reflect those circumstances. The Chairman of the Audit & Risk Committee is a member of the Committee and provides input on the Audit & Risk Committee's review of the Group's performance. No such adjustments were made in respect of bonuses for 2009.

Bonus measures for R&D employees, including Dr Slaoui, are linked to the pipeline. A robust governance structure has been established to ensure that the bonus payable fairly reflects R&D productivity and performance as well as performance against profit targets. This process requires the review of progress against targets by the R&D Bonus Compensation Review Committee which includes the CEO and the company's two Non-Executive Directors who are designated as Scientific Experts, Professor Sir Roy Anderson and Dr Podolsky. The Committee reviewed the plan operation during the year and decided that it should continue as the annual bonus for R&D. The Committee will continue to keep its operation under review and may in future consider extending it to other Executives including the CEO.

**2009 bonus awards**

The objectives set for the company for 2009 focused in particular on the continued development and launch of late stage pipeline assets, delivery of commercial targets and execution of restructuring programmes to simplify the operating model.

The Committee took into account GSK's success in achieving the above objectives, as well as each individual's performance, when determining the bonus awards for 2009. Actual bonus payments for Executive Directors are shown on page 83 and ranged from 115% to 200% of base salaries as at 31st December 2009.

The bonuses set by the Committee reflect GSK's increased sales, profit and cash flow performance during the year, in challenging market conditions, and with significant loss of sales to generics in the USA. It also includes the achievement of key strategic and individual objectives, including:

- delivering continued growth of the vaccine portfolio

- further geographic diversification, particularly within emerging markets and consumer healthcare

- achieving key milestones in the transformation of R&D productivity, particularly in relation to the late stage R&D pipeline products

- simplification of GSK's business model and achievement of operational efficiencies.

## Remuneration Report

**Deferred annual bonus plan**

**A new Deferred Annual Bonus Plan was introduced in 2009 to encourage long-term shareholding, to discourage excessive risk taking and to help drive long-term shareholder returns relative to other global pharmaceutical companies.**

Eligibility for the 2009 bonus year was restricted to the CEO and CFO, but all CET members will be invited to participate from the 2010 bonus year onwards, as part of the simplification of the CET remuneration structure. Up to 50% of any annual bonus earned may be deferred for three years. The company will match shares up to one-for-one depending on the company's relative TSR over this period. The performance measure and vesting schedule will be consistent with the three-year TSR component of the Performance Share Plan described below.

The CEO has elected to participate in GSK's Deferred Annual Bonus plan in respect of his bonus for 2009. As a result, 15% of the CEO's bonus has been deferred into 24,291 shares in the company, and a matching award of the same number of shares has been made which may vest in February 2013 subject to the company's relative TSR performance and his continued employment.

Dividend equivalents will accrue and be delivered in respect of any deferred shares and matching shares that vest.

**Long-term incentive plans**

New LTI plans were approved by shareholders at the 2009 AGM.

To provide better alignment to UK market practice, in 2009 the CEO and the CFO did not receive share option grants. Instead, their LTIs were only in the form of performance shares. They also had the opportunity to defer part of any bonus earned into shares, and as outlined above, to be eligible to receive matching shares subject to the achievement of additional performance conditions. The Chairman, Research & Development continued to receive share options in 2009, and was not eligible to participate in the new deferred annual bonus arrangement. However, from 2010 onwards the remuneration arrangements of all CET members (including the Chairman, Research & Development) have been aligned with those of the CEO and CFO. As a result, share options will normally no longer be granted. Instead, CET members will receive performance share awards.

Under the new LTI plans, the Committee may reduce the grant or vesting levels if it determines that a participant has engaged in conduct which is contrary to the legitimate expectations of the company for an employee in the participant's position.

Typically, awards are delivered to US resident executives in the form of ADS. Awards are delivered in the form of Ordinary Shares to executives resident in the UK and other countries. All awards are made under plans which incorporate dilution limits consistent with the guidelines provided by the Association of British Insurers. Current estimated dilution from existing awards under all GSK employee share schemes made since the merger is approximately 6.4% of the company's share capital at 31st December 2009.

The LTI plans are summarised in the relevant sections below together with the basis on which awards will be made to the Executives in 2010.

## a) Performance shares

**The Performance Share Plan ensures focus on GSK's long-term shareholder returns relative to other pharmaceutical companies and on the delivery of GSK's strategic priorities.**

Under the plan, measurement of performance has been broadened so that the most senior team is incentivised against operational measures aligned with GSK's business strategy as well as TSR. TSR remains an appropriate comparative measure since it focuses on the return to shareholders, is a well-understood and tested mechanism to measure performance and allows comparison between companies operating in different countries. Therefore, typically a proportion of any award made to Executives will continue to be subject to relative TSR. The balance will be based on strategic or operational measures to support our business strategy. For 2009 and 2010 the emphasis has and will be on working capital and cash management.

There will be no retesting of performance.

**2010 Awards**

Performance share awards to Executives for 2010 were made in February 2010.

**TSR measure**

For awards made in 2010, 60% of the award will be based on relative TSR using a comparator group currently comprising 10 other global pharmaceutical companies. For this TSR element, the percentage vesting at median is 30%, with full vesting for upper quartile TSR performance. The graph below shows the TSR vesting schedule for awards granted in 2010.

Proportion vesting

TSR rank position

To provide a focus on sustained longer-term performance, the performance period was extended for all awards made from 2009 so that half of the TSR element of each award will be measured over three years and half over four years. To measure performance on a stable basis and to reflect better the long-term nature of the pharmaceutical industry, the TSR averaging period is twelve months for awards made from 2009 onwards.

## Remuneration Report

**Adjusted free cash flow measure**

To recognise the importance of effective working capital and cash management, the remaining 40% will vest subject to the achievement of adjusted free cash flow targets. The target may be adjusted for material factors which could distort free cash flow as a performance measure. These will typically include exchange rate movements and may also include legal and major taxation settlements and special pension contributions, which could materially distort this calculation. The impact of any acquisition or divestment will be quantified and adjusted for after the event. Major adjustments in the calculation will be disclosed to shareholders. For the awards in 2010, the targets are:

|                   | Adjusted free cash flow targets | % vesting |
|-------------------|---------------------------------|-----------|
| Threshold vesting | £17.3 billion                   | 25%       |
|                   | £17.8 billion                   | 50%       |
|                   | £19.6 billion                   | 75%       |
| Maximum vesting   | £20.5 billion                   | 100%      |

Between the above points, vesting will be calculated on a straight-line basis. The element based on adjusted free cash flow will be measured over three years.

**Award values**

There is an individual award limit on the maximum initial value of performance shares that may be granted to an individual in any one year. Other than in exceptional circumstances, the maximum face value of performance shares that may be granted to an individual in any one year will be six times salary. The value of performance share awards granted to the Executive Directors in 2010 is shown in the table below:

|               | % of base salary | 2010 Award     |
|---------------|------------------|----------------|
| CEO           | 500%             | 415,454 Shares |
| CFO           | 400%             | 174,491 Shares |
| Chairman, R&D | 500%*            | 130,627 ADS    |

\* Adjusted from 2009 to reflect removal of share options.

To provide a closer link between shareholder returns and payments to the Executives, notional dividends are reinvested and paid out in proportion to the vesting of the award. The value of reinvested dividends is incorporated into the benchmarking of award levels.

**Vesting of 2007 Awards**

The Committee reviewed performance of the performance share awards granted to the Executive Directors in February 2007, with the three-year performance period starting on 1st January 2007 and ending on 31st December 2009. The company ranked at the median of the revised comparator group and therefore 35% of the awards vested. The awards made to other senior executives in 2007 were dependent in part on TSR performance and in part on EPS performance. The EPS portion of those awards did not vest.

The vesting tables for recent performance share awards together with share option awards are shown on page 80.

**b) Share options**

As part of the remuneration review undertaken in 2008, it was decided that share options would no longer be granted to the CEO and CFO, to align their packages better with the UK market. As outlined above, it has since been decided to simplify the remuneration structure for all CET members, and so share options will normally no longer be granted to CET members from 2010 onwards.

Details of subsisting options, and the performance conditions attached to each grant, are provided in the audited section of this report.

**Vesting of 2007 Awards**

The performance conditions for the share option awards granted in 2007 were not met and, as a result, these awards lapsed.

**c) Historical vesting for GSK's LTIs**

GSK's LTI performance conditions continue to be challenging as is demonstrated by the table on page 80. TSR has been an important part of the LTI measures for many years. This measure has been retained under the current policy.

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## Remuneration Report

The following table shows the vesting levels of GSK's performance share and share option awards to Executives since the remuneration review during 2003. A TSR vesting percentage of 0% indicates that GSK's TSR performance was below the median of the comparator group for that performance period.

|      | Performance period     | Performance Share Plan Vesting under TSR measure % | Share Option Plan Vesting under EPS measure % |
|------|------------------------|--|---|
| 2003 | 01/01/04 31/12/06      | 0  | 100   |
| 2004 | 01/01/05 31/12/07      | 38.47  | 100   |
| 2006 | 01/01/06 31/12/08      | 0  | 50.7  |
| 2007 | 01/01/07 31/12/09      | 35   | 0   |
|      | Average annual vesting | 18.37  | 62.67   |

No award was made during 2005 due to a change in the award cycle.

**Pensions****Pensions provide an important tool for creating a long-term culture and loyalty.**

The Executives participate in GSK senior executive pension plans. The pension arrangements are structured in accordance with the plans operated for Executives in the country in which they are likely to retire. Details of individual arrangements for the Executive Directors are set out on page 89.

New Executives to GSK will be eligible for either a defined contribution scheme or a cash balance plan. Existing obligations under defined benefit schemes in the UK will continue to be honoured.

**a) UK pension arrangements**

The company currently operates a defined contribution plan, and legacy final salary plans which are closed to new entrants. Newly hired Executives in the UK will participate in the defined contribution plan.

During 2009 the UK Government announced a series of changes to pensions, which will impact the pensions of approximately 600 executives in GSK. The proposed pension legislation (if implemented in full) could have significant negative consequences for UK executives and the effectiveness of pensions will be significantly reduced. Pensions have been and continue to be an important tool for creating a long-term culture and promoting employee retention, and therefore GSK is keeping the situation under active review.

Executives participating in the defined contribution plan receive a company contribution of 15%–20% of base salary depending on grade. They will also have the opportunity to receive up to a further 5% in matched contributions in line with the policy for all other members of the pension plan.

The legacy final salary plans provide for up to two-thirds of final salary at age 60. For employees subject to the cap, benefits in excess of the cap are currently provided through unfunded arrangements. Under the legacy final salary plans, actuarial reduction factors apply where a participant leaves employment of his/her own accord before the age of 60.

If employment is terminated by the company other than for cause then, in the same way as for all other members of the legacy final salary plans, the reduction factors will not apply.

**b) US pension arrangements**

In the USA, GSK operates a US Cash Balance Plan which provides for an annual contribution and interest on the sum accumulated in the cash balance plan but with no contractual promise to provide specific levels of retirement income. The plan incorporates an Executive Pension Credit for senior US executives. Contribution rates under the plan range

from 15% to 38% of base salary depending on grade. All current senior US executives are eligible for the Executive Pension Credit.

For capped employees in the USA, benefits above the cap are provided through an unfunded non-qualified plan.

### Share ownership requirements

**To align the interests of Executives with those of shareholders, Executives are required to build up and maintain significant holdings of shares in GSK over time.**

Current share ownership requirements (SOR) are set out in the table below:

|                     | Share Ownership Requirement |
|---------------------|-----------------------------|
| CEO                 | 4 x base salary             |
| Executive Directors | 3 x base salary             |
| CET members         | 2 x base salary             |

During the year, Mr Witty has been building up his shareholding by actively purchasing shares in the market. He has spent a total of £300,000 of after tax earnings since the publication of the last Annual Report to help build towards his SOR, in addition to the acquisition of shares through dividend reinvestment. He has also elected to participate in GSK's Deferred Annual Bonus plan in respect of £300,000 (15%) of his 2009 pre-tax bonus. The resultant award of 24,291 deferred shares is included in Mr Witty's SOR in the table below.

Shareholdings for the purpose of SOR as at 24th February 2010 were:

|           | Holding for<br>SOR purposes<br>(as at 31/12/08) | Holding for<br>SOR purposes<br>(as at 24/02/10) | % increase in<br>shareholding |
|-----------|---|---|-------------------------------|
| Mr Witty  | 73,753  | 144,879   | 96                            |
|           | Ordinary shares                                 | Ordinary shares                                 |                               |
| Mr Heslop | 47,750  | 74,250  | 55                            |
|           | Ordinary shares                                 | Ordinary shares                                 |                               |
| Dr Slaoui | 49,799  | 95,836  | 92                            |
|           | Ordinary shares                                 | Ordinary shares                                 |                               |

Executives are required to continue to satisfy these shareholding requirements for a minimum of twelve months following retirement from the company to support the long-term nature of the business.

### Other remuneration elements

The Executives participate in various all-employee share plans in either the UK or the USA.

The ShareSave plan and the ShareReward plan are UK HM Revenue & Customs approved plans open to all UK employees on the same terms.

Mr Witty and Mr Heslop are members of the ShareSave plan. Mr Witty and Mr Heslop contribute £250 a month into the plan. This provides them with the option to buy shares at the end of the three-year savings period in line with the opportunity available to all UK employees.



### Remuneration Report

Mr Witty and Mr Heslop also contribute £125 per month to buy shares under the ShareReward plan. The company matches the number of shares bought each month.

The Executives also receive other benefits including healthcare (medical and dental), personal financial advice and life assurance. The cash value of the benefits received by the Executive Directors in 2009 is shown on page 83.

### Executive Director terms and conditions

#### Executive Director contracts

The policy set out below provides the framework for contracts for Executive Directors.

|  |  |
|--|--|
| Notice period on termination by the employing company or executive | 12 calendar months   |
| Termination payment  | 1 x annual salary<br>1 x annual on-target bonus*<br>No mitigation required** |
| Vesting of LTIs  | Rules of relevant incentive plan, as approved by shareholders                |
| Pension  | Based on existing arrangements and terms of the relevant pension plan        |
| Non-compete clause   | 12 months from termination notice date**                                     |

\* The CEO has agreed an amendment to his contract to remove a contractual entitlement to bonus as part of his termination package. The contracts of new Executives will not normally include a bonus element in any termination payment. However, to the extent that the

company imposes non-compete provisions and restricts the individual from working elsewhere, a compensatory payment may be made.

\*\* The ability to impose a 12-month non-compete period (and a non-solicitation restriction) on an Executive is considered important by the company in order to have the ability to protect the Group's intellectual property and staff. In light of this, the Committee believes that it would not be appropriate to provide for mitigation in the contracts.

The following table sets out the details of the Executive Directors' service contracts:

| Current Directors | Date of contract | Effective date | Expiry date |
|-------------------|------------------|----------------|-------------|
| Mr A Witty*       | 18.06.08         | 22.05.08       | 31.08.24    |
| Mr J Heslop       | 16.03.05         | 01.04.05       | 31.01.14    |
| Dr M Slaoui       | 16.05.06         | 01.06.06       | 01.08.19    |

\* Mr Witty's contract was renewed in June 2008

following his appointment as CEO, and was supplemented on 4th February 2010 to reflect the changes to his severance terms outlined above.

No termination payments will be made in respect of any part of a notice period extending beyond the contract expiry date.

**Other entitlements**

In addition to the contractual provisions outlined above, in the event that Executive Directors' service agreements are terminated by their employing company, the following will apply:

in the case of outstanding awards under the GlaxoSmithKline Annual Investment Plan (which was closed to new deferrals with effect from the first quarter of 2006) provided that their agreement is terminated other than for cause, any deferred amount, and any income and gains, are automatically distributed as soon as administratively practicable after termination.

in line with the policy applicable to US senior executives, Dr Slaoui may become eligible, at a future date, to receive continuing medical and dental insurance after retirement.

Following the merger, those participants in the legacy share option schemes who elected to exchange their legacy options for options over GlaxoSmithKline shares will receive an additional cash benefit equal to 10% of the grant price of the original option. This additional benefit is triggered when the option is exercised or lapses. To qualify for this additional cash benefit, participants had to retain their options until at least the second anniversary of the effective date of the merger.

**Outside appointments for Executive Directors**

Any outside appointments must be approved by the Chairman on behalf of the Board. It is the company's policy that remuneration earned from such appointments may be kept by the individual Executive Director.

**Non-Executive Director terms and conditions**

Non-Executive Directors of GlaxoSmithKline do not have service contracts but instead have letters of appointment under which it is agreed that they serve the company as a Non-Executive Director until the conclusion of the AGM following the third anniversary of their appointment. In each case this can be extended for a further term of three years by mutual agreement. No Directors serve a term longer than three years without offering themselves for re-election by the shareholders.

Non-Executive Directors are not entitled to compensation if their appointment is terminated.

The following table shows the date of the initial letter of appointment of each Non-Executive Director:

| Non-Executive Director     | Date of letter of appointment |
|----------------------------|-------------------------------|
| Professor Sir Roy Anderson | 28.09.07                      |
| Dr S Burns                 | 12.02.07                      |
| Mr L Culp                  | 09.06.03                      |
| Sir Crispin Davis          | 09.06.03                      |
| Sir Deryck Maughan         | 26.05.04                      |
| Mr J Murdoch               | 26.02.09                      |
| Dr D Podolsky              | 03.07.06                      |
| Mr T de Swaan              | 21.12.05                      |
| Sir Robert Wilson          | 09.06.03                      |

Sir Ian Prosser\*  
Dr R Schmitz\*

19.06.00  
19.06.00

\* Sir Ian Prosser  
and Dr Ronaldo  
Schmitz retired  
from the Board  
at the  
conclusion of  
the AGM on  
20th May 2009.

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## Remuneration Report

**Non-Executive Directors fees**

The company aims to provide Non-Executive Directors with fees that are competitive with those paid by other companies of equivalent size and complexity. Fees applying at 31st December 2009 are as follows:

|   | Per annum             |
|---|-----------------------|
| Standard annual cash retainer fee   | £75,000               |
| <b>Supplemental fees</b>  |                       |
| Chairman of the Audit & Risk Committee                                    | £80,000               |
| Senior Independent Director<br>and Scientific/Medical Experts             | £30,000               |
| Chairman of the Remuneration and Corporate Responsibility Committee       | £20,000               |
| Non-Executive Director undertaking<br>intercontinental travel to meetings | £7,500<br>per meeting |

The Chairman is the current Chairman of the Corporate Responsibility Committee, but does not receive the additional fee listed above.

To reflect the increased focus within the company on compliance and risk, GSK has significantly enlarged the remit and responsibilities of the Audit & Risk Committee, and the commitment required from its Chairman. The company agreed that the time requirement for his role as Committee Chairman moving from approximately 30 days to approximately 80 days per annum should be reflected through an increase in the fees payable. Further details of the changes to the Committee's terms of reference and the new Audit and Assurance model are given on pages 66 to 69. Following an independent review, the supplemental fee for the Chairman of the Audit & Risk Committee was increased from £30,000 per annum to £80,000 per annum with effect from 1st October 2009.

**Exchange rate**

Fees that are paid in US dollars were converted at the following exchange rates:

| Date of approval | Period rate applied | Exchange rate<br>£1/US\$ |
|------------------|---------------------|--------------------------|
| 29.07.04         | 01.10.04 31.03.08   | US \$1.8162              |
| 28.03.08         | 01.04.08 30.09.09   | US \$1.9918              |
| 03.12.09*        | 01.10.09 31.12.09   | US \$1.6395              |
|                  | 01.01.10 31.12.10   | US \$1.6326              |

\* Given the recent fluctuations in the US dollar exchange rate; it was agreed that

with effect from  
1st  
October 2009  
the exchange  
rate would be  
set annually  
based on the  
average daily  
rate for the last  
quarter of the  
year prior to  
payment. The  
rate would be  
reviewed if  
exchange rates  
moved  
significantly  
during the year.

#### **Non-Executive Directors share allocation plan**

To enhance the link between Directors and shareholders, GSK requires Non-Executive Directors to receive a significant part of their fees in the form of shares. At least 25% of the Non-Executive Directors' total fees, excluding the Chairman, are paid in the form of shares or ADS and allocated to a share account. The Non-Executive Directors may also take the opportunity to invest part or all of the balance of their fees into the same share account.

The shares or ADS which are notionally awarded to the Non-Executive Directors and allocated to their interest accounts are included within the Directors' interests tables on page 85. The accumulated balance of these shares or ADS, together with notional dividends subsequently reinvested, are not paid out to the Non-Executive Directors until retirement from the Board. Upon retirement, the Non-Executive Directors will receive either the shares or ADS or a cash amount equal to the value of the shares or ADS at the date of retirement.

#### **Chairman**

Sir Christopher Gent's letter of appointment to the Board was dated 26th May 2004, under which it was agreed that he would serve the company as Deputy Chairman until 31st December 2004 and from 1st January 2005 as Chairman until the conclusion of the AGM following the third anniversary of his appointment. This was extended for a further term of three years by mutual agreement, with effect from his re-election as a Director at the AGM held on 21st May 2008.

The Chairman's fees are currently £540,000 per annum plus an allocation of shares to the value of £135,000 per annum.

#### **TSR performance graph**

The following graph sets out the performance of the company relative to the FTSE 100 Index of which the company is a constituent and to the pharmaceutical performance comparator group from 1st January 2004 to 31st December 2009. The graph has been prepared in accordance with the Regulations and is not an indication of the likely vesting of awards granted under any of the company's incentive plans.

#### **TSR performance**

##### **Directors and Senior Management remuneration**

The following tables set out, for the Directors of GlaxoSmithKline plc, the remuneration earned in 2009, their interests in shares of GlaxoSmithKline plc, their interests in share options and incentive plans and their pension benefits. The members of the CET also participate in the same remuneration plans as the Executive Directors. The aggregate remuneration and interests of the Directors and Senior Management are also provided.

Remuneration Report  
Annual remuneration

|                                | Footnote | Fees<br>and<br>salary<br>000 | Other<br>benefits<br>000 | Annual<br>bonus<br>000 | 2009<br>Total<br>annual<br>remuneration<br>000 | Fees<br>and<br>salary<br>000 | Other<br>benefits<br>000 | Annual<br>bonus<br>000 | 2008<br>Total<br>annual<br>remuneration<br>000 |
|--------------------------------|----------|------------------------------|--------------------------|------------------------|--|------------------------------|--------------------------|------------------------|--|
| <b>Executive Directors</b>     |          |                              |                          |                        |  |                              |                          |                        |  |
| Mr A Witty                     | a,b,c    | £948                         | £180                     | £2,000                 | <b>£3,128</b>                                  | £687                         | £92                      | £999                   | £1,778   |
| Mr J Heslop                    | b        | £507                         | £56                      | £602                   | <b>£1,165</b>                                  | £476                         | £32                      | £418                   | £926   |
| Dr M Slaoui                    | b,d      | \$865                        | \$507                    | \$1,439                | <b>\$2,811</b>                                 | \$805                        | \$405                    | \$942                  | \$2,152  |
| <b>Non-Executive Directors</b> |          |                              |                          |                        |  |                              |                          |                        |  |
| Professor Sir Roy Anderson     |          | £120                         |                          |                        | <b>£120</b>                                    | £116                         |                          |                        | £116   |
| Sir Crispin Davis              |          | £102                         |                          |                        | <b>£102</b>                                    | £86                          |                          |                        | £86  |
| Sir Christopher Gent           |          | £675                         | £5                       |                        | <b>£680</b>                                    | £650                         | £1                       |                        | £651   |
| Mr J Murdoch                   | e        | £54                          |                          |                        | <b>£54</b>                                     |                              |                          |                        |  |
| Mr T de Swaan                  |          | £133                         |                          |                        | <b>£133</b>                                    | £116                         |                          |                        | £116   |
| Sir Robert Wilson              |          | £116                         |                          |                        | <b>£116</b>                                    | £106                         |                          |                        | £106   |
| Dr S Burns                     |          | \$188                        |                          |                        | <b>\$188</b>                                   | \$194                        |                          |                        | \$194  |
| Mr L Culp                      |          | \$188                        |                          |                        | <b>\$188</b>                                   | \$179                        |                          |                        | \$179  |
| Sir Deryck Maughan             |          | \$188                        |                          |                        | <b>\$188</b>                                   | \$179                        |                          |                        | \$179  |
| Dr D Podolsky                  |          | \$245                        |                          |                        | <b>\$245</b>                                   | \$252                        |                          |                        | \$252  |
| <b>Former Directors</b>        |          |                              |                          |                        |  |                              |                          |                        |  |
| Dr M Barzach                   | i        | £80                          |                          |                        | <b>£80</b>                                     | £71                          |                          |                        | £71  |
| Mr J Coombe                    |          |                              | £2                       |                        | <b>£2</b>                                      |                              | £3                       |                        | £3   |
| Sir Ian Prosser                | h        | £48                          | £5                       |                        | <b>£53</b>                                     | £111                         |                          |                        | £111   |
| Dr R Schmitz                   | h        | £37                          | £5                       |                        | <b>£42</b>                                     | £86                          |                          |                        | £86  |
| Dr JP Garnier                  | b        |                              | \$5,885                  |                        | <b>\$5,885</b>                                 | \$756                        | \$1,586                  | \$759                  | \$3,101  |
| Dr L Shapiro                   | f        |                              |                          |                        |  | \$85                         |                          |                        | \$85   |
| Mr C Viehbacher                | b,g      |                              |                          |                        |  | \$687                        | \$123                    |                        | \$810  |
| Dr T Yamada                    | b        |                              | \$19                     |                        | <b>\$19</b>                                    |                              | \$2,243                  |                        | \$2,243  |
| Total remuneration             |          | £3,893                       | £4,363                   | £3,525                 | <b>£11,781</b>                                 | £4,201                       | £2,483                   | £2,336                 | £9,020   |
| Analysed as:                   |          |                              |                          |                        |  |                              |                          |                        |  |
| Executive Directors            |          | £2,009                       | £561                     | £3,525                 | <b>£6,095</b>                                  | £1,598                       | £343                     | £1,926                 | £3,867   |

|                         |        |        |        |                |        |        |        |        |
|-------------------------|--------|--------|--------|----------------|--------|--------|--------|--------|
| Non-Executive Directors | £1,719 | £5     |        | <b>£1,724</b>  | £1,706 | £1     |        | £1,707 |
| Former Directors        | £165   | £3,797 |        | <b>£3,962</b>  | £897   | £2,139 | £410   | £3,446 |
| Total remuneration      | £3,893 | £4,363 | £3,525 | <b>£11,781</b> | £4,201 | £2,483 | £2,336 | £9,020 |

Remuneration for Directors on the US payroll is reported in Dollars. Dollar amounts are included in the totals based on conversion to Sterling at the average exchange rates for each year.

- a) Mr Witty joined the Board on 31st January 2008 and his remuneration is disclosed from this date.
- b) Following the merger, and in order to encourage employees to convert their non-savings related options held over legacy shares or ADS, for options over GlaxoSmithKline shares or ADS, employees were granted an additional cash benefit equal to 10% of the grant price of the original option. This additional benefit, known as the Exchange Offer Incentive (EOI), is only payable when the new option is



exercised or lapses underwater. To qualify for this additional cash benefit, participants had to retain these options until at least the second anniversary of the effective date of the merger.

During the year, Mr Witty received £49,499 (2008 £9,374), Mr Heslop received £32,000 (2008 £14,499) and Dr Slaoui received \$32,281 as a result of options granted to them in 1999 lapsing. Dr Garnier received \$5,512,369 (2008 \$1,227,599), Mr Viehbacher received \$nil (2008 \$50,744) and Dr Yamada received \$nil (2008 \$2,225,018) as a result of options granted to them in 1999 lapsing.

- c) Mr Witty has elected to participate in GSK's Deferred Annual Bonus plan in respect of his bonus for 2009 as described on page 78.
- d) Dr Slaoui is a Non-Executive

Director of the Agency for Science, Technology and Research (A\*STAR) in respect of which he received \$3,951 (2008 \$3,961) during 2009 which is not included above.

- e) Mr Murdoch was appointed to the Board with effect from 20th May 2009.
- f) Dr Shapiro retired from the Board on 17th May 2006 and stepped down as a member of GSK's Scientific Advisory Board on 21st July 2008. During 2008 she received fees of \$85,000 of which \$30,000 was in the form of ADS. These are included within fees and salary above.
- g) Mr Viehbacher was appointed to the Board on 31st January 2008 and his remuneration is disclosed from this date. He resigned from the Board on 8th September 2008 and left the company on 31st December 2008.

h) Sir Ian Prosser and Dr R Schmitz retired as Non-Executive Directors of the company on 20th May 2009. On leaving the Board both Sir Ian Prosser and Dr R Schmitz received the accumulated balance of shares previously awarded under the Non-Executive Directors share arrangements based on the then current share price. This differs from the value as at the dates of allocation as set out in the table on page 85. These are not included within fees and salaries above.

i) Dr Barzach received fees of 89,700 (2008 89,700) from GlaxoSmithKline France for healthcare consultancy provided. These are included within fees and salary above.

None of the above Directors received reimbursement for expenses during the year requiring separate disclosure as required by the

Regulations.

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## Remuneration Report

## Non-Executive Directors remuneration

| Fees                                   | Total<br>000 | 2009        |                   |              | 2008        |                   |              |
|--|--------------|-------------|-------------------|--------------|-------------|-------------------|--------------|
|  |              | Cash<br>000 | Shares/ADS<br>000 | Total<br>000 | Cash<br>000 | Shares/ADS<br>000 | Total<br>000 |
| <b>Current Non-Executive Directors</b> |              |             |                   |              |             |                   |              |
| Professor Sir Roy Anderson             | £120         | £90         | £30               | £116         | £87         | £29               |              |
| Sir Crispin Davis                      | £102         |             | £102              | £86          |             | £86               |              |
| Sir Christopher Gent                   | £675         | £540        | £135              | £650         | £520        | £130              |              |
| Mr J Murdoch                           | £54          | £40         | £14               |              |             |                   |              |
| Mr T de Swaan                          | £133         | £99         | £34               | £116         | £87         | £29               |              |
| Sir Robert Wilson                      | £116         | £87         | £29               | £106         | £79         | £27               |              |
| Dr S Burns                             | \$188        | \$141       | \$47              | \$194        | \$97        | \$97              |              |
| Mr L Culp                              | \$188        | \$141       | \$47              | \$179        |             | \$179             |              |
| Sir Deryck Maughan                     | \$188        | \$141       | \$47              | \$179        |             | \$179             |              |
| Dr D Podolsky                          | \$245        | \$184       | \$61              | \$252        | \$126       | \$126             |              |
| <b>Former Non-Executive Directors</b>  |              |             |                   |              |             |                   |              |
| Sir Ian Prosser                        | £48          | £31         | £17               | £111         | £56         | £55               |              |
| Dr R Schmitz                           | £37          | £26         | £11               | £86          | £51         | £35               |              |
| Total Remuneration                     | £1,804       | £1,302      | £502              | £1,706       | £1,001      | £705              |              |

The table above sets out the remuneration received as Non-Executive Directors of the company.

Non-Executive Directors are required to take at least a part of their total fees in the form of shares allocated to a share account which is not paid out until retirement from the Board (see page 82 for further details). The total value of these shares and ADS as at the date of award, together with the cash payment, forms their total fees, which are included within the Annual remuneration table under 'Fees and salary'. The table above sets out the value of their fees received in the form of cash and shares and ADS.

The table below sets out the accumulated number of shares and ADS held by the Non-Executive Directors in relation to their fees received as Board members as at 31st December 2009, together with the movements in their accounts over the year.

| Non-Executive Directors                | share arrangements footnote | Number of shares and ADS |  |             |
|--|-----------------------------|--------------------------|--|-------------|
|  |                             | At 31.12.08              | Allocated Dividends & elected reinvested | At 31.12.09 |
| <b>Current Non-Executive Directors</b> |                             |                          |  |             |
| <b>Shares</b>                          |                             |                          |  |             |
| Professor Sir Roy Anderson             |                             | 3,001                    | 2,578                                    | 5,730       |
| Sir Crispin Davis                      |                             | 32,683                   | 8,725                                    | 42,909      |
| Sir Christopher Gent                   | a                           | 39,589                   | 11,614                                   | 53,025      |

|                   |   |       |       |     |               |
|-------------------|---|-------|-------|-----|---------------|
| Mr J Murdoch      | b | 1,075 | 2     |     | <b>1,077</b>  |
| Mr T de Swaan     |   | 5,784 | 2,891 | 277 | <b>8,952</b>  |
| Sir Robert Wilson |   | 9,221 | 2,488 | 424 | <b>12,133</b> |

**ADS**

|                    |  |        |       |     |               |
|--------------------|--|--------|-------|-----|---------------|
| Dr S Burns         |  | 3,645  | 1,293 | 158 | <b>5,096</b>  |
| Mr L Culp          |  | 16,822 | 1,293 | 717 | <b>18,832</b> |
| Sir Deryck Maughan |  | 14,756 | 1,293 | 629 | <b>16,678</b> |
| Dr D Podolsky      |  | 6,064  | 1,689 | 264 | <b>8,017</b>  |

**Former Non-Executive Directors**

|                 |  |        |       |       |        |              |
|-----------------|--|--------|-------|-------|--------|--------------|
| Sir Ian Prosser |  | 30,802 | 1,599 | 1,308 | 32,469 | <b>1,240</b> |
| Dr R Schmitz    |  | 23,519 | 995   | 997   | 25,511 |              |

a) The Chairman receives an allocation of shares to the value of £135,000 per annum.

b) Mr Murdoch was appointed to the Board with effect from 20th May 2009.

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## Remuneration Report

The table below sets out the settlement of former Non-Executive Directors' share arrangements on their leaving the Board:

|                 | Footnote | Date of leaving | Value of awards on allocation | Value of awards on leaving | Payments in 2009 |
|-----------------|----------|-----------------|-------------------------------|----------------------------|------------------|
| Sir Ian Prosser | a,b      | 20.05.09        | £382,142                      | £356,644                   | <b>£343,525</b>  |
| Dr R Schmitz    | a,c      | 20.05.09        | £285,566                      | £269,906                   | <b>£269,906</b>  |

a) The change in value of awards between allocation and leaving is attributable to dividends re-invested and the change in share price between the dates of award and dates of leaving.

b) Awards to Sir Ian Prosser under the Non-Executive Directors' share arrangements were partially settled in shares during 2009 with the balance of 1,240 shares to be settled in 2010.

c) Awards to Dr R Schmitz under the Non-Executive Directors' share arrangements

were settled in cash during 2009.

### Directors interests

The following interests of the Directors of the company and their connected persons are shown in accordance with the FSA Listing Rules.

|                                | Footnote | 19th<br>February<br>2010 | 31st<br>December<br>2009 | Shares<br>1st January<br>2009 or date<br>of<br>appointment | 19th<br>February<br>2010 | 31st<br>December<br>2009 | ADS<br>1st<br>January<br>2009 |
|--------------------------------|----------|--------------------------|--------------------------|--|--------------------------|--------------------------|-------------------------------|
| <b>Executive Directors</b>     |          |                          |                          |  |                          |                          |                               |
| Mr A Witty                     | a        | 100,658                  | <b>91,472</b>            | 73,753   |                          |                          |                               |
| Mr J Heslop                    | a        | 49,631                   | <b>49,350</b>            | 47,750   |                          |                          |                               |
| Dr M Slaoui                    | b        | 61,402                   | <b>60,948</b>            | 48,636   | 666                      | <b>592</b>               | 411                           |
| <b>Non-Executive Directors</b> |          |                          |                          |  |                          |                          |                               |
| Professor Sir Roy Anderson     | c        | 5,730                    | <b>5,730</b>             | 3,001  |                          |                          |                               |
| Dr S Burns                     | c        | 44                       | <b>44</b>                | 44   | 5,161                    | <b>5,161</b>             | 3,805                         |
| Mr L Culp                      | c        |                          |                          |  | 18,832                   | <b>18,832</b>            | 16,822                        |
| Sir Crispin Davis              | c        | 49,669                   | <b>49,669</b>            | 39,443   |                          |                          |                               |
| Sir Christopher Gent           | c        | 53,025                   | <b>53,025</b>            | 39,589   |                          |                          |                               |
| Sir Deryck Maughan             | c        |                          |                          |  | 16,678                   | <b>16,678</b>            | 14,756                        |
| Mr J Murdoch                   | c,d      | 2,077                    | <b>2,077</b>             |  |                          |                          |                               |
| Dr D Podolsky                  | c        |                          |                          |  | 8,017                    | <b>8,017</b>             | 6,065                         |
| Mr T de Swaan                  | c        | 8,952                    | <b>8,952</b>             | 5,784  |                          |                          |                               |
| Sir Robert Wilson              | c        | 18,262                   | <b>18,262</b>            | 15,349   |                          |                          |                               |

One GlaxoSmithKline ADS represents two GlaxoSmithKline shares. The interests of the above-mentioned Directors at 19th February 2010 reflect the change between the year-end and that date.

a) Includes shares purchased through the GlaxoSmithKline ShareReward Plan for Mr Witty totalling 2,216 at 31st December 2009 (31st December 2008 1,853) and 2,281 shares at 19th February 2010 and Mr Heslop totalling 2,216 at



31st  
December 2009  
(31st  
December 2008  
1,853) and 2,281  
shares at 19th  
February 2010.

- b) Includes ADS purchased in the GlaxoSmithKline Stock Fund within the US Retirement Savings Plan and US Executive Supplemental Savings Plan.
- c) Includes shares and ADS received as part or all of their fees, as described under Non-Executive Directors share allocation plan on page 82. Dividends received on these shares and ADS were converted to shares and ADS as at 31st December 2009.
- d) Mr Murdoch was appointed to the Board with effect from 20th May 2009. His holdings are shown from that date.

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## Remuneration Report

**Incentive plans**

## Share options

| Options     | Shares | Footnote | At<br>31.12.08 | Date of<br>grant | Exercise period   | Granted        |                  | At<br>31.12.09 |         |
|-------------|--------|----------|----------------|------------------|-------------------|----------------|------------------|----------------|---------|
|             |        |          |                |                  |                   | Grant<br>price | Number<br>Lapsed |                |         |
| Mr A Witty  |        |          | 1,664,623      |                  |                   |                | 114,921          | 1,549,702      |         |
| Mr J Heslop |        | a        | 1,020,361      | 01.12.09         | 01.12.12 31.05.16 | £9.72          | 933              | 131,894        | 889,400 |
| Dr M Slaoui |        | b        | 170,712        |                  |                   |                |                  | 15,522         | 155,190 |

| Options     | ADS | Footnote | At<br>31.12.08 | Date of<br>grant | Exercise period   | Granted        |                  | At<br>31.12.09 |
|-------------|-----|----------|----------------|------------------|-------------------|----------------|------------------|----------------|
|             |     |          |                |                  |                   | Grant<br>price | Number<br>Lapsed |                |
| Dr M Slaoui |     | b        | 324,640        | 17.02.09         | 17.02.12 16.02.19 | \$33.42        | 164,690          | 489,330        |

a) The grant of share options to Mr Heslop is in respect of his participation in the 2009 ShareSave plan.

b) These details include the interests of Dr Slaoui's connected person who is also an employee of GSK.

For those options outstanding at 31st December 2009, the earliest and latest vesting and lapse dates for options above and below the market price for a GlaxoSmithKline share at the year-end are given in the table below.

| Mr A Witty                 |          | Weighted<br>average<br>grant price | Number  | Vesting date |          | Lapse date |          |
|----------------------------|----------|------------------------------------|---------|--------------|----------|------------|----------|
|                            |          |                                    |         | earliest     | latest   | earliest   | latest   |
| Options above market price | vested   | 16.29                              | 297,693 | 25.02.03     | 20.02.09 | 24.02.10   | 19.02.16 |
| at year-end:               | unvested | 14.88                              | 195,500 | 19.02.10     | 19.02.10 | 17.02.17   | 17.02.17 |

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|   |          |       |         |          |          |          |          |
|---|----------|-------|---------|----------|----------|----------|----------|
| Options below market price at year-end: | vested   | 11.85 | 385,500 | 02.12.05 | 30.11.07 | 30.11.12 | 01.12.14 |
|   | unvested | 11.63 | 671,009 | 18.12.11 | 01.12.11 | 31.05.12 | 20.07.18 |

Total share options as at 31st December 2009

12.99 1,549,702

| <b>Mr J Heslop</b>                      |          | Weighted average grant price | Number  | Vesting date |          | Lapse date |          |
|---|----------|------------------------------|---------|--------------|----------|------------|----------|
|   |          |                              |         | earliest     | latest   | earliest   | latest   |
| Options above market price at year-end: | vested   | 15.93                        | 286,717 | 25.02.03     | 20.02.09 | 24.02.10   | 19.02.16 |
|   | unvested | 14.88                        | 242,750 | 19.02.10     | 19.02.10 | 17.02.17   | 17.02.17 |
| Options below market price at year-end: | vested   | 11.90                        | 116,250 | 27.10.06     | 30.11.07 | 25.10.13   | 01.12.14 |
|   | unvested | 11.46                        | 243,683 | 18.02.11     | 30.11.12 | 31.05.13   | 16.02.18 |

Total share options as at 31st December 2009

13.89 889,400

| <b>Dr M Slaoui</b>                      |        | Weighted average grant price | Number | Vesting date |          | Lapse date |          |
|---|--------|------------------------------|--------|--------------|----------|------------|----------|
|   |        |                              |        | earliest     | latest   | earliest   | latest   |
| Options above market price at year-end: | vested | 14.68                        | 73,340 | 20.02.09     | 20.02.09 | 19.02.16   | 19.02.16 |
| Options below market price at year-end: | vested | 11.59                        | 81,850 | 02.12.05     | 30.11.07 | 30.11.12   | 01.12.14 |

Total share options as at 31st December 2009

13.05 155,190

|   |          |       |         |          |          |          |          |
|---|----------|-------|---------|----------|----------|----------|----------|
| Options above market price at year-end: | unvested | 51.38 | 324,640 | 19.02.10 | 18.02.11 | 17.02.17 | 16.02.18 |
| Options below market price at year-end: | unvested | 33.42 | 164,690 | 17.02.12 | 17.02.12 | 15.02.19 | 15.02.19 |

Total ADS options as at 31st December 2009

45.33 489,330

This includes those share options held by Dr Slaoui's connected person, who is also an employee of GSK.  
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## Remuneration Report

GSK granted share options to Executive Directors on an annual basis until 2009. The Directors hold these options under the various share option plans referred to in Note 42 to the financial statements, Employee share schemes. None of the Non-Executive Directors had an interest in any option over the company's shares.

The table below sets out, for share options granted in respect of 2007 and 2008, the performance periods, the performance targets and whether or not the options have vested at 31st December 2009.

| Grant         | Footnote | Performance period |          | Vesting status<br>at 31.12.09 | Performance target             |                                |
|---------------|----------|--------------------|----------|-------------------------------|--------------------------------|--------------------------------|
|               |          |                    |          |                               | Annualised<br>growth<br>in EPS | Percentage of<br>award vesting |
| February 2007 | a        | 01.01.07           | 31.12.09 | Unvested                      | > RPI +<br>6%                  | 100%                           |
| February 2008 |          | 01.01.08           | 31.12.10 | Unvested                      | RPI + 5%                       | 83%                            |
|               |          |                    |          |                               | RPI + 4%                       | 67%                            |
|               |          |                    |          |                               | RPI + 3%                       | 50%                            |
|               |          |                    |          |                               | < RPI +<br>3%                  | 0%                             |

a) The performance targets for these share options were not met, and as a result they lapsed on the third anniversary of the date of grant.

The table below sets out, for share options granted in respect of 2009 the performance period and targets.

| Grant         |              | Performance period |          | Vesting status<br>at 31.12.09 | Performance target             |                                |
|---------------|--------------|--------------------|----------|-------------------------------|--------------------------------|--------------------------------|
|               |              |                    |          |                               | Annualised<br>growth<br>in EPS | Percentage of<br>award vesting |
| February 2009 | 50% of award | 01.01.09           | 31.12.11 | Unvested                      | > RPI +<br>6%                  | 100%                           |
| February 2009 | 50% of award | 01.01.09           | 31.12.12 | Unvested                      | RPI + 5%                       | 85%                            |
|               |              |                    |          |                               | RPI + 4%                       | 65%                            |
|               |              |                    |          |                               | RPI + 3%                       | 30%                            |
|               |              |                    |          |                               | < RPI +<br>3%                  | 0%                             |

The highest and lowest closing prices during the year ended 31st December 2009 for GlaxoSmithKline shares were £13.34 and £9.87, respectively. The highest and lowest prices for GlaxoSmithKline ADS during the year ended 31st December 2009 were \$42.91 and \$27.27, respectively. The market price for a GlaxoSmithKline share on 31st December 2009 was £13.20 (31st December 2008 £12.85) and for a GlaxoSmithKline ADS was \$42.25 (31st December 2008 \$37.27). The prices on 19th February 2010 were £12.35 per GlaxoSmithKline share and \$38.26 per GlaxoSmithKline ADS.

#### Performance Share Plan (PSP) awards

Performance share awards are made to Executive Directors on an annual basis. The Directors hold these options under the various PSP plans referred to in Note 42 to the financial statements.

| Mr A Witty         | Shares   | Unvested at | Number granted in | Market                 |              | Vested | Additional shares by dividends | Unvested at |
|--------------------|----------|-------------|-------------------|------------------------|--------------|--------|--------------------------------|-------------|
|                    |          |             |                   | price on date of grant | Market price |        |                                |             |
| Performance period |          | 31.12.08    | 2009              | Number                 | price        | Gain   | Lapsed reinvested              | 31.12.09    |
| 01.01.06           | 31.12.08 | 85,942      |                   |                        | £14.68       |        | 87,126                         | 1,184       |
| 01.01.07           | 31.12.09 | 91,821      |                   |                        | £14.88       |        |                                | 3,589       |
| 01.01.08           | 31.12.10 | 232,908     |                   |                        | £11.47       |        |                                | 9,102       |
| 01.01.08           | 31.12.10 | 63,443      |                   |                        | £12.21       |        |                                | 2,480       |
| 01.01.09           | 31.12.11 |             | 470,809           |                        | £10.51       |        |                                | 5,337       |

| Mr J Heslop        | Shares   | Unvested at | Number granted in | Market                 |              | Vested | Additional shares by dividends | Unvested at |
|--------------------|----------|-------------|-------------------|------------------------|--------------|--------|--------------------------------|-------------|
|                    |          |             |                   | price on date of grant | Market price |        |                                |             |
| Performance period |          | 31.12.08    | 2009              | Number                 | price        | Gain   | Lapsed reinvested              | 31.12.09    |
| 01.01.06           | 31.12.08 | 111,613     |                   |                        | £14.68       |        | 113,150                        | 1,537       |
| 01.01.07           | 31.12.09 | 113,426     |                   |                        | £14.88       |        |                                | 4,433       |
| 01.01.08           | 31.12.10 | 108,690     |                   |                        | £11.47       |        |                                | 4,248       |
| 01.01.09           | 31.12.11 |             | 197,740           |                        | £10.51       |        |                                | 2,242       |

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## Remuneration Report

| Dr M Slaoui | Shares   | Unvested at<br>Performance period | Number granted in<br>2009 | Market                 |              | Vested | Gain    | Additional shares by<br>dividends<br>Lapsed | Unvested at<br>31.12.09 |
|-------------|----------|-----------------------------------|---------------------------|------------------------|--------------|--------|---------|---|-------------------------|
|             |          |                                   |                           | price on date of grant | Market price |        |         |   |                         |
| 01.01.06    | 31.12.08 | 32,055                            |                           | £14.68                 | 16,248       | 11.91  | 193,518 | 16,248                                      | 441                     |

| Dr M Slaoui | ADS      | Unvested at<br>Performance period | Number granted in<br>2009 | Market                 |              | Vested | Gain | Additional ADS by<br>dividends<br>Lapsed | Unvested at<br>31.12.09 |
|-------------|----------|-----------------------------------|---------------------------|------------------------|--------------|--------|------|--|-------------------------|
|             |          |                                   |                           | price on date of grant | Market price |        |      |  |                         |
| 01.01.07    | 31.12.09 | 76,284                            |                           | \$58.00                |              |        |      | 3,002                                    | 79,286                  |
| 01.01.08    | 31.12.10 | 73,115                            |                           | \$44.75                |              |        |      | 2,876                                    | 75,991                  |
| 01.01.09    | 31.12.11 |                                   | 2,620                     | \$33.42                |              |        |      | 66                                       | 2,686                   |
| 01.01.09    | 31.12.11 |                                   | 69,000                    | \$33.50                |              |        |      | 804                                      | 69,804                  |

This includes those performance shares held by Dr Slaoui's connected person, who is also an employee of GSK. Under the terms of the PSP the number of shares actually vesting is determined following the end of the relevant measurement period and is dependent on GSK's performance during that period as described on pages 78 to 79. The Committee adjusted the comparator group by removing Schering-Plough and Wyeth following their de-listing during 2009, and revised the vesting schedule accordingly. For outstanding and future awards, TSR performance will be measured against the revised comparator group including GSK, as set out below.

Dividends are reinvested on the performance shares awarded to Executives, throughout the performance period and up to the date of the final award. The dividend reinvestment is calculated as of the dividend payment date. Under the terms of the PSP, US participants may defer receipt of all or part of their vested awards. The total gain on vesting of PSP awards made by Executive Directors and connected persons is £193,518 (2008 £4,826,067).

The following vesting schedules apply to PSP awards made in 2007 and 2008.

| Award | % of Award | Performance Period  | TSR vesting schedule             |                             |  |
|-------|------------|---------------------|----------------------------------|-----------------------------|--|
|       |            |                     | TSR rank with 12 other companies | Percentage of award vesting |  |
| 2007  | 100        | 01.01.07 - 31.12.09 | 1                                | 100%                        |  |
| 2008  | 100        | 01.01.08 - 31.12.10 | 2                                | 100%                        |  |
|       |            |                     | 3                                | 87%                         |  |
|       |            |                     | 4                                | 74%                         |  |
|       |            |                     |                                  |                             |  |

|                 |     |
|-----------------|-----|
| 5               | 61% |
| 6               | 48% |
| Median          | 35% |
| Below<br>median | 0%  |

The following vesting schedules apply to PSP awards made in 2009.

| Award | % of Award    | Performance Period |          | TSR rank<br>with 10 other<br>companies | TSR vesting schedule        |   |      |
|-------|---------------|--------------------|----------|--|-----------------------------|---|------|
|       |               |                    |          |  | Percentage of award vesting |   |      |
| 2009  | 30            | 01.01.09           | 31.12.11 | 1                                      | 100%                        |   |      |
|       | 30            | 01.01.09           | 31.12.12 | 2                                      | 100%                        |   |      |
|       |               |                    |          | 3                                      | 100%                        |   |      |
|       |               |                    |          |  | 4                           | 80%   |      |
|       |               |                    |          |  | 5                           | 55%   |      |
|       |               |                    |          |  | Median                      | 30%   |      |
|       |               |                    |          |  | Below<br>median             | 0%  |      |
| Award | % of<br>Award | Performance Period |          | Cash flow<br>Targets<br>£bn            |                             | Adjusted free cash flow vesting<br>schedule |      |
|       |               |                    |          |  |                             | Percentage of award vesting                 |      |
| 2009  | 40            | 01.01.09           | 31.12.11 | 13.5                                   | 16.0                        | 25%   | 100% |

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## Remuneration Report

### Share Value Plan awards

| Dr M Slaoui | Shares and ADS | Unvested<br>at<br>31.12.08 | Number<br>granted<br>in<br>2009 | Market<br>price on<br>date of<br>grant |         | Vested & deferred |         | Unvested<br>at<br>31.12.09 |
|-------------|----------------|----------------------------|---------------------------------|--|---------|-------------------|---------|----------------------------|
|             |                |                            |                                 | Number                                 | price   | Market<br>price   | Gain    |                            |
|             | 2006 (Shares)  | 1,200                      |                                 | 1,200                                  | £14.68  | £11.33            | £13,596 |                            |
|             | 2007 (ADS)     | 890                        |                                 |  | \$58.00 |                   |         | 890                        |
|             | 2008 (ADS)     | 890                        |                                 |  | \$44.75 |                   |         | 890                        |
|             | 2008 (ADS)     | 2,980                      |                                 |  | \$48.55 |                   |         | 2,980                      |
|             | 2009 (ADS)     |                            | 1,490                           |  | \$33.42 |                   |         | 1,490                      |

As an Executive Director, Dr Slaoui is not eligible to receive awards under the Share Value Plan. The awards shown above reflect the holdings of Dr Slaoui's connected person, an employee of GSK. The awards are subject to three-year vesting periods and vesting is contingent on continued employment with GSK.

### Pension benefits

The accrued annual pension benefits and transfer values for Executive Directors in office on 31st December 2009 on retirement are set out below.

The Companies Act 2006 requires disclosure of the accrued benefit at the end of the year, the change in accrued benefit over the year, the transfer value at both the beginning and end of the year and the change in the transfer value over the year. The Listing Rules require additional disclosure of the change in the accrued benefit, net of inflation and the transfer value of this change. Pensions for the Executive Directors have been disclosed in the currency in which the pension is payable.

| Executive Directors | Accrued<br>benefit<br>at<br>31.12.08<br>000 | Accrued<br>benefit<br>at<br>31.12.09<br>000 | Change<br>in Personal<br>contributions<br>made<br>during<br>the<br>year<br>000 |   | Transfer<br>value at<br>31.12.08<br>000 | Transfer<br>value at<br>31.12.09<br>000 | Change<br>in<br>transfer<br>value<br>000* | Change<br>in<br>accrued<br>benefit<br>over<br>year<br>net<br>of<br>inflation<br>000 | Transfer<br>value<br>of change<br>in<br>accrued<br>benefit*<br>000 |
|---------------------|---|---|--|---|---|---|---|---|--|
|                     |   |   | accrued<br>benefit<br>over<br>year<br>000                                      | Transfer<br>value at<br>31.12.08<br>000 |   |   |   |   |  |
| Mr A Witty          | £315  | £446  | £131   | £30                                     | £3,848                                  | £6,272                                  | £2,394                                    | £115  | £1,638   |
| Mr J Heslop         | £170  | £201  | £31  | £16                                     | £2,837                                  | £3,787                                  | £934                                      | £23   | £471   |
| Dr M Slaoui         | \$131                                       | \$187                                       | \$56   |   | \$731                                   | \$1,101                                 | \$370                                     | \$54  | \$370  |
| Dr M Slaoui         | 55  | 59  | 4  |   | 608                                     | 647                                     | 39  | 3   | 39   |

\* These are shown  
net of



contributions  
made by the  
individual.

Mr Witty and Mr Heslop participate in the Glaxo Wellcome Defined Benefit Plan with an accrual rate of 1/30th of final pensionable salary per annum. In 2000 all benefits accrued under the Glaxo Wellcome UK pension arrangements were augmented by the Trustees of the plans by 5% to reflect a distribution of surplus. This augmentation will apply to that element of Mr Witty and Mr Heslop's pension earnings before 31st March 2000.

Mr Witty's and Mr Heslop's transfer values have been calculated on the basis of actuarial advice in accordance with pensions regulation. The transfer value represents the present value of future payments to be made under the pension plan. Mr Witty's annual accrued benefit has increased by £130,556 (£114,770 excluding the effects of inflation), and the transfer value less personal contributions has increased by £2,394,197 over the year. Mr Heslop's annual accrued benefit has increased by £31,040 (£22,504 excluding the effects of inflation) and the transfer value less personal contributions has increased by £934,150 over the year.

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**Remuneration Report**

Dr Slaoui is a member of the US Executive Cash Balance Pension Plan. The plan provides for an Executive Pension Credit, under which GSK makes annual contributions calculated as a percentage of the executive's base salary. GSK makes contributions at 38% of base pay. The fund increases at an interest rate set annually in advance based on the 30 year US Treasury bond rate to provide a cash sum at retirement. The plan has no entitlement to a spouse's pension or to pension increases.

The transfer value, or cash sum, has increased by \$369,981 for Dr Slaoui over the year as a result of further accumulation of interest and contributions paid by the company.

Dr Slaoui was an active participant in the Belgium Fortis Plan until 31st May 2006. This plan is a defined benefit plan with a lump sum payable at normal retirement which is age 60 for the plan. The transfer value, or cash sum, of Dr Slaoui's plan has increased by 38,893 over the year as a result of further accumulation of interest.

Dr Slaoui is a member of the US Retirement Savings Plan, a 401k savings scheme open to all US employees and the Executive Supplemental Savings Plan, a savings scheme open to executives to accrue benefits above US government limits imposed on the Retirement Savings Plan. Contributions to both plans are invested in a range of funds and the value of the accumulated funds is paid at retirement.

During 2009, contributions of \$108,249 (£69,390) were paid into these two schemes by GSK in respect of Dr Slaoui.

**Directors and Senior Management**

Further information is also provided on compensation and interests of Directors and Senior Management as a group (the group). For this purpose, the group is defined as the Executive and Non-Executive Directors and members of the CET. For the financial year 2009, the total compensation paid to members of the group for the periods during which they served in that capacity was £23,187,437, the aggregate increase in accrued pension benefits, net of inflation, was £1,225,166 and the aggregate payment to defined contribution schemes was £393,409.

During 2009, the members of the group were granted 941,000 share options and 665,940 ADS options under the Share Option plan, were awarded 1,073,049 shares and 308,370 ADS under the Performance Share Plan, were awarded 2,500 shares and 1,490 ADS under the Share Value Plan. No notional shares or ADS were granted under the Deferred Investment Award Plan in 2009. Members of the group were awarded through the reinvestment of dividends 61,370 shares and 20,218 ADS in the Performance Share Plan and 4,854 notional shares in the Deferred Investment Award Plan.

At 19th February 2010, the group (comprising 27 persons) owned 872,256 shares and 85,156 ADS, constituting less than 2% of the issued share capital of the company (with none of such 27 persons beneficially owning 1% or more of the issued share capital of the company). The group also held, at that date: options to purchase 7,269,817 shares and 2,109,720 ADS; 2,263,230 shares and 748,782 ADS awarded under the Performance Share Plan, including those shares and ADS that are vested and deferred; 40,139 vested and deferred ADS under the legacy SmithKline Beecham Mid-Term Incentive Plan; 20,130 shares and 6,250 ADS awarded under the Share Value Plan and 88,435 notional shares awarded under the Deferred Investment Award Plan. These holdings were issued under the various executive share option plans described in Note 42 to the financial statements, Employee share schemes.

**Directors' interests in contracts**

Except as described in Note 35 to the financial statements, Related party transactions, during or at the end of the financial year no Director or connected person had any material interest in any contract of significance in relation to the Group's business with a Group company.

**Basis of preparation**

The Directors' Remuneration Report has been prepared in accordance with the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations) and meets the relevant requirements of the FSA Listing Rules.

The Remuneration report has been approved by the Board of Directors and signed on its behalf by

**Sir Christopher Gent**  
Chairman  
24th February 2010

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**Financial statements**

The financial statements provide a summary of the Group's financial performance throughout 2009 and its position as at 31st December 2009. The consolidated financial statements are prepared in accordance with the IFRS as adopted by the European Union and also IFRS as issued by the International Accounting Standards Board.

**Financial statements**

The consolidated financial statements present the profit and cash flow for the year and the balance sheet position at the end of the year.

**Notes to the financial statements**

The notes to the financial statements provide supporting analyses to the primary statements.

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**Financial statements**

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**Directors' statement of responsibilities****Directors' statement of responsibilities in relation to the Group financial statements**

The Directors are responsible for preparing the Annual Report, the Remuneration Report and the Group 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 Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In preparing the Group financial statements, the Directors have also elected to comply with IFRS, as issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing those 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 that the Group financial statements comply with IFRS as adopted by the European Union and IFRS as issued by the IASB, 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 Group and to enable them to ensure that the Group financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Group financial statements for the year ended 31st December 2009, comprising principal statements and supporting notes, are set out in Financial statements on pages 94 and 176 of this Report.

The responsibilities of the auditors in relation to the Group financial statements are set out in the Report of Independent Registered Public Accounting Firm on page 93.

The Group financial statements for the year ended 31st December 2009 are included in the Annual Report. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

Each of the current Directors, whose names and functions are listed in the Corporate governance section of the Annual Report 2009 confirms that, to the best of his or her knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU and IFRS as issued by IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Business review section contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

**Disclosure of information to auditors**

The Directors in office at the date of this Report have each confirmed that:

- so far as he or she is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

**Going concern basis**

The Business review on pages 6 to 53 contains information on the performance of the Group, its financial position, cash flows, net debt position and borrowing facilities. Further information, including Treasury risk management

policies, exposures to market and credit risk and hedging activities, is given in Note 41 to the financial statements, Financial instruments and related disclosures .

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**Internal control**

The Board, through the Audit & Risk Committee, has reviewed the assessment of risks and the internal control framework that operates in GSK and has considered the effectiveness of the system of internal control in operation in the Group for the year covered by this report and up to the date of its approval by the Board of Directors.

**The Combined Code**

The Board considers that GlaxoSmithKline plc applies the Main Principles of the Combined Code on Corporate Governance of the Financial Reporting Council, as described under Corporate governance on pages 54 to 72, and has complied with its provisions except as described on page 71.

As required by the Listing Rules of the Financial Services Authority, the auditors have considered the Directors statement of compliance in relation to those points of the Combined Code which are specified for their review.

**Annual Report**

The Annual Report for the year ended 31st December 2009, comprising the Report of the Directors, the Remuneration Report, the Financial statements and additional information for investors, has been approved by the Board of Directors and signed on its behalf by

**Sir Christopher Gent**

Chairman

24th February 2010

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of GlaxoSmithKline plc

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statement, consolidated statements of cash flows, consolidated statements of comprehensive income and, consolidated statement of changes in equity present fairly, in all material respects, the financial position of GlaxoSmithKline plc and its subsidiaries at 31st December 2009 and 31st December 2008, and the results of their operations and cash flows for each of the three years in the period ended 31st December 2009, in conformity with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. Also, in our opinion the Company maintained, in all material respects, effective internal control over financial reporting as of 31st December 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission COSO. The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s annual report on internal control over financial reporting on page 72. Our responsibility is to express opinions on these financial statements and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP  
London  
United Kingdom  
1st March 2010





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**Consolidated income statement**  
for the year ended 31st December 2009

|   |       | Results<br>before<br>major<br>restructuring<br>£m | Major<br>restructuring<br>£m | 2009<br>Total<br>£m |
|---|-------|---|------------------------------|---------------------|
|   | Notes |   |                              |                     |
| Turnover  | 6     | 28,368  |                              | <b>28,368</b>       |
| Cost of sales   |       | (7,095)   | (285)                        | <b>(7,380)</b>      |
| Gross profit  |       | 21,273  | (285)                        | <b>20,988</b>       |
| Selling, general and administration                         |       | (9,200)   | (392)                        | <b>(9,592)</b>      |
| Research and development                                    |       | (3,951)   | (155)                        | <b>(4,106)</b>      |
| Other operating income                                      | 8     | 1,135   |                              | <b>1,135</b>        |
| <b>Operating profit</b>                                     | 9,10  | 9,257   | (832)                        | <b>8,425</b>        |
| Finance income  | 11    | 70  |                              | <b>70</b>           |
| Finance costs   | 12    | (780)   | (3)                          | <b>(783)</b>        |
| Profit on disposal of interest in associate                 |       | 115   |                              | <b>115</b>          |
| Share of after tax profits of associates and joint ventures | 13    | 64  |                              | <b>64</b>           |
| <b>Profit before taxation</b>                               |       | 8,726   | (835)                        | <b>7,891</b>        |
| Taxation  | 14    | (2,443)   | 221                          | <b>(2,222)</b>      |
| <b>Profit after taxation for the year</b>                   |       | 6,283   | (614)                        | <b>5,669</b>        |
| Profit attributable to minority interests                   |       | 138   |                              | <b>138</b>          |
| Profit attributable to shareholders                         |       | 6,145   | (614)                        | <b>5,531</b>        |
|   |       | 6,283   | (614)                        | <b>5,669</b>        |
| Basic earnings per share (pence)                            | 15    |   |                              | <b>109.1p</b>       |
| Diluted earnings per share (pence)                          | 15    |   |                              | <b>108.2p</b>       |

The calculation of Results before major restructuring is described in Note 1, Presentation of the financial statements .

**Consolidated statement of comprehensive income**  
for the year ended 31st December 2009

2009

|   | <b>£m</b>    |
|---|--------------|
| Profit for the year   | <b>5,669</b> |
| Exchange movements on overseas net assets and net investment hedges         | <b>(194)</b> |
| Reclassification of exchange on liquidation of overseas subsidiary          | <b>(44)</b>  |
| Tax on exchange movements   | <b>19</b>    |
| Fair value movements on available-for-sale investments                      | <b>42</b>    |
| Deferred tax on fair value movements on available-for-sale investments      | <b>(24)</b>  |
| Reclassification of fair value movements on available-for-sale investments  |              |
| Deferred tax reversed on reclassification of available-for-sale investments | <b>13</b>    |
| Actuarial (losses)/gains on defined benefit plans                           | <b>(659)</b> |
| Deferred tax on actuarial movements in defined benefit plans                | <b>183</b>   |
| Fair value movements on cash flow hedges                                    | <b>(6)</b>   |
| Deferred tax on fair value movements on cash flow hedges                    | <b>2</b>     |
| Reclassification of cash flow hedges to income and expense                  | <b>1</b>     |
| Fair value movement on subsidiary acquisition                               | <b>(6)</b>   |
| Other comprehensive (expense)/income for the year                           | <b>(673)</b> |
| Total comprehensive income for the year                                     | <b>4,996</b> |
| Total comprehensive income for the year attributable to:                    |              |
| Shareholders  | <b>4,895</b> |
| Minority interests  | <b>101</b>   |
| Total comprehensive income for the year                                     | <b>4,996</b> |

| 2008   |                              |             | 2007   |                              |             |
|--|------------------------------|-------------|--|------------------------------|-------------|
| Results<br>before major<br>restructuring<br>£m | Major<br>restructuring<br>£m | Total<br>£m | Results<br>before major<br>restructuring<br>£m | Major<br>restructuring<br>£m | Total<br>£m |
| 24,352   |                              | 24,352      | 22,716   |                              | 22,716      |
| (5,776)  | (639)                        | (6,415)     | (5,206)  | (111)                        | (5,317)     |
| 18,576   | (639)                        | 17,937      | 17,510   | (111)                        | 17,399      |
| (7,352)  | (304)                        | (7,656)     | (6,817)  | (137)                        | (6,954)     |
| (3,506)  | (175)                        | (3,681)     | (3,237)  | (90)                         | (3,327)     |
| 541  |                              | 541         | 475  |                              | 475         |
| 8,259  | (1,118)                      | 7,141       | 7,931  | (338)                        | 7,593       |
| 313  |                              | 313         | 262  |                              | 262         |
| (838)  | (5)                          | (843)       | (453)  |                              | (453)       |
| 48   |                              | 48          | 50   |                              | 50          |
| 7,782  | (1,123)                      | 6,659       | 7,790  | (338)                        | 7,452       |
| (2,231)  | 284                          | (1,947)     | (2,219)  | 77                           | (2,142)     |
| 5,551  | (839)                        | 4,712       | 5,571  | (261)                        | 5,310       |
| 110  |                              | 110         | 96   |                              | 96          |
| 5,441  | (839)                        | 4,602       | 5,475  | (261)                        | 5,214       |
| 5,551  | (839)                        | 4,712       | 5,571  | (261)                        | 5,310       |
|  |                              | 88.6p       |  |                              | 94.4p       |
|  |                              | 88.1p       |  |                              | 93.7p       |
|  |                              | 2008        |  |                              | 2007        |
|  |                              | £m          |  |                              | £m          |
|  |                              | 4,712       |  |                              | 5,310       |

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|         |       |
|---------|-------|
| 1,017   | 411   |
| 84      |       |
| 15      | 21    |
| (47)    | (53)  |
| 5       | 8     |
| (34)    | (46)  |
| 3       | 11    |
| (1,370) | 671   |
| 441     | (195) |
| 6       | (6)   |
| (3)     | 2     |
| 117     | 824   |
| 4,829   | 6,134 |
| 4,670   | 6,012 |
| 159     | 122   |
| 4,829   | 6,134 |

GSK Annual Report 2009

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**Consolidated balance sheet**

as at 31st December 2009

|  | Notes | 2009<br>£m | 2008<br>£m |
|--|-------|------------|------------|
| <b>Non-current assets</b>                    |       |            |            |
| Property, plant and equipment                | 17    | 9,374      | 9,678      |
| Goodwill                                     | 18    | 3,361      | 2,101      |
| Other intangible assets                      | 19    | 8,183      | 5,869      |
| Investments in associates and joint ventures | 20    | 895        | 552        |
| Other investments                            | 21    | 454        | 478        |
| Deferred tax assets                          | 14    | 2,374      | 2,760      |
| Derivative financial instruments             | 41    | 68         | 107        |
| Other non-current assets                     | 22    | 583        | 579        |
| Total non-current assets                     |       | 25,292     | 22,124     |
| <b>Current assets</b>                        |       |            |            |
| Inventories                                  | 23    | 4,064      | 4,056      |
| Current tax recoverable                      | 14    | 58         | 76         |
| Trade and other receivables                  | 24    | 6,492      | 6,265      |
| Derivative financial instruments             | 41    | 129        | 856        |
| Liquid investments                           | 32    | 268        | 391        |
| Cash and cash equivalents                    | 25    | 6,545      | 5,623      |
| Assets held for sale                         | 26    | 14         | 2          |
| Total current assets                         |       | 17,570     | 17,269     |
| Total assets                                 |       | 42,862     | 39,393     |
| <b>Current liabilities</b>                   |       |            |            |
| Short-term borrowings                        | 32    | (1,471)    | (956)      |
| Trade and other payables                     | 27    | (6,772)    | (6,075)    |
| Derivative financial instruments             | 41    | (168)      | (752)      |
| Current tax payable                          | 14    | (1,451)    | (780)      |
| Short-term provisions                        | 29    | (2,256)    | (1,454)    |
| Total current liabilities                    |       | (12,118)   | (10,017)   |
| <b>Non-current liabilities</b>               |       |            |            |
| Long-term borrowings                         | 32    | (14,786)   | (15,231)   |
| Deferred tax liabilities                     | 14    | (645)      | (714)      |
| Pensions and other post-employment benefits  | 28    | (2,981)    | (3,039)    |
| Other provisions                             | 29    | (985)      | (1,645)    |
| Derivative financial instruments             | 41    |            | (2)        |
| Other non-current liabilities                | 30    | (605)      | (427)      |

|                               |    |                 |          |
|-------------------------------|----|-----------------|----------|
| Total non-current liabilities |    | <b>(20,002)</b> | (21,058) |
| Total liabilities             |    | <b>(32,120)</b> | (31,075) |
| Net assets                    |    | <b>10,742</b>   | 8,318    |
| <b>Equity</b>                 |    |                 |          |
| Share capital                 | 33 | <b>1,416</b>    | 1,415    |
| Share premium account         | 33 | <b>1,368</b>    | 1,326    |
| Retained earnings             | 34 | <b>6,321</b>    | 4,622    |
| Other reserves                | 34 | <b>900</b>      | 568      |
| Shareholders' equity          |    | <b>10,005</b>   | 7,931    |
| Minority interests            |    | <b>737</b>      | 387      |
| Total equity                  |    | <b>10,742</b>   | 8,318    |

Approved by the Board on 24th February 2010

**Sir Christopher Gent**

Chairman

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**Consolidated statement of changes in equity**

for the year ended 31st December 2009

|  | Share<br>capital<br>£m | Share<br>premium<br>£m | Retained<br>earnings<br>£m | Shareholders<br>Other<br>reserves<br>£m | equity<br>Total<br>£m | Minority<br>interests<br>£m | Total<br>equity<br>£m |
|--|------------------------|------------------------|----------------------------|---|-----------------------|-----------------------------|-----------------------|
| At 1st January 2007                                      | 1,498                  | 858                    | 6,965                      | 65                                      | 9,386                 | 262                         | <b>9,648</b>          |
| Profit for the year                                      |                        |                        | 5,214                      |   | 5,214                 | 96                          | <b>5,310</b>          |
| Other comprehensive income<br>for the year               |                        |                        | 890                        | (92)                                    | 798                   | 26                          | <b>824</b>            |
| Distributions to minority<br>interests                   |                        |                        |                            |   |                       | (77)                        | <b>(77)</b>           |
| Dividends to shareholders                                |                        |                        | (2,793)                    |   | (2,793)               |                             | <b>(2,793)</b>        |
| Ordinary shares issued                                   | 9                      | 408                    |                            |   | 417                   |                             | <b>417</b>            |
| Ordinary shares purchased and<br>cancelled               | (4)                    |                        | (213)                      | 4                                       | (213)                 |                             | <b>(213)</b>          |
| Ordinary shares purchased and<br>held as Treasury shares |                        |                        | (3,537)                    |   | (3,537)               |                             | <b>(3,537)</b>        |
| Ordinary shares acquired by<br>ESOP Trusts               |                        |                        |                            | (26)                                    | (26)                  |                             | <b>(26)</b>           |
| Ordinary shares transferred by<br>ESOP Trusts            |                        |                        |                            | 116                                     | 116                   |                             | <b>116</b>            |
| Write-down of shares held by<br>ESOP Trusts              |                        |                        | (292)                      | 292                                     |                       |                             | <b>-</b>              |
| Share-based incentive plans                              |                        |                        | 237                        |   | 237                   |                             | <b>237</b>            |
| Tax on share-based incentive<br>plans                    |                        |                        | 4                          |   | 4                     |                             | <b>4</b>              |
| At 31st December 2007                                    | 1,503                  | 1,266                  | 6,475                      | 359                                     | 9,603                 | 307                         | <b>9,910</b>          |
| Profit for the year                                      |                        |                        | 4,602                      |   | 4,602                 | 110                         | <b>4,712</b>          |
| Other comprehensive income<br>for the year               |                        |                        | 121                        | (53)                                    | 68                    | 49                          | <b>117</b>            |
| Distributions to minority<br>interests                   |                        |                        |                            |   |                       | (79)                        | <b>(79)</b>           |
| Dividends to shareholders                                |                        |                        | (2,929)                    |   | (2,929)               |                             | <b>(2,929)</b>        |
| Ordinary shares issued                                   | 2                      | 60                     |                            |   | 62                    |                             | <b>62</b>             |
| Ordinary shares purchased and<br>cancelled               | (90)                   |                        | (3,706)                    | 90                                      | (3,706)               |                             | <b>(3,706)</b>        |
| Ordinary shares acquired by<br>ESOP Trusts               |                        |                        |                            | (19)                                    | (19)                  |                             | <b>(19)</b>           |
| Ordinary shares transferred by<br>ESOP Trusts            |                        |                        |                            | 10                                      | 10                    |                             | <b>10</b>             |
| Write-down of shares held by<br>ESOP Trusts              |                        |                        | (181)                      | 181                                     |                       |                             | <b>-</b>              |
| Share-based incentive plans                              |                        |                        | 241                        |   | 241                   |                             | <b>241</b>            |



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|  |       |       |         |      |         |      |                |
|--|-------|-------|---------|------|---------|------|----------------|
| Tax on share-based incentive plans         |       |       | (1)     |      | (1)     |      | <b>(1)</b>     |
| At 31st December 2008                      | 1,415 | 1,326 | 4,622   | 568  | 7,931   | 387  | <b>8,318</b>   |
| Profit for the year                        |       |       | 5,531   |      | 5,531   | 138  | <b>5,669</b>   |
| Other comprehensive expense for the year   |       |       | (663)   | 27   | (636)   | (37) | <b>(673)</b>   |
| Distributions to minority interests        |       |       |         |      |         | (89) | <b>(89)</b>    |
| Changes in minority shareholdings          |       |       |         |      |         | 338  | <b>338</b>     |
| Put option over minority interest          |       |       |         | (2)  | (2)     |      | <b>(2)</b>     |
| Dividends to shareholders                  |       |       | (3,003) |      | (3,003) |      | <b>(3,003)</b> |
| Ordinary shares issued                     | 1     | 42    |         |      | 43      |      | <b>43</b>      |
| Ordinary shares acquired by ESOP Trusts    |       |       |         | (57) | (57)    |      | <b>(57)</b>    |
| Ordinary shares transferred by ESOP Trusts |       |       |         | 13   | 13      |      | <b>13</b>      |
| Write-down of shares held by ESOP Trusts   |       |       | (351)   | 351  |         |      | <b>-</b>       |
| Share-based incentive plans                |       |       | 171     |      | 171     |      | <b>171</b>     |
| Tax on share-based incentive plans         |       |       | 14      |      | 14      |      | <b>14</b>      |
| At 31st December 2009                      | 1,416 | 1,368 | 6,321   | 900  | 10,005  | 737  | <b>10,742</b>  |

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**Consolidated cash flow statement**

for the year ended 31st December 2009

|  | Notes | 2009<br>£m     | 2008<br>£m | 2007<br>£m |
|--|-------|----------------|------------|------------|
| <b>Cash flow from operating activities</b>                       |       |                |            |            |
| Profit after taxation for the year                               |       | <b>5,669</b>   | 4,712      | 5,310      |
| Adjustments reconciling profit after tax to operating cash flows | 36    | <b>3,876</b>   | 4,343      | 2,770      |
| Cash generated from operations                                   |       | <b>9,545</b>   | 9,055      | 8,080      |
| Taxation paid  |       | <b>(1,704)</b> | (1,850)    | (1,919)    |
| Net cash inflow from operating activities                        |       | <b>7,841</b>   | 7,205      | 6,161      |
| <b>Cash flow from investing activities</b>                       |       |                |            |            |
| Purchase of property, plant and equipment                        |       | <b>(1,418)</b> | (1,437)    | (1,516)    |
| Proceeds from sale of property, plant and equipment              |       | <b>48</b>      | 20         | 35         |
| Purchase of intangible assets                                    |       | <b>(455)</b>   | (632)      | (627)      |
| Proceeds from sale of intangible assets                          |       | <b>356</b>     | 171        | 9          |
| Purchase of equity investments                                   |       | <b>(154)</b>   | (87)       | (186)      |
| Proceeds from sale of equity investments                         |       | <b>59</b>      | 42         | 45         |
| Purchase of businesses, net of cash acquired                     | 38    | <b>(2,792)</b> | (454)      | (1,027)    |
| Investments in associates and joint ventures                     | 38    | <b>(29)</b>    | (9)        | (1)        |
| Decrease/(increase) in liquid investments                        |       | <b>87</b>      | 905        | (39)       |
| Interest received  |       | <b>90</b>      | 320        | 247        |
| Dividends from associates and joint ventures                     |       | <b>17</b>      | 12         | 12         |
| Proceeds from disposal of associates                             |       | <b>178</b>     |            |            |
| Net cash outflow from investing activities                       |       | <b>(4,013)</b> | (1,149)    | (3,048)    |
| <b>Cash flow from financing activities</b>                       |       |                |            |            |
| Proceeds from own shares for employee share options              |       | <b>13</b>      | 9          | 116        |
| Shares acquired by ESOP Trusts                                   |       | <b>(57)</b>    | (19)       | (26)       |
| Issue of share capital   | 33    | <b>43</b>      | 62         | 417        |
| Purchase of own shares for cancellation                          |       |                | (3,706)    | (213)      |
| Purchase of Treasury shares                                      |       |                |            | (3,538)    |
| Increase in long-term loans                                      |       | <b>1,358</b>   | 5,523      | 3,483      |
| Repayment of long-term loans                                     |       |                |            | (207)      |
| Increase in short-term loans                                     |       | <b>646</b>     | 275        | 2,057      |
| Repayment of short-term loans                                    |       | <b>(748)</b>   | (3,334)    | (425)      |
| Net repayment of obligations under finance leases                |       | <b>(48)</b>    | (48)       | (39)       |

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|   |    |                |         |         |
|---|----|----------------|---------|---------|
| Interest paid                                     |    | <b>(780)</b>   | (730)   | (378)   |
| Dividends paid to shareholders                    |    | <b>(3,003)</b> | (2,929) | (2,793) |
| Dividends paid to minority interests              |    | <b>(89)</b>    | (79)    | (77)    |
| Other financing cash flows                        |    | <b>(109)</b>   | 68      | (79)    |
| Net cash outflow from financing activities        |    | <b>(2,774)</b> | (4,908) | (1,702) |
| Increase in cash and bank overdrafts              | 37 | <b>1,054</b>   | 1,148   | 1,411   |
| Exchange adjustments                              |    | <b>(158)</b>   | 1,103   | 48      |
| Cash and bank overdrafts at beginning of year     |    | <b>5,472</b>   | 3,221   | 1,762   |
| Cash and bank overdrafts at end of year           |    | <b>6,368</b>   | 5,472   | 3,221   |
| Cash and bank overdrafts at end of year comprise: |    |                |         |         |
| Cash and cash equivalents                         |    | <b>6,545</b>   | 5,623   | 3,379   |
| Overdrafts  |    | <b>(177)</b>   | (151)   | (158)   |
|   |    | <b>6,368</b>   | 5,472   | 3,221   |

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Notes to the financial statements

## **1 Presentation of the financial statements**

### **Description of business**

GlaxoSmithKline is a major global healthcare group which is engaged in the creation and discovery, development, manufacture and marketing of pharmaceutical products including vaccines, over-the-counter (OTC) medicines and health-related consumer products. GSK's principal pharmaceutical products include medicines in the following therapeutic areas: respiratory, anti-virals, central nervous system, cardiovascular and urogenital, metabolic, anti-bacterials, oncology and emesis, dermatologicals and vaccines.

### **Compliance with applicable law and IFRS**

The financial statements have been prepared in accordance with the Companies Act 2006, Article 4 of the IAS Regulation and International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations, as adopted by the European Union.

The financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board.

### **Composition of financial statements**

The consolidated financial statements are drawn up in Sterling, the functional currency of GlaxoSmithKline plc, and in accordance with IFRS accounting presentation. The financial statements comprise:

- Consolidated income statement
- Consolidated statement of comprehensive income
- Consolidated balance sheet
- Consolidated statement of changes in equity
- Consolidated cash flow statement
- Notes to the financial statements.

### **Accounting convention**

The financial statements have been prepared using the historical cost convention, as modified by the revaluation of certain items, as stated in the accounting policies.

### **Financial period**

These financial statements cover the financial year from 1st January to 31st December 2009, with comparative figures for the financial years from 1st January to 31st December 2008 and, where appropriate, from 1st January to 31st December 2007.

### **Composition of the Group**

A list of the subsidiary and associated undertakings which, in the opinion of the Directors, principally affected the amount of profit or the net assets of the Group is given in Note 43, Principal Group companies.

### **Presentation of restructuring costs**

In October 2007, the Board approved the implementation of a detailed formal plan for, and GSK announced, a significant new Operational Excellence restructuring programme. A second formal plan, representing a significant expansion of the Operational Excellence programme, was approved by the Board and announced in February 2009. A further expansion was approved by the Board and announced in February 2010. This restructuring programme, comprising these detailed formal plans, covers all areas of GSK's business, including manufacturing, selling, R&D and infrastructure.

With an estimated total cost of approximately £4.5 billion, the expanded programme is expected to deliver annual pre-tax savings of approximately £2.2 billion by the time it is substantially complete in 2012. Given the extent and cost of the Operational Excellence programme, management believes it has a material impact on GSK's operating results and on the manner in which GSK's business is conducted. GSK presents the restructuring costs incurred solely as a direct result of the Operational Excellence programme in a separate column in the income statement titled Major restructuring.

In addition to the restructuring costs of the Operational Excellence programme, the major restructuring column in the income statement includes restructuring costs incurred solely as a direct result of any restructuring programmes that

follow, and relate to, material acquisitions where the operations of the acquired business overlap extensively with GSK's existing operations. The restructuring activities that follow, and relate to, such acquisitions are of the same nature as those undertaken under the Operational Excellence programme and are also carried out following a detailed formal plan. Management therefore considers it appropriate to present the costs of these restructuring activities in the same manner. The \$1.65 billion (£814 million) acquisition of Reliant Pharmaceuticals in December 2007 and the \$3.6 billion (£2.2 billion) acquisition of Stiefel Laboratories in July 2009 are the only acquisitions since October 2007 that meet the criteria set out above and are the only acquisitions where the costs incurred as a direct result of a related restructuring programme have been included within the major restructuring column.

The Group's results before the costs of the Operational Excellence programme and acquisition-related restructuring programmes meeting the criteria described above are also presented in a separate column in the income statement and are described as 'Results before major restructuring'. This presentation, which GSK intends to apply consistently to future major restructuring programmes that have a material impact on GSK's operating results and on the manner in which GSK's business is conducted, has been adopted to show clearly the Group's results both before and after the costs of these restructuring programmes. Management believes that this presentation assists investors in gaining a clearer understanding of the Group's financial performance and in making projections of future financial performance, as results that include such costs, by virtue of their size and nature, have limited comparative value. This presentation is also consistent with the way management assesses the Group's financial performance.

Any restructuring costs that do not arise solely as a direct result of the Operational Excellence programme and restructuring programmes following, and relating to, acquisitions meeting the criteria described above continue to be reported in operating expenses within results before major restructuring.

Notes to the financial statements

## **1 Presentation of the financial statements continued**

### **Accounting principles and policies**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements have been prepared in accordance with the Group's accounting policies approved by the Board and described in Note 2, Accounting principles and policies. Information on the application of these accounting policies, including areas of estimation and judgement is given in Note 3, Key accounting judgements and estimates. Where appropriate, comparative figures are reclassified to ensure a consistent presentation with current year information.

### **Implementation of new accounting standards**

With effect from 1st January 2009, GSK has implemented IFRS 8 Operating segments, IAS 1 (Revised) Presentation of financial statements, IAS 23 (Revised) Borrowing costs and minor amendments to a number of other accounting standards. The implementation of IFRS 8 has resulted in changes to the segmental information reported by GSK. Comparative information has been presented on a consistent basis. Further information is given in Note 6, Segment information.

## **2 Accounting principles and policies**

### **Consolidation**

The consolidated financial statements include:

- the assets and liabilities, and the results and cash flows, of the company and its subsidiaries, including ESOP Trusts
- the Group's share of the results and net assets of associates and joint ventures.

The financial statements of entities consolidated are made up to 31st December each year.

Entities over which the Group has the power to govern the financial and operating policies are accounted for as subsidiaries. Where the Group has the ability to exercise joint control, the entities are accounted for as joint ventures, and where the Group has the ability to exercise significant influence, they are accounted for as associates. The results and assets and liabilities of associates and joint ventures are incorporated into the consolidated financial statements using the equity method of accounting.

Interests acquired in entities are consolidated from the date the Group acquires control and interests sold are de-consolidated from the date control ceases.

Transactions and balances between subsidiaries are eliminated and no profit before tax is taken on sales between subsidiaries until the products are sold to customers outside the Group. The relevant proportion of profits on transactions with joint ventures and associates is also deferred until the products are sold to third parties. Deferred tax relief on unrealised intra-Group profit is accounted for only to the extent that it is considered recoverable.

Goodwill arising on the acquisition of interests in subsidiaries, joint ventures and associates, representing the excess of the acquisition cost over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised as a separate item in the case of subsidiaries and as part of the cost of investment in the case of joint ventures and associates. Goodwill is denominated in the currency of the operation acquired. Where the cost of acquisition is below the fair value of the net assets acquired, the difference is recognised directly in the income statement.

Notes to the financial statements

## **2 Accounting principles and policies** continued

### **Foreign currency translation**

Foreign currency transactions are booked in the functional currency of the Group company at the exchange rate ruling on the date of transaction. Foreign currency monetary assets and liabilities are retranslated into the functional currency at rates of exchange ruling at the balance sheet date. Exchange differences are included in the income statement.

On consolidation, assets and liabilities, including related goodwill, of overseas subsidiaries, associates and joint ventures, are translated into Sterling at rates of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiaries, associates and joint ventures are translated into Sterling using average rates of exchange.

Exchange adjustments arising when the opening net assets and the profits for the year retained by overseas subsidiaries, associates and joint ventures are translated into Sterling, less exchange differences arising on related foreign currency borrowings which hedge the Group's net investment in these operations, are taken to a separate component of equity.

When translating into Sterling the assets, liabilities, results and cash flows of overseas subsidiaries, associates and joint ventures which are reported in currencies of hyper-inflationary economies, adjustments are made where material to reflect current price levels. Any loss on net monetary assets is charged to the consolidated income statement.

### **Revenue**

Revenue is recognised in the income statement when goods or services are supplied or made available to external customers against orders received, title and risk of loss is passed to the customer, and reliable estimates can be made of relevant deductions. Turnover represents net invoice value after the deduction of discounts and allowances given and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. Value added tax and other sales taxes are excluded from revenue.

Where the Group co-promotes a product and the third party records the sale, the Group records its share of revenue as co-promotion income within turnover. The nature of co-promotion activities is such that the Group records no costs of sales. Pharmaceutical turnover includes co-promotion revenue of £439 million (2008 £378 million; 2007 £274 million).

Royalty income is recognised in other operating income on an accruals basis in accordance with the terms of the relevant licensing agreements.

### **Expenditure**

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Manufacturing start-up costs between validation and the achievement of normal production are expensed as incurred. Advertising and promotion expenditure is charged to the income statement as incurred. Shipment costs on intercompany transfers are charged to cost of sales; distribution costs on sales to customers are included in selling, general and administrative expenditure.

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

### **Research and development**

Research and development expenditure is charged to the income statement in the period in which it is incurred. Development expenditure is capitalised when the criteria for recognising an asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable. Property, plant and equipment used for research and development is depreciated in accordance with the Group's policy.

### **Environmental expenditure**

Environmental expenditure related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible is charged to the income statement. The Group recognises its liability on a site-by-site basis when it can be reliably estimated. This liability includes the Group's portion of the total costs and also a portion of other potentially responsible parties' costs when it is probable that they will not be able to satisfy their respective shares of the clean-up obligation. Recoveries of reimbursements are recorded as assets when virtually certain.

**Legal and other disputes**

Provision is made for the anticipated settlement costs of legal or other disputes against the Group where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. In addition, provision is made for legal or other expenses arising from claims received or other disputes. In respect of product liability claims related to products where there is sufficient history of claims made and settlements, an incurred but not reported (IBNR) actuarial technique is used to determine a reasonable estimate of the Group's exposure to unasserted claims for those products and a provision is made on that basis.

No provision is made for other unasserted claims. In respect of a number of legal proceedings in which the Group is involved, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. In these cases, the Group may disclose information with respect to the nature and facts of the case but no provision is typically made. Costs associated with claims made by the Group against third parties are charged to the income statement as they are incurred.



Notes to the financial statements

## **2 Accounting principles and policies continued**

### **Pensions and other post-employment benefits**

The costs of providing pensions under defined benefit schemes are calculated using the projected unit credit method and spread over the period during which benefit is expected to be derived from the employees' services, consistent with the advice of qualified actuaries. Pension obligations are measured as the present value of estimated future cash flows discounted at rates reflecting the yields of high quality corporate bonds.

Pension scheme assets are measured at fair value at the balance sheet date. Actuarial gains and losses, differences between the expected and actual returns of assets and the effect of changes in actuarial assumptions, are recognised in the statement of comprehensive income in the year in which they arise. The Group's contributions to defined contribution plans are charged to the income statement as incurred. The costs of other post-employment liabilities are calculated in a similar way to defined benefit pension schemes and spread over the period during which benefit is expected to be derived from the employees' services, in accordance with the advice of qualified actuaries.

### **Employee share plans**

Incentives in the form of shares are provided to employees under share option and share award schemes.

The fair values of these options and awards are calculated at their grant dates using a Black-Scholes option pricing model and charged to the income statement over the relevant vesting periods.

The Group provides finance to ESOP Trusts to purchase company shares on the open market to meet the obligation to provide shares when employees exercise their options or awards. Costs of running the ESOP Trusts are charged to the income statement. Shares held by the ESOP Trusts are deducted from other reserves. A transfer is made between other reserves and retained earnings over the vesting periods of the related share options or awards to reflect the ultimate proceeds receivable from employees on exercise.

### **Property, plant and equipment**

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

Depreciation is calculated to write off the cost less residual value of PP&E, excluding freehold land, using the straight-line basis over the expected useful life. Residual values and lives are reviewed, and where appropriate adjusted, annually. The normal expected useful lives of the major categories of PP&E are:

|                              |                              |
|------------------------------|------------------------------|
| Freehold buildings           | 20 to 50 years               |
| Leasehold land and buildings | Lease term or 20 to 50 years |
| Plant and machinery          | 10 to 20 years               |
| Fixtures and equipment       | 3 to 10 years                |

On disposal of PP&E, the cost and related accumulated depreciation and impairments are removed from the financial statements and the net amount, less any proceeds, is taken to the income statement.

### **Leases**

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

### **Goodwill**

Goodwill is stated at cost less impairments. Goodwill is deemed to have an indefinite useful life and is tested for impairment annually.

Where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the consideration paid, this excess is recognised immediately as a gain in the income statement.

**Other intangible assets**

Intangible assets are stated at cost less provisions for amortisation and impairments.

Licences, patents, know-how and marketing rights separately acquired or acquired as part of a business combination 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 certain. Any development costs incurred by the Group and associated with acquired licences, patents, know-how or marketing rights are written off to the income statement when incurred, unless the criteria for recognition of an internally generated intangible asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

Acquired brands are valued independently as part of the fair value of businesses acquired from third parties where the brand has a value which is substantial and long-term and where the brands either are contractual or legal in nature or can be sold separately from the rest of the businesses acquired. Brands are amortised over their estimated useful lives of up to 20 years, except where it is considered that the useful economic life is indefinite.

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

Notes to the financial statements

## **2 Accounting principles and policies continued**

### **Impairment of non-current assets**

The carrying values of all non-current assets are reviewed for impairment when there is an indication that the assets might be impaired. Additionally, goodwill, intangible assets with indefinite useful lives and intangible assets which are not yet available for use are tested for impairment annually. Any provision for impairment is charged to the income statement in the year concerned.

Impairments of goodwill are not reversed. Impairment losses on other non-current 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.

### **Investments in associates and joint ventures**

Investments in associates and joint ventures are carried in the consolidated balance sheet at the Group's share of their net assets at date of acquisition and of their post-acquisition retained profits or losses together with any goodwill arising on the acquisition.

### **Available-for-sale investments**

Liquid investments and other investments are classified as available-for-sale investments and are initially recorded at fair value plus transaction costs and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses on available-for-sale investments are recognised directly in other comprehensive income. Impairments arising from the significant or prolonged decline in fair value of an equity investment reduce the carrying amount of the asset directly and are charged to the income statement.

On disposal or impairment of the investments, any gains and losses that have been deferred in other comprehensive income are reclassified to the income statement. Dividends on equity investments are recognised in the income statement when the Group's right to receive payment is established. Equity investments are recorded in non-current assets unless they are expected to be sold within one year.

Purchases and sales of equity investments are accounted for on the trade date and purchases and sales of other available-for-sale investments are accounted for on settlement date.

### **Inventories**

Inventories are included in the financial statements at the lower of cost (including raw materials, direct labour, other direct costs and related production overheads) and net realisable value. Cost is generally determined on a first in, first out basis. Pre-launch inventory is held as an asset when there is a high probability of regulatory approval for the product. Before that point a provision is made against the carrying value to its recoverable amount; the provision is then reversed at the point when a high probability of regulatory approval is determined.

### **Trade receivables**

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

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

### **Trade payables**

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

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions and highly liquid investments with original maturities of three months or less. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

**Borrowings**

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

**Taxation**

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date. Deferred tax liabilities and assets are not discounted.

Notes to the financial statements

## **2 Accounting principles and policies continued**

### **Derivative financial instruments and hedging**

Derivative financial instruments are used to manage exposure to market risks from treasury operations. The principal derivative instruments used by GlaxoSmithKline are foreign currency swaps, interest rate swaps and forward foreign exchange contracts. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are classified as held-for-trading and are carried in the balance sheet at fair value.

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

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

Net investment hedges are accounted for in a similar way to cash flow hedges.

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

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

### **Discounting**

Where the time effect of money is material, balances are discounted to current values using appropriate rates of interest. The unwinding of the discounts is recorded in finance income and finance costs.

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

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

### **Turnover**

Revenue is recognised when title and risk of loss is passed to the customer and reliable estimates can be made of relevant deductions. Gross turnover is reduced by rebates, discounts, allowances and product returns given or expected to be given, which vary by product arrangements and buying groups. These arrangements with purchasing organisations are dependent upon the submission of claims some time after the initial recognition of the sale. Accruals are made at the time of sale for the estimated rebates, discounts or allowances payable or returns to be made, based on available market information and historical experience.

Because the amounts are estimated they may not fully reflect the final outcome, and the amounts are subject to change dependent upon, amongst other things, the types of buying group and product sales mix.

The level of accrual is reviewed and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. Future events could cause the assumptions on which the accruals are based to change, which could affect the future results of the Group.

### **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.

The Group has open tax issues with a number of revenue authorities. GSK continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments. Where open issues exist the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of negotiations

with the relevant tax authorities or, if necessary, litigation proceedings.

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Notes to the financial statements

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

continued

#### **Legal and other disputes**

GSK provides for anticipated settlement costs where an outflow of resources is considered probable and a reasonable estimate may be made of the likely outcome of the dispute and legal and other expenses arising from claims against the Group.

The company's Directors, having taken legal advice, have established provisions after taking into account the relevant facts and circumstances of each matter and in accordance with accounting requirements. Provisions for product liability claims on certain products have been made on an incurred but not reported basis where sufficient history of claims made and settlements is available. No provisions have been made for other unasserted claims. In respect of a number of legal proceedings in which the Group is involved, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. In these cases, the Group may disclose information with respect to the nature and facts of the cases but no provision is typically made. At 31st December 2009 provisions for legal and other disputes amounted to £2,020 million (2008 £1,903 million).

The ultimate liability for legal claims may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations. The position could change over time and there can, therefore, be no assurance that any losses that result from the outcome of any legal proceedings will not exceed the amount of the provisions reported in the Group's financial statements.

#### **Property, plant and equipment**

The carrying values of property, plant and equipment are tested for impairment when there is an indication that the values of the assets might be impaired. Impairment is determined by reference to the higher of fair value less costs to sell and value in use, measured by assessing risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment tests, as set out in Note 17, 'Property, plant and equipment', to change with a consequent adverse effect on the future results of the Group.

#### **Goodwill**

Goodwill arising on business combinations is capitalised and allocated to an appropriate cash generating unit. It is deemed to have an indefinite life and so is not amortised. Annual impairment tests of the relevant cash generating units are performed. Impairment tests are based on established market multiples or risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment tests, as set out in Note 18, 'Goodwill', to change with a consequent adverse effect on the future results of the Group.

#### **Other intangible assets**

Where intangible assets are acquired by GSK from third parties the costs of acquisition are capitalised. Licences to compounds in development are amortised from the point at which they are available for use, over their estimated useful lives, which may include periods of non-exclusivity. Estimated useful lives are reviewed annually and impairment tests are undertaken if events occur which call into question the carrying values of the assets. Brands acquired with businesses are capitalised independently where they are separable and have an expected life of more than one year. Brands are amortised on a straight-line basis over their estimated useful lives, not exceeding 20 years, except where the end of the useful economic life cannot be foreseen. Where brands are not amortised, they are subject to annual impairment tests.

Both initial valuations and valuations for subsequent impairment tests are based on established market multiples or risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse effect on the future results of the Group.

#### **Pensions and other post-employment benefits**

The costs of providing pensions and other post-employment benefits are charged to the income statement in accordance with IAS 19 over the period during which benefit is derived from the employee's services. The costs are assessed on the basis of assumptions selected by management. These assumptions include future earnings and pension increases, discount rates, expected long term rates of return on assets and mortality rates, and are disclosed in Note 28, Pensions and other post-employment benefits .

The expected long term rates of return on bonds are determined based on the portfolio mix of index-linked, government and corporate bonds. An equity risk premium is added to this for equities.

Discount rates are derived from AA rated corporate bond yields except in countries where there is no deep market in corporate bonds where government bond yields are used. Sensitivity analysis is provided in Note 28, Pensions and other post-employment benefits , but a 0.25% reduction in the discount rate would lead to an increase in the net pension deficit of approximately £440 million and an increase in the annual pension cost of approximately £7 million. The selection of different assumptions could affect the future results of the Group.



Notes to the financial statements

#### **4 New accounting requirements**

The following new and amended accounting standards and IFRIC interpretations have been issued by the IASB and are likely to affect future Annual Reports, although none is expected to have a material impact on the results or financial position of the Group.

**IFRS 3 (Revised) Business combinations** was issued in January 2008 and will apply to business combinations arising from 1st January 2010. Amongst other changes, the new Standard will require recognition of subsequent changes in the fair value of contingent consideration in the income statement rather than against goodwill, and transaction costs to be recognised immediately in the income statement. Fair value gains or losses on existing investments in an acquired company will be recognised in the income statement at the date of acquisition.

**IAS 27 (Revised) Consolidated and separate financial statements** was issued in January 2008 and will be implemented at the same time as IFRS 3 (Revised). In respect of transactions with non-controlling interests in Group entities that do not result in a change of control, the revised Standard requires that the difference between the consideration paid or received and the recorded non-controlling interest is recognised in equity. In the case of divestment of a subsidiary, any retained interest will be remeasured to fair value and the difference between fair value and the previous carrying value will be recognised immediately in the income statement.

IFRS 3 (Revised) and IAS 27 (Revised) will both be applied prospectively to transactions occurring on or after 1st January 2010.

An amendment to **IAS 39 Financial instruments: Recognition and measurement Eligible hedged items** was issued in July 2008 and will be implemented by GSK from 1st January 2010. The amendment clarifies two aspects of hedge accounting relating to hedging with options and the identification of inflation as a hedged risk.

An amendment to **IAS 32 Financial instruments: Presentation Classification of rights issues** was issued in October 2009 and will be implemented by GSK from 1st January 2011. The amendment requires an issue to all existing shareholders of rights to acquire additional shares to be recognised in equity, regardless of the currency of the shares.

**IFRIC 17 Distributions of non-cash assets to owners** was published in November 2008 and will be implemented by GSK from 1st January 2010. The Interpretation specifies how an entity should account for distributions of non-cash assets to its owners.

The following new standards and interpretations have not yet been endorsed by the EU:

The IASB's annual improvements project was published in April 2009 and most of the changes are effective from 1st January 2010. The project makes minor amendments to a number of Standards in areas including operating segments, share-based payments, leases, intangible assets and financial instruments.

An amendment to **IFRS 2 Share-based payment Group cash-settled share-based payment transactions** was issued in June 2009 and will be implemented by GSK from 1st January 2010. The amendment clarifies the scope of IFRS 2 and the accounting for group cash-settled share-based payment transactions in the financial statements of individual group entities.

**IAS 24 (Revised) Related party disclosures** was issued in November 2009 and will be implemented by GSK from 1st January 2011. The revised Standard clarifies the definition of a related party and provides some exemptions for government related entities.

**IFRS 9 Financial instruments** was issued in November 2009 and will be implemented by GSK from 1st January 2013. The Standard is the first step in the project to replace IAS 39 and covers the classification and measurement of financial assets. The IASB intends to expand IFRS 9 to add new requirements for the classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting to become a complete replacement of IAS 39 by the end of 2010.

**IFRIC 19 Extinguishing financial liabilities with equity instruments** was issued in November 2009 and will be implemented by GSK from 1st January 2011. The Interpretation addresses the accounting by an entity that issues equity instruments in order to settle a financial liability in part or in full.

An amendment to IFRIC 14 Pre-payments of a minimum funding requirement was issued in November 2009 and will be implemented by GSK from 1st January 2011. The amendment permits a voluntary prepayment of a minimum funding requirement to be recognised as an asset.

### 5 Exchange rates

The Group uses the average of exchange rates prevailing during the period to translate the results and cash flows of overseas subsidiaries, joint ventures and associated undertakings into Sterling and period end rates to translate the net assets of those undertakings. The currencies which most influence these translations and the relevant exchange rates were:

|                   | 2009        | 2008 | 2007 |
|-------------------|-------------|------|------|
| Average rates:    |             |      |      |
| £/US\$            | <b>1.56</b> | 1.85 | 2.00 |
| £/Euro            | <b>1.12</b> | 1.26 | 1.46 |
| £/Yen             | <b>146</b>  | 192  | 235  |
| Period end rates: |             |      |      |
| £/US\$            | <b>1.61</b> | 1.44 | 1.99 |
| £/Euro            | <b>1.13</b> | 1.04 | 1.36 |
| £/Yen             | <b>150</b>  | 131  | 222  |

Notes to the financial statements

## 6 Segment information

GSK has implemented IFRS 8 'Operating segments' with effect from 1st January 2009 and this has resulted in a change to the segmental information reported by GSK. Comparative information has been presented on a consistent basis. GSK's operating segments are being reported based on the financial information provided to the Chief Executive Officer and the responsibilities of the Corporate Executive Team (CET). Individual members of the CET are responsible for geographic regions of the Pharmaceuticals business and for the Consumer Healthcare business as a whole, respectively, before major restructuring.

R&D investment is essential for the sustainability of the pharmaceutical businesses. However, for segment reporting, the USA, Europe, Emerging Markets and Asia Pacific/Japan regional pharmaceutical operating profits exclude allocations of globally funded R&D as well as central costs, principally corporate functions and unallocated manufacturing costs. GSK's management reporting process allocates all intra-Group profit on a product sale to the market in which that sale is recorded, and the profit analyses below have been presented on that basis.

The Other trading pharmaceuticals segment includes Canada, Puerto Rico, Stiefel, central vaccine tender sales and contract manufacturing sales. The Stiefel business is being integrated into GSK and with effect from 1st January 2010, results will be reported within the relevant geographical pharmaceuticals segments, in line with the way in which the business will be managed.

GSK acquired the HIV business of Pfizer with effect from 30th October 2009 in return for a 15% minority stake in the combined HIV businesses, now called ViiV Healthcare Limited. In line with the way the ViiV Healthcare business is to be managed, it will be reported as a separate segment from 1st January 2010. For 2009, the GSK HIV business is reported within the relevant Pharmaceuticals segments; incremental income and costs since the creation of ViiV Healthcare have been reported within Other trading pharmaceuticals.

The Pharmaceuticals R&D segment is the responsibility of the Chairman, Research & Development and is therefore being reported as a separate segment.

Unallocated pharmaceuticals costs include costs such as vaccines R&D and central manufacturing costs not attributed to other segments.

Corporate and other unallocated costs and disposal profits include corporate functions, costs for legal matters, fair value movements on financial instruments and investments and unallocated profits on asset disposals.

|  | <b>2009</b>   | 2008             | 2007             |
|--|---------------|------------------|------------------|
|  | <b>£m</b>     | (restated)<br>£m | (restated)<br>£m |
| <b>Turnover by segment</b>                         |               |                  |                  |
| US pharmaceuticals                                 | <b>9,180</b>  | 8,894            | 9,273            |
| Europe pharmaceuticals                             | <b>7,681</b>  | 6,483            | 5,560            |
| Emerging Markets pharmaceuticals                   | <b>2,973</b>  | 2,290            | 1,895            |
| Asia Pacific/Japan pharmaceuticals                 | <b>2,700</b>  | 1,918            | 1,701            |
| Other trading pharmaceuticals                      | <b>1,180</b>  | 796              | 734              |
| Pharmaceuticals turnover                           | <b>23,714</b> | 20,381           | 19,163           |
| Consumer Healthcare turnover                       | <b>4,654</b>  | 3,971            | 3,553            |
|  | <b>28,368</b> | 24,352           | 22,716           |
|  | <b>2009</b>   | 2008             | 2007             |
| <b>Pharmaceutical turnover by therapeutic area</b> | <b>£m</b>     | £m               | £m               |

|                               |               |        |        |
|-------------------------------|---------------|--------|--------|
| Respiratory                   | <b>6,977</b>  | 5,817  | 5,032  |
| Anti-virals                   | <b>4,150</b>  | 3,206  | 3,027  |
| Central nervous system        | <b>1,870</b>  | 2,897  | 3,348  |
| Cardiovascular and urogenital | <b>2,298</b>  | 1,847  | 1,554  |
| Metabolic                     | <b>1,181</b>  | 1,191  | 1,508  |
| Anti-bacterials               | <b>1,592</b>  | 1,429  | 1,323  |
| Oncology and emesis           | <b>629</b>    | 496    | 477    |
| Vaccines                      | <b>3,706</b>  | 2,539  | 1,993  |
| Other                         | <b>1,311</b>  | 959    | 901    |
|                               | <b>23,714</b> | 20,381 | 19,163 |

|   | <b>2009</b>  | 2008  | 2007  |
|---|--------------|-------|-------|
| <b>Consumer Healthcare turnover by category</b> | <b>£m</b>    | £m    | £m    |
| OTC medicines                                   | <b>2,319</b> | 1,935 | 1,788 |
| Oral healthcare                                 | <b>1,484</b> | 1,240 | 1,049 |
| Nutritional healthcare                          | <b>851</b>   | 796   | 716   |
|   | <b>4,654</b> | 3,971 | 3,553 |

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**6 Segment information continued**

During 2009, the US pharmaceuticals business made sales to three wholesalers of approximately £2,760 million (2008 £2,460 million; 2007 £2,060 million), £2,710 million (2008 £2,710 million; 2007 £2,880 million) and £1,680 million (2008 £1,980 million; 2007 £2,360 million) respectively, after allocating final-customer discounts to the wholesalers.

|   | <b>2009</b>    | 2008       | 2007       |
|---|----------------|------------|------------|
|   | <b>£m</b>      | (restated) | (restated) |
| <b>Segment profit</b>                                       |                | £m         | £m         |
| US pharmaceuticals  | <b>6,420</b>   | 5,947      | 6,364      |
| Europe pharmaceuticals                                      | <b>4,509</b>   | 3,765      | 3,110      |
| Emerging Markets pharmaceuticals                            | <b>1,048</b>   | 947        | 686        |
| Asia Pacific/Japan pharmaceuticals                          | <b>1,424</b>   | 1,078      | 896        |
| Other trading pharmaceuticals                               | <b>490</b>     | 476        | 358        |
| Pharmaceuticals R&D   | <b>(3,082)</b> | (2,875)    | (2,707)    |
| Other unallocated pharmaceuticals costs                     | <b>(1,334)</b> | (726)      | (841)      |
| Pharmaceuticals operating profit                            | <b>9,475</b>   | 8,612      | 7,866      |
| Consumer Healthcare operating profit                        | <b>952</b>     | 881        | 805        |
| Segment profit  | <b>10,427</b>  | 9,493      | 8,671      |
| Corporate and other unallocated costs and disposal profits  | <b>(1,170)</b> | (1,234)    | (740)      |
| Operating profit before major restructuring                 | <b>9,257</b>   | 8,259      | 7,931      |
| Major restructuring   | <b>(832)</b>   | (1,118)    | (338)      |
| Total operating profit                                      | <b>8,425</b>   | 7,141      | 7,593      |
| Finance income  | <b>70</b>      | 313        | 262        |
| Finance costs   | <b>(783)</b>   | (843)      | (453)      |
| Profit on disposal of interest in associate                 | <b>115</b>     |            |            |
| Share of after tax profits of associates and joint ventures | <b>64</b>      | 48         | 50         |
| Profit before taxation                                      | <b>7,891</b>   | 6,659      | 7,452      |
| Taxation  | <b>(2,222)</b> | (1,947)    | (2,142)    |
| Profit after taxation for the year                          | <b>5,669</b>   | 4,712      | 5,310      |
|   |                | 2008       | 2007       |
|   | <b>2009</b>    | (restated) | (restated) |
| <b>Depreciation and amortisation by segment</b>             | <b>£m</b>      | £m         | £m         |
| US pharmaceuticals  | <b>112</b>     | 110        | 46         |
| Europe pharmaceuticals                                      | <b>37</b>      | 36         | 31         |
| Emerging Markets pharmaceuticals                            | <b>39</b>      | 22         | 18         |

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|   |              |       |       |
|---|--------------|-------|-------|
| Asia Pacific/Japan pharmaceuticals                            | <b>21</b>    | 10    | 11    |
| Other trading pharmaceuticals                                 | <b>58</b>    | 4     | 5     |
| Pharmaceuticals R&D   | <b>363</b>   | 318   | 334   |
| Other unallocated pharmaceuticals                             | <b>623</b>   | 541   | 479   |
| Pharmaceuticals depreciation and amortisation                 | <b>1,253</b> | 1,041 | 924   |
| Consumer Healthcare depreciation and amortisation             | <b>63</b>    | 60    | 44    |
| Segment depreciation and amortisation                         | <b>1,316</b> | 1,101 | 968   |
| Corporate and other unallocated depreciation and amortisation | <b>78</b>    | 77    | 54    |
| Depreciation and amortisation before major restructuring      | <b>1,394</b> | 1,178 | 1,022 |
| Major restructuring   | <b>168</b>   | 53    |       |
| Total depreciation and amortisation                           | <b>1,562</b> | 1,231 | 1,022 |

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Notes to the financial statements

**6 Segment information continued**

|  | <b>2009</b> | 2008 | 2007 |
|--|-------------|------|------|
|  | <b>£m</b>   | £m   | £m   |
| <b>PP&amp;E and intangible asset impairment by segment</b>           |             |      |      |
| US pharmaceuticals   | <b>1</b>    | 1    | 1    |
| Europe pharmaceuticals   | <b>7</b>    | 2    |      |
| Emerging Markets pharmaceuticals                                     |             |      |      |
| Asia Pacific/Japan pharmaceuticals                                   | <b>1</b>    | 2    |      |
| Other trading pharmaceuticals  |             |      |      |
| Pharmaceuticals R&D  | <b>118</b>  | 107  | 49   |
| Other unallocated pharmaceuticals                                    | <b>124</b>  | 30   | 60   |
| Pharmaceuticals impairment   | <b>251</b>  | 142  | 110  |
| Consumer Healthcare impairment                                       | <b>1</b>    |      | 2    |
| Segment impairment   | <b>252</b>  | 142  | 112  |
| Corporate and other unallocated impairment                           | <b>23</b>   | 52   |      |
| Impairment before major restructuring                                | <b>275</b>  | 194  | 112  |
| Major restructuring  | <b>57</b>   | 197  | 106  |
| Total impairment   | <b>332</b>  | 391  | 218  |
|  |             |      |      |
| <b>PP&amp;E and intangible asset impairment reversals by segment</b> | <b>2009</b> | 2008 | 2007 |
|  | <b>£m</b>   | £m   | £m   |
| US pharmaceuticals   | <b>(1)</b>  |      | (1)  |
| Europe pharmaceuticals   |             |      |      |
| Emerging Markets pharmaceuticals                                     |             |      |      |
| Asia Pacific/Japan pharmaceuticals                                   |             |      |      |
| Other trading pharmaceuticals  |             |      |      |
| Pharmaceuticals R&D  | <b>(1)</b>  | (10) |      |
| Other unallocated pharmaceuticals                                    | <b>(9)</b>  |      | (66) |
| Pharmaceuticals impairment reversals                                 | <b>(11)</b> | (10) | (67) |
| Consumer Healthcare impairment reversals                             |             |      |      |
| Segment impairment reversals   | <b>(11)</b> | (10) | (67) |
| Corporate and other unallocated impairment reversals                 |             | (10) |      |
| Impairment reversals before major restructuring                      | <b>(11)</b> | (20) | (67) |
| Major restructuring  |             |      |      |
| Total impairment reversals   | <b>(11)</b> | (20) | (67) |

**Geographical information**

The UK is regarded as being the Group's country of domicile.

|   | <b>2009</b>   | 2008             | 2007             |
|---|---------------|------------------|------------------|
|   | <b>£m</b>     | (restated)<br>£m | (restated)<br>£m |
| <b>Turnover by location of customer</b> |               |                  |                  |
| UK                                      | <b>1,852</b>  | 1,636            | 1,570            |
| USA                                     | <b>10,201</b> | 9,746            | 10,168           |
| Rest of World                           | <b>16,315</b> | 12,970           | 10,978           |
| External turnover                       | <b>28,368</b> | 24,352           | 22,716           |
|   | <b>2009</b>   | 2008             |                  |
| <b>Non-current assets by location</b>   | <b>£m</b>     | £m               |                  |
| UK                                      | <b>5,266</b>  | 4,368            |                  |
| USA                                     | <b>7,956</b>  | 6,264            |                  |
| Rest of World                           | <b>8,758</b>  | 8,137            |                  |
|   | <b>21,980</b> | 18,769           |                  |

Non-current assets by location excludes amounts relating to other investments, deferred tax assets, derivative financial instruments, pension assets, amounts recoverable under insurance contracts and certain other non-current receivables.

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**6 Segment information continued**

|  | 2009   | 2008             |
|--|--------|------------------|
|  | £m     | (restated)<br>£m |
| <b>Total assets by segment</b>               |        |                  |
| US pharmaceuticals                           | 2,536  | 2,957            |
| Europe pharmaceuticals                       | 2,450  | 2,538            |
| Emerging Markets pharmaceuticals             | 1,925  | 1,303            |
| Asia Pacific/Japan pharmaceuticals           | 1,278  | 1,095            |
| Other trading pharmaceuticals                | 3,804  | 108              |
| Pharmaceuticals R&D                          | 2,842  | 3,087            |
| Other unallocated pharmaceuticals            | 12,956 | 13,399           |
| Pharmaceuticals operating assets             | 27,791 | 24,487           |
| Consumer Healthcare operating assets         | 3,799  | 3,859            |
| Segment operating assets                     | 31,590 | 28,346           |
| Corporate and other unallocated assets       | 921    | 680              |
| Total operating assets                       | 32,511 | 29,026           |
| Investments in associates and joint ventures | 895    | 552              |
| Liquid investments                           | 268    | 391              |
| Derivative financial instruments             | 197    | 963              |
| Cash and cash equivalents                    | 6,545  | 5,623            |
| Current and deferred taxation                | 2,432  | 2,836            |
| Assets held for sale                         | 14     | 2                |
| Total assets                                 | 42,862 | 39,393           |

The other unallocated pharmaceuticals segment includes assets for the centrally managed pharmaceutical and vaccine manufacturing operations, the depreciation on which, totalling £618 million (2008 £536 million; 2007 £475 million) is recovered through the standard cost of product charged to businesses.

**7 Major restructuring programme**

In October 2007, GSK announced a significant new Operational Excellence programme to improve the effectiveness and productivity of its operations. A significant expansion of the Operational Excellence programme was approved by the Board and announced in February 2009. A further expansion was approved by the Board and announced in February 2010. Total costs for the implementation of the expanded programme are expected to increase from £3.6 billion to approximately £4.5 billion, to be incurred over the period from 2007 to 2012. Approximately 50% of these costs were incurred by 31st December 2009, and approximately 30% are expected to be incurred in 2010 with the balance mostly in 2011. In total, approximately 75% of these costs are expected to be cash expenditures and 25% are expected to be asset write-downs. Uncertainties exist over the exact amount and timing of cash outflows as a result of potential future exchange rate fluctuations and as many elements of the restructuring programme are subject to employee consultation procedures, making it difficult to predict with precision when these procedures will be completed. However, the majority of the remaining cash payments are expected to be made in 2010 and 2011. The programme is now estimated to deliver total annual pre-tax savings of up to £2.2 billion by 2012, with savings realised

across the business. Of the total restructuring costs of £832 million incurred in 2009, £761 million was incurred under the Operational Excellence programme in the following areas:

- the closure of a number of manufacturing sites, including Dartford and Crawley in the UK and Cidra in Puerto Rico, giving rise to asset write-downs and staff reductions;

- the adoption of more customised sales approaches, leading to staff reductions in a number of sales forces, principally in France;

- cost saving projects in R&D, focused primarily on the simplification and streamlining of support infrastructure, including some site rationalisations, and

- projects to simplify or eliminate processes, leading to staff reductions in administrative and support functions.

In addition, costs of £71 million were incurred during the year under the restructuring programme related to the integration of the Stiefel Laboratories, Inc. business in the USA, following its acquisition in July 2009.

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Notes to the financial statements

**7 Major restructuring programme continued**

The analysis of the costs incurred under these programmes in 2009, 2008 and 2007 is as follows:

| <b>2009</b>                         | Asset<br>impairment<br>£m | Staff<br>reductions<br>£m | Other<br>costs<br>£m | <b>Total<br/>£m</b> |
|-------------------------------------|---------------------------|---------------------------|----------------------|---------------------|
| Cost of sales                       | (41)                      | (112)                     | (132)                | <b>(285)</b>        |
| Selling, general and administration | (1)                       | (337)                     | (54)                 | <b>(392)</b>        |
| Research and development            | (15)                      | (68)                      | (72)                 | <b>(155)</b>        |
| Effect on operating profit          | (57)                      | (517)                     | (258)                | <b>(832)</b>        |
| Net finance expense                 |                           |                           |                      | <b>(3)</b>          |
| Effect on profit before taxation    |                           |                           |                      | <b>(835)</b>        |
| Effect on taxation                  |                           |                           |                      | <b>221</b>          |
| Effect on earnings                  |                           |                           |                      | <b>(614)</b>        |
| <b>2008</b>                         | Asset<br>impairment<br>£m | Staff<br>reductions<br>£m | Other<br>costs<br>£m | Total<br>£m         |
| Cost of sales                       | (181)                     | (370)                     | (88)                 | (639)               |
| Selling, general and administration | (2)                       | (177)                     | (125)                | (304)               |
| Research and development            | (14)                      | (143)                     | (18)                 | (175)               |
| Effect on operating profit          | (197)                     | (690)                     | (231)                | (1,118)             |
| Net finance expense                 |                           |                           |                      | (5)                 |
| Effect on profit before taxation    |                           |                           |                      | (1,123)             |
| Effect on taxation                  |                           |                           |                      | 284                 |
| Effect on earnings                  |                           |                           |                      | (839)               |
| <b>2007</b>                         | Asset<br>impairment<br>£m | Staff<br>reductions<br>£m | Other<br>costs<br>£m | Total<br>£m         |
| Cost of sales                       | (77)                      | (34)                      |                      | (111)               |
| Selling, general and administration | (1)                       | (136)                     |                      | (137)               |
| Research and development            | (28)                      | (62)                      |                      | (90)                |
| Effect on profit before taxation    | (106)                     | (232)                     |                      | (338)               |

|                    |       |
|--------------------|-------|
| Effect on taxation | 77    |
| Effect on earnings | (261) |

Asset impairments of £57 million (2008 £197 million, 2007 £106 million) and other net costs totalling £124 million (2008 £137 million, 2007 £nil) are non-cash items. All other charges have been or will be settled in cash. These restructuring costs are reported in the major restructuring column of the Income statement on page 94. Other costs related to minor restructuring activity initiated prior to October 2007 amounting to £4 million (2008 £20 million) are reported within Results before major restructuring .

| <b>The costs of the major restructuring programmes have arisen as follows:</b> | <b>2009</b>  | 2008    | 2007  |
|--|--------------|---------|-------|
|  | <b>£m</b>    | £m      | £m    |
| Increase in provision for major restructuring programmes (see Note 29)         | <b>(487)</b> | (740)   | (220) |
| Amount of provision reversed unused (see Note 29)                              | <b>15</b>    | 7       |       |
| Impairments to property, plant and equipment (see Note 17)                     | <b>(57)</b>  | (197)   | (106) |
| Foreign exchange gain/(loss) recognised on liquidation of subsidiary           | <b>44</b>    | (84)    |       |
| Other non-cash charges   | <b>(168)</b> | (53)    |       |
| Other cash costs   | <b>(179)</b> | (51)    | (12)  |
| Net finance expense  | <b>(3)</b>   | (5)     |       |
| Effect on profit before taxation   | <b>(835)</b> | (1,123) | (338) |

Other non-cash charges are principally accelerated depreciation arising where asset lives have been shortened as a result of the major restructuring programmes. Other cash costs include the termination of leases and site closure costs and consultancy and project management fees.

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**8 Other operating income**

|  | <b>2009</b>  | 2008 | 2007 |
|--|--------------|------|------|
|  | <b>£m</b>    | £m   | £m   |
| Royalty income   | <b>296</b>   | 307  | 216  |
| Milestone income   | <b>90</b>    | 11   | 7    |
| Impairment of equity investments                           | <b>(135)</b> | (63) | (19) |
| Disposal of equity investments                             | <b>40</b>    | 33   | 32   |
| Disposal of other assets and legal settlements             | <b>539</b>   | 260  | 181  |
| Gain recognised on creation of ViiV Healthcare             | <b>296</b>   |      |      |
| Fair value adjustments on derivative financial instruments | <b>(5)</b>   | (10) | 41   |
| Other income   | <b>14</b>    | 3    | 17   |
|  | <b>1,135</b> | 541  | 475  |

Royalty and milestone income is principally a core of recurring income from the out-licensing of intellectual property. Fair value adjustments on derivative financial instruments include movements on the now expired Quest collar and Theravance put and call options.

**9 Operating profit**

|   | <b>2009</b>  | 2008  | 2007  |
|---|--------------|-------|-------|
|   | <b>£m</b>    | £m    | £m    |
| <b>The following items have been included in operating profit:</b>                            |              |       |       |
| Employee costs (Note 10)  | <b>7,167</b> | 6,524 | 5,733 |
| Advertising   | <b>923</b>   | 805   | 744   |
| Distribution costs  | <b>363</b>   | 310   | 270   |
| Depreciation of property, plant and equipment   | <b>1,130</b> | 920   | 796   |
| Impairment of property, plant and equipment, net of reversals                                 | <b>149</b>   | 256   | 97    |
| Amortisation of intangible assets   | <b>432</b>   | 311   | 226   |
| Impairment of intangible assets, net of reversals   | <b>172</b>   | 115   | 54    |
| Net foreign exchange losses/(gains)   | <b>163</b>   | (145) | (1)   |
| Inventories:  |              |       |       |
| Cost of inventories included in cost of sales   | <b>6,743</b> | 5,734 | 4,784 |
| Write-down of inventories   | <b>276</b>   | 298   | 265   |
| Reversal of prior year write-down of inventories  | <b>(116)</b> | (118) | (103) |
| Operating lease rentals:  |              |       |       |
| Minimum lease payments  | <b>160</b>   | 143   | 121   |
| Contingent rents  | <b>13</b>    | 15    | 13    |
| Sub-lease payments  | <b>6</b>     | 1     | 2     |
| Fees payable to the company's auditor and its associates in relation to the Group (see below) | <b>24.1</b>  | 19.2  | 16.3  |

The reversals of prior year write-downs of inventories principally arise from the reassessment of usage or demand expectations prior to inventory expiration.

|   | <b>2009</b> | 2008 | 2007 |
|---|-------------|------|------|
|   | <b>£m</b>   | £m   | £m   |
| <b>Fees payable to the company's auditor and its associates</b>   |             |      |      |
| Audit of parent company and consolidated financial statements   | <b>2.0</b>  | 1.6  | 1.8  |
| Audit of accounts of the Group's UK and overseas subsidiaries, pursuant to legislation                          | <b>10.2</b> | 9.3  | 7.9  |
| Other assurance services, pursuant to legislation, including attestation under s.404 of Sarbanes-Oxley Act 2002 | <b>3.0</b>  | 2.9  | 2.9  |
| Audit and assurance services  | <b>15.2</b> | 13.8 | 12.6 |
| Other tax services  | <b>7.3</b>  | 2.5  | 2.5  |
| All other services, including regulatory, compliance and treasury related services                              | <b>1.6</b>  | 2.9  | 1.2  |
|   | <b>24.1</b> | 19.2 | 16.3 |

At 31st December 2009, the amount due to PricewaterhouseCoopers LLP and its associates for fees yet to be invoiced was £4.9 million, comprising statutory audit £4.4 million, taxation services £0.2 million and other services £0.3 million.

In 2009, fees payable to PricewaterhouseCoopers LLP and its associates for audit and assurance services remained flat in CER terms.

|  | <b>2009</b> | 2008 | 2007 |
|--|-------------|------|------|
|  | <b>£m</b>   | £m   | £m   |
| <b>In addition to the above, fees paid in respect of the GSK pension schemes were:</b> |             |      |      |
| Audit  | <b>0.4</b>  | 0.4  | 0.2  |
| Other services   |             |      | 0.1  |

## Notes to the financial statements

**10 Employee costs**

|   | <b>2009</b>  | 2008  | 2007  |
|---|--------------|-------|-------|
|   | <b>£m</b>    | £m    | £m    |
| Wages and salaries  | <b>5,387</b> | 4,640 | 4,444 |
| Social security costs   | <b>661</b>   | 653   | 527   |
| Pension and other post-employment costs, including augmentations<br>(Note 28) | <b>491</b>   | 505   | 313   |
| Cost of share-based incentive plans   | <b>179</b>   | 241   | 237   |
| Severance and other costs from integration and restructuring activities       | <b>449</b>   | 485   | 212   |
|   | <b>7,167</b> | 6,524 | 5,733 |

In 2009, wages and salaries increased by 4% in CER terms.

The Group provides benefits to employees, commensurate with local practice in individual countries, including, in some markets, healthcare insurance, subsidised car schemes and personal life assurance.

| <b>The average number of persons employed by the Group (including Directors) during the year:</b> | <b>2009</b>   | 2008    | 2007    |
|---|---------------|---------|---------|
|   | <b>Number</b> | Number  | Number  |
| Manufacturing   | <b>31,467</b> | 33,372  | 33,975  |
| Selling, general and administration   | <b>53,183</b> | 52,115  | 53,707  |
| Research and development  | <b>14,204</b> | 15,646  | 15,719  |
|   | <b>98,854</b> | 101,133 | 103,401 |

The average number of Group employees excludes temporary and contract staff. The numbers of Group employees at the end of each financial year are given in the financial record on page 188. The average number of persons employed by GlaxoSmithKline plc in 2009 was nil (2008 nil).

The compensation of the Directors and Senior Management (members of the CET) in aggregate, was as follows:

|   | <b>2009</b> | 2008 | 2007 |
|---|-------------|------|------|
|   | <b>£m</b>   | £m   | £m   |
| Wages and salaries                      | <b>23</b>   | 17   | 16   |
| Social security costs                   | <b>1</b>    | 1    | 1    |
| Pension and other post-employment costs | <b>3</b>    | 3    | 3    |
| Cost of share-based incentive plans     | <b>4</b>    | 12   | 15   |
|   | <b>31</b>   | 33   | 35   |

**11 Finance income**

|  | <b>2009</b> | 2008 | 2007 |
|--|-------------|------|------|
|  | <b>£m</b>   | £m   | £m   |

|  |            |      |     |
|--|------------|------|-----|
| Interest income arising from:  |            |      |     |
| cash and cash equivalents  | <b>46</b>  | 107  | 98  |
| available-for-sale investments   | <b>15</b>  | 31   | 49  |
| derivatives at fair value through profit or loss                           | <b>(5)</b> | 159  | 79  |
| loans and receivables  | <b>11</b>  | 22   | 27  |
| Realised gains on liquid investments                                       |            | 2    | 1   |
| Fair value adjustments on derivatives at fair value through profit or loss | <b>(3)</b> | 4    |     |
| Net investment hedge ineffectiveness                                       | <b>4</b>   | (13) | 7   |
| Unwinding of discounts on assets   | <b>2</b>   | 1    | 1   |
|  | <b>70</b>  | 313  | 262 |

All derivatives at fair value through profit or loss other than designated and effective hedging instruments (see Note 41, Financial instruments and related disclosures ) are classified as held-for-trading financial instruments under IAS 39. Interest income arising from derivatives at fair value through profit or loss relates to swap interest income.

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**12 Finance costs**

|  | <b>2009</b>  | 2008  | 2007  |
|--|--------------|-------|-------|
|  | <b>£m</b>    | £m    | £m    |
| Interest expense arising on:   |              |       |       |
| financial liabilities at amortised cost  | <b>(790)</b> | (664) | (313) |
| derivatives at fair value through profit or loss                                 | <b>20</b>    | (165) | (121) |
| Fair value hedges:   |              |       |       |
| fair value adjustments on derivatives designated as hedging instruments          | <b>(37)</b>  | 92    | 10    |
| fair value adjustments on hedged items   | <b>38</b>    | (90)  | (8)   |
| Fair value adjustments on other derivatives at fair value through profit or loss | <b>(2)</b>   |       | 6     |
| Reclassification of cash flow hedge from other comprehensive income              | <b>(1)</b>   |       |       |
| Unwinding of discounts on provisions   | <b>(11)</b>  | (16)  | (27)  |
|  | <b>(783)</b> | (843) | (453) |

All derivatives at fair value through profit or loss except designated and effective hedging instruments are classified as held-for-trading financial instruments under IAS 39.

**13 Associates and joint ventures**

|   | <b>2009</b> | 2008 | 2007 |
|---|-------------|------|------|
|   | <b>£m</b>   | £m   | £m   |
| Associates:   |             |      |      |
| Share of after tax profits of Quest Diagnostics Inc.            | <b>73</b>   | 47   | 48   |
| Share of after tax profits of Aspen Pharmacare Holdings Limited | <b>2</b>    |      |      |
| Share of after tax losses of other associates                   | <b>(3)</b>  | (3)  | (3)  |
|   | <b>72</b>   | 44   | 45   |
| Share of after tax (losses)/profits of joint ventures           | <b>(8)</b>  | 4    | 5    |
|   | <b>64</b>   | 48   | 50   |
| Share of turnover of joint ventures                             | <b>13</b>   | 13   | 13   |
| Sales to joint ventures and associates                          | <b>26</b>   | 9    | 9    |

Summarised income statement information in respect of the Group's associates is set out below:

|  | <b>2009</b> | 2008 | 2007 |
|--|-------------|------|------|
|  | <b>£m</b>   | £m   | £m   |

Total turnover:

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|                                   |              |       |       |
|-----------------------------------|--------------|-------|-------|
| Quest Diagnostics Inc.            | <b>4,779</b> | 3,919 | 3,352 |
| Aspen Pharmacare Holdings Limited | <b>67</b>    |       |       |
| Others                            | <b>7</b>     | 3     |       |
|                                   | <b>4,853</b> | 3,922 | 3,352 |
| Total profit:                     |              |       |       |
| Quest Diagnostics Inc.            | <b>467</b>   | 314   | 170   |
| Aspen Pharmacare Holdings Limited | <b>12</b>    |       |       |
| Others                            | <b>(14)</b>  | (7)   | (3)   |
|                                   | <b>465</b>   | 307   | 167   |

The results of Aspen Pharmacare Holdings Limited included in the summarised income statement information above represent the estimated earnings of the Aspen group in the period since becoming an associated undertaking and are based on analysts forecasts.

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**14 Taxation**

|  | <b>2009</b>  | 2008    | 2007  |
|--|--------------|---------|-------|
|  | <b>£m</b>    | £m      | £m    |
| <b>Taxation charge based on profits for the year</b> |              |         |       |
| UK corporation tax at the UK statutory rate          | <b>600</b>   | 2,213   | 791   |
| Less double taxation relief                          | <b>(183)</b> | (1,924) | (339) |
|  | <b>417</b>   | 289     | 452   |
| Overseas taxation                                    | <b>1,997</b> | 1,589   | 1,962 |
| Current taxation                                     | <b>2,414</b> | 1,878   | 2,414 |
| Deferred taxation                                    | <b>(192)</b> | 69      | (272) |
|  | <b>2,222</b> | 1,947   | 2,142 |

Additional UK corporation tax and double taxation relief in 2008 arose from dividends received from overseas subsidiaries.

|   | <b>2009</b>  | 2008  | 2007  |
|---|--------------|-------|-------|
|   | <b>%</b>     | %     | %     |
| <b>Reconciliation of the taxation rate on Group profits</b> |              |       |       |
| UK statutory rate of taxation                               | <b>28.0</b>  | 28.5  | 30.0  |
| Differences in overseas taxation rates                      | <b>3.5</b>   | 1.9   | 4.3   |
| Benefit of special tax status                               | <b>(1.8)</b> | (2.4) | (3.6) |
| R&D credits   | <b>(1.9)</b> | (1.3) | (1.5) |
| Intercompany stock profit                                   | <b>0.5</b>   | 2.1   | (0.8) |
| Impact of share based payments                              | <b>0.1</b>   | 0.7   | 0.6   |
| Tax on profit of associates                                 | <b>(0.2)</b> | (0.4) | (0.3) |
| Other differences   | <b>(0.3)</b> | 1.2   | (0.3) |
| Prior year items  | <b>0.1</b>   | (1.6) | 0.1   |
| Restructuring   | <b>0.2</b>   | 0.5   | 0.2   |
| Tax rate  | <b>28.2</b>  | 29.2  | 28.7  |

|   | <b>2009</b> | 2008 | 2007 |
|---|-------------|------|------|
|   | <b>£m</b>   | £m   | £m   |
| <b>Tax on items charged to equity and statement of comprehensive income</b> |             |      |      |
| Current taxation  |             |      |      |
| Share based payments  | <b>1</b>    | 4    | 21   |
| Foreign exchange movements  | <b>19</b>   | 15   | 21   |
|   | <b>20</b>   | 19   | 42   |

|  |             |     |       |
|--|-------------|-----|-------|
| Deferred taxation                                      |             |     |       |
| Share based payments                                   | <b>13</b>   | (5) | (17)  |
| Defined benefit plans                                  | <b>183</b>  | 441 | (195) |
| Fair value movement on cash flow hedges                | <b>2</b>    | (3) | 2     |
| Fair value movements on available-for-sale investments | <b>(11)</b> | 8   | 19    |
|  | <b>187</b>  | 441 | (191) |
|  | <b>207</b>  | 460 | (149) |

All of the above items have been charged to the statement of comprehensive income except for tax on share based payments.

The Group operates in countries where the tax rate differs from the UK tax rate. The impact of these overseas taxes on the overall rate of tax is shown above. Profits arising from certain operations in Singapore are accorded special status and are taxed at reduced rates compared with the normal rates of tax in this territory. The effect of this reduction in the taxation charge increased earnings per share by 2.8p in 2009, 2.8p in 2008 and 4.9p in 2007. The Group is required under IFRS to create a deferred tax asset in respect of unrealised intercompany profit arising on inventory held by the Group at the year-end by applying the tax rate of the country in which the inventory is held (rather than the tax rate of the country where the profit was originally made and the tax paid, which is the practice under UK and US GAAP). As a result of this difference in accounting treatment the Group tax rate on current period intercompany profit under IFRS increased by 0.5% in 2009 (2008 2.1% increase; 2007 0.8% decrease) arising from changes in the location of work-in-progress and finished goods.

The integrated nature of the Group's worldwide operations, involving significant investment in research and strategic manufacture at a limited number of locations, with consequential cross-border supply routes into numerous end-markets, gives rise to complexity and delay in negotiations with revenue authorities as to the profits on which individual Group companies are liable to tax. Resolution of such issues is a continuing fact of life for GSK.

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Notes to the financial statements

**14 Taxation continued**

Following its audit of the period 2001 to 2003, the IRS issued Statutory Notices of Deficiency to GSK asserting income and withholding tax deficiencies, and associated penalties, arising from the IRS's reclassification of an intercompany financing arrangement in those years from debt to equity, and its consequent recharacterisation of the amounts paid as dividends subject to withholding tax under the US-UK treaty. All amounts due under the financing arrangement were paid on a timely basis, with the final payment made in April 2008. GSK disagreed with the IRS's position and, in August 2008, initiated actions in the United States Tax Court to contest the Statutory Notices of Deficiency. On 19th November 2009, GSK and the IRS filed a Stipulation with the Tax Court in which the IRS conceded all asserted tax deficiencies and penalties arising from its reclassification of the above intercompany financing arrangement from debt to equity, resulting in no additional tax cost to GSK. The IRS claim had previously been estimated at \$864m for 2001-2003. GSK and the IRS are now in the process of finalising the tax computations for the 2001 to 2003 tax years. It is anticipated that resolution of the issue in the years 2004 to 2008 will be reflected in a closing agreement. Resolution of the issue had no impact on the Group's results.

In Canada, GSK is continuing to contest a court decision in respect of transfer pricing in the early 1990s. The date of the appeal hearing has been set for March 2010. GSK continues to believe that it has made adequate provision for the liabilities likely to arise from periods which are open and not yet agreed by tax authorities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation where appropriate or by agreement with the relevant tax authorities.

No provision has been made for taxation which would arise on the distribution of profits retained by overseas subsidiaries, on the grounds that the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The aggregate amount of these unremitted profits at the balance sheet date was approximately £29 billion (2008 - £28 billion). The introduction of the UK dividend exemption on 1st July 2009, now enables the reasonable quantification of the incremental liability from repatriation of profits to the UK. The deferred tax on unremitted earnings at 31st December 2009 is estimated to be approximately £500 million, which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas tax jurisdictions.

| <b>Movement on current tax account</b> | Payable<br>£m | Recoverable<br>£m | Net<br>£m |
|--|---------------|-------------------|-----------|
| At 1st January 2009                    | (780)         | 76                | (704)     |
| Exchange adjustments                   | 12            | 1                 | 13        |
| Charge for the year                    | (2,056)       | (358)             | (2,414)   |
| Cash paid                              | 1,393         | 311               | 1,704     |
| Other movements                        | (20)          | 28                | 8         |
| At 31st December 2009                  | (1,451)       | 58                | (1,393)   |

**Movement in deferred tax assets and liabilities**

|   | Accelerated<br>capital | Intra-<br>group | Pensions<br>&<br>other<br>post<br>retirement<br>Tax | Manu-<br>facturing<br>&<br>restructur-<br>ing<br>Tax | Share<br>option<br>and<br>award | Other<br>net<br>temporary | Offset<br>within |
|---|------------------------|-----------------|---|--|---------------------------------|---------------------------|------------------|
| <b>Deferred taxation<br/>assets/(liabilities)</b> |                        |                 |   |  |                                 |                           |                  |

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|  | allowances | intangibles | profit | benefits | losses | disputes | undisputed | adjustments | scholarships | differences | countries | Total |
|--|------------|-------------|--------|----------|--------|----------|------------|-------------|--------------|-------------|-----------|-------|
|  | £m         | £m          | £m     | £m       | £m     | £m       | £m         | £m          | £m           | £m          | £m        | £m    |
| Deferred tax assets at 1st January 2009              | 23         | 152         | 1,234  | 1,062    | 196    | 249      | 162        | 15          | 102          | 830         | (1,265)   | 2,760 |
| Deferred tax liabilities at 1st January 2009         | (726)      | (970)       |        |          | (23)   |          |            | (247)       |              | (13)        | 1,265     | (714) |
| At 1st January 2009                                  | (703)      | (818)       | 1,234  | 1,062    | 173    | 249      | 162        | (232)       | 102          | 817         |           | 2,046 |
| Exchange adjustments                                 | 15         | 36          | (45)   | (87)     | (13)   | (28)     | (7)        | 22          |              | (59)        |           | (166) |
| Credit/(charge) to income statement                  | 89         | 74          | (6)    | (113)    | (52)   | 82       | (11)       | 52          | 11           | 66          |           | 192   |
| Credit/(charge) to equity                            |            |             |        |          |        |          |            |             | 13           |             |           | 13    |
| Credit/(charge) to statement of comprehensive income |            |             |        | 183      |        |          |            |             |              | (9)         |           | 174   |
| Acquisitions   | (5)        | (591)       |        | (2)      | 75     |          | 13         | (10)        |              | (10)        |           | (530) |
| At 31st December 2009                                | (604)      | (1,299)     | 1,183  | 1,043    | 183    | 303      | 157        | (168)       | 126          | 805         |           | 1,729 |
| Deferred tax assets at 31st December 2009            | 24         | 177         | 1,183  | 1,043    | 211    | 303      | 157        | 30          | 126          | 822         | (1,702)   | 2,374 |
| Deferred tax liabilities at 31st December 2009       | (628)      | (1,476)     |        |          | (28)   |          |            | (198)       |              | (17)        | 1,702     | (645) |
|  | (604)      | (1,299)     | 1,183  | 1,043    | 183    | 303      | 157        | (168)       | 126          | 805         |           | 1,729 |

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#### 14 Taxation continued

The deferred tax charge to income relating to changes in tax rates is £9 million. All other deferred tax movements arise from the origination and reversal of temporary differences. Other net temporary differences include accrued expenses and other provisions.

At 31st December 2009, the Group had recognised a deferred tax asset of £183 million (2008 £173 million) in respect of income tax losses of approximately £617 million (2008 £566 million). Of these losses, £76 million (2008 £142 million) are due to expire between 2010-2019, £445 million (2008 £357 million) are due to expire between 2020-2029 and £96 million (2008 £67 million) are available indefinitely. At 31st December 2009, the Group had not recognised any deferred tax asset in respect of income tax losses of approximately £4,397 million (2008 £4,526 million), of which £34 million (2008 £37 million) are due to expire between 2010-2019, £159 million (2008 £66 million) are due to expire between 2020-2029 and £4,204 million (2008 £4,423 million) which are available indefinitely. The Group had capital losses at 31st December 2009 of approximately £4.3 billion in respect of which no deferred tax asset has been recognised. Deferred tax assets are recognised where it is probable that future taxable profit will be available to utilise losses.

Factors affecting the tax charge in future years

As a global organisation there are many factors which could affect the future effective tax rate of the Group. The mix of profits across different territories, transfer pricing and other disputes with tax authorities and the location of research and development activity can all have a significant impact on the Group's effective tax rate.

Changes to tax legislation in territories where GSK has business operations could also impact the Group's effective tax rate. The UK tax authorities have proposed some significant changes to the UK taxation system. In December 2009 the UK Government announced that it intends to introduce a Patent Box regime applying a reduced rate of corporation tax to income from patents. The changes are expected to have effect from April 2013, following a period of consultation. The UK Government also continues to consult with business on proposed changes to the Controlled Foreign Company regime. These changes are expected to be enacted in 2011.

#### 15 Earnings per share

|   | <b>2009</b>  | 2008  | 2007  |
|---|--------------|-------|-------|
|   | <b>pence</b> | pence | pence |
| Basic earnings per share                              | <b>109.1</b> | 88.6  | 94.4  |
| Adjustment for major restructuring                    | <b>12.1</b>  | 16.1  | 4.7   |
| Basic earnings per share before major restructuring   | <b>121.2</b> | 104.7 | 99.1  |
| Diluted earnings per share                            | <b>108.2</b> | 88.1  | 93.7  |
| Adjustment for major restructuring                    | <b>12.1</b>  | 16.0  | 4.6   |
| Diluted earnings per share before major restructuring | <b>120.3</b> | 104.1 | 98.3  |

Basic and adjusted earnings per share have been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the period after deducting shares held by the ESOP Trusts and Treasury shares.

Adjusted earnings per share is calculated using results before major restructuring earnings. The calculation of results before major restructuring is described in Note 1 Presentation of the financial statements.

Diluted earnings per share have been calculated after adjusting the weighted average number of shares used in the basic calculation to assume the conversion of all potentially dilutive shares. A potentially dilutive share forms part of

the employee share schemes where its exercise price is below the average market price of GSK shares during the period and any performance conditions attaching to the scheme have been met at the balance sheet date. The numbers of shares used in calculating basic and diluted earnings per share are reconciled below.

| <b>Weighted average number of shares in issue</b> | <b>2009<br/>millions</b> | 2008<br>millions | 2007<br>millions |
|---|--------------------------|------------------|------------------|
| Basic   | <b>5,069</b>             | 5,195            | 5,524            |
| Dilution for share options                        | <b>39</b>                | 31               | 43               |
| Diluted   | <b>5,108</b>             | 5,226            | 5,567            |

Shares held by the ESOP Trusts are excluded. The trustees have waived their rights to dividends on the shares held by the ESOP Trusts.

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## 16 Dividends

| <b>2009</b>                | First interim     | Second interim       | Third interim        | Fourth interim     | Total |
|----------------------------|-------------------|----------------------|----------------------|--------------------|-------|
| Total dividend (£m)        | 701               | 713                  | 763                  | 913                | 3,090 |
| Dividend per share (pence) | 14                | 14                   | 15                   | 18                 | 61    |
| Paid/payable               | 9th July<br>2009  | 8th October<br>2009  | 7th January<br>2010  | 8th April<br>2010  |       |
| <b>2008</b>                |                   |                      |                      |                    |       |
| Total dividend (£m)        | 683               | 679                  | 730                  | 859                | 2,951 |
| Dividend per share (pence) | 13                | 13                   | 14                   | 17                 | 57    |
| Paid                       | 10th July<br>2008 | 9th October<br>2008  | 8th January<br>2009  | 9th April<br>2009  |       |
| <b>2007</b>                |                   |                      |                      |                    |       |
| Total dividend (£m)        | 670               | 667                  | 708                  | 859                | 2,904 |
| Dividend per share (pence) | 12                | 12                   | 13                   | 16                 | 53    |
| Paid                       | 12th July<br>2007 | 11th October<br>2007 | 10th January<br>2008 | 10th April<br>2008 |       |

Under IFRS interim dividends are only recognised in the financial statements when paid and not when declared. GSK normally pays a dividend two quarters after the quarter to which it relates and one quarter after it is declared. The 2009 financial statements recognise those dividends paid in 2009, namely the third and fourth interim dividends for 2008 and the first and second interim dividends for 2009.

The amounts recognised in each year are as follows:

|                           | <b>2009</b>  | 2008  | 2007  |
|---------------------------|--------------|-------|-------|
|                           | <b>£m</b>    | £m    | £m    |
| Dividends to shareholders | <b>3,003</b> | 2,929 | 2,793 |

## 17 Property, plant and equipment

|  | Land and<br>buildings<br>£m | Plant,<br>equipment<br>and vehicles<br>£m | Assets in<br>construction<br>£m | Total<br>£m   |
|--|-----------------------------|---|---------------------------------|---------------|
| Cost at 1st January 2008                   | 4,634                       | 8,497                                     | 1,956                           | <b>15,087</b> |
| Exchange adjustments                       | 1,046                       | 1,471                                     | 442                             | <b>2,959</b>  |
| Additions                                  | 124                         | 425                                       | 895                             | <b>1,444</b>  |
| Additions through<br>business combinations | 13                          | 7   |                                 | <b>20</b>     |
| Disposals and write-offs                   | (128)                       | (356)                                     | (27)                            | <b>(511)</b>  |
| Reclassifications                          | 292                         | 643                                       | (944)                           | <b>(9)</b>    |
| Transfer to assets held<br>for sale        | (2)                         | (1)                                       |                                 | <b>(3)</b>    |
| Cost at 31st<br>December 2008              | 5,979                       | 10,686                                    | 2,322                           | <b>18,987</b> |
| Exchange adjustments                       | (343)                       | (493)                                     | (154)                           | <b>(990)</b>  |
| Additions                                  | 188                         | 432                                       | 803                             | <b>1,423</b>  |
| Additions through<br>business combinations | 67                          | 76  | 8                               | <b>151</b>    |
| Capitalised borrowing<br>costs             |                             |   | 1                               | <b>1</b>      |
| Disposals and write-offs                   | (184)                       | (614)                                     | (5)                             | <b>(803)</b>  |
| Reclassifications                          | 309                         | 430                                       | (735)                           | <b>4</b>      |
| Transfer to assets held<br>for sale        | (14)                        | (2)                                       |                                 | <b>(16)</b>   |
| Cost at 31st<br>December 2009              | 6,002                       | 10,515                                    | 2,240                           | <b>18,757</b> |

Notes to the financial statements

**17 Property, plant and equipment continued**

|  | Land and<br>buildings<br>£m | Plant,<br>equipment<br>and<br>vehicles<br>£m | Assets in<br>construction<br>£m | <b>Total<br/>£m</b> |
|--|-----------------------------|--|---------------------------------|---------------------|
| Depreciation at 1st January 2008                           | (1,534)                     | (5,290)                                      |                                 | <b>(6,824)</b>      |
| Exchange adjustments                                       | (385)                       | (914)  |                                 | <b>(1,299)</b>      |
| Provision for the year                                     | (228)                       | (692)  |                                 | <b>(920)</b>        |
| Disposals and write-offs                                   | 85                          | 265  |                                 | <b>350</b>          |
| Transfer to assets held for sale                           |                             | 1  |                                 | <b>1</b>            |
| Depreciation at 31st December 2008                         | (2,062)                     | (6,630)                                      |                                 | <b>(8,692)</b>      |
| Exchange adjustments                                       | 128                         | 312  |                                 | <b>440</b>          |
| Provision for the year                                     | (283)                       | (847)  |                                 | <b>(1,130)</b>      |
| Disposals and write-offs                                   | 129                         | 478  |                                 | <b>607</b>          |
| Transfer to assets held for sale                           | 1                           | 1  |                                 | <b>2</b>            |
| Depreciation at 31st December 2009                         | (2,087)                     | (6,686)                                      |                                 | <b>(8,773)</b>      |
| Impairment at 1st January 2008                             | (122)                       | (239)  | (81)                            | <b>(442)</b>        |
| Exchange adjustments                                       | (22)                        | (27)   | (14)                            | <b>(63)</b>         |
| Disposals and write-offs                                   | 50                          | 67   | 27                              | <b>144</b>          |
| Impairment losses  | (70)                        | (176)  | (20)                            | <b>(266)</b>        |
| Reclassifications  |                             | (44)   | 44                              | <b>-</b>            |
| Reversal of impairments                                    | 3                           | 7  |                                 | <b>10</b>           |
| Impairment at 31st December 2008                           | (161)                       | (412)  | (44)                            | <b>(617)</b>        |
| Exchange adjustments                                       | 6                           | 10   | 4                               | <b>20</b>           |
| Disposals and write-offs                                   | 28                          | 104  | 4                               | <b>136</b>          |
| Impairment losses  | (27)                        | (108)  | (25)                            | <b>(160)</b>        |
| Reversal of impairments                                    | 1                           | 10   |                                 | <b>11</b>           |
| Impairment at 31st December 2009                           | (153)                       | (396)  | (61)                            | <b>(610)</b>        |
| Total depreciation and impairment at 31st<br>December 2008 | (2,223)                     | (7,042)                                      | (44)                            | <b>(9,309)</b>      |
| Total depreciation and impairment at 31st<br>December 2009 | (2,240)                     | (7,082)                                      | (61)                            | <b>(9,383)</b>      |

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Net book value at 1st January 2008          | 2,978        | 2,968        | 1,875        | <b>7,821</b> |
| Net book value at 31st December 2008        | 3,756        | 3,644        | 2,278        | <b>9,678</b> |
| <b>Net book value at 31st December 2009</b> | <b>3,762</b> | <b>3,433</b> | <b>2,179</b> | <b>9,374</b> |

The net book value at 31st December 2009 of the Group's land and buildings comprises freehold properties £3,462 million (2008 £3,510 million), properties with leases of 50 years or more £239 million (2008 £185 million) and properties with leases of less than 50 years £61 million (2008 £61 million).

Included in land and buildings at 31st December 2009 are leased assets with a cost of £561 million (2008 £519 million), accumulated depreciation of £261 million (2008 £263 million), impairment of £nil (2008 £8 million) and a net book value of £300 million (2008 £248 million). Included in plant, equipment and vehicles at 31st December 2009 are leased assets with a cost of £126 million (2008 £77 million), accumulated depreciation of £44 million (2008 £36 million), and a net book value of £82 million (2008 £41 million). Some lease agreements include renewal or purchase options or escalation clauses.

The impairment losses principally arise from decisions to rationalise facilities and are calculated based on either fair value less costs to sell or value in use. The value in use calculations determine the net present value of the projected risk-adjusted, post-tax cash flows of the relevant asset or cash generating unit, applying a discount rate of the Group post-tax weighted average cost of capital (WACC) of 8%, adjusted where appropriate for country specific risks.

Where an impairment is indicated and a pre-tax cash flow calculation is expected to give a materially different result, the test would be reperformed using pre-tax cash flows and a pre-tax discount rate. The Group WACC is equivalent to a pre-tax discount rate of approximately 11%. The impairment losses have been charged to cost of sales (£95 million), R&D (£47 million) and SG&A (£18 million), and include £57 million (2008 £197 million) arising from the major restructuring programmes.

Reversals of impairment arise from subsequent reviews of the impaired assets where the conditions which gave rise to the original impairments are deemed no longer to apply. All of the reversals have been credited to cost of sales.

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**18 Goodwill**

|   | <b>2009</b>  | 2008  |
|---|--------------|-------|
|   | <b>£m</b>    | £m    |
| Cost at 1st January                     | <b>2,101</b> | 1,370 |
| Exchange adjustments                    | <b>(116)</b> | 437   |
| Additions through business combinations | <b>1,376</b> | 294   |
| Cost at 31st December                   | <b>3,361</b> | 2,101 |
| Net book value at 1st January           | <b>2,101</b> | 1,370 |
| <b>Net book value at 31st December</b>  | <b>3,361</b> | 2,101 |

The additions in the year, translated at acquisition exchange rates, arise on acquisition of the following businesses:

|                                     | £m    |
|-------------------------------------|-------|
| Stiefel Laboratories Inc.           | 885   |
| Pfizer HIV business                 | 255   |
| UCB S.A.                            | 87    |
| NovaMin Technology Inc.             | 53    |
| AZ Tika                             | 50    |
| Laboratoire Pharmaceutique Algérien | 35    |
| Others                              | 11    |
|                                     | 1,376 |

See Note 38, Acquisitions and disposals for further details.

The carrying value of goodwill, translated at year-end exchange rates, is made up of balances arising on acquisition of the following businesses:

|                               |                              | <b>2009</b> | 2008 |
|-------------------------------|------------------------------|-------------|------|
|                               | Cash generating unit         | <b>£m</b>   | £m   |
| Stiefel Laboratories, Inc.    | Stiefel Laboratories Inc.    | <b>901</b>  |      |
| Reliant Pharmaceuticals, Inc. | US pharmaceuticals           | <b>434</b>  | 485  |
| ID Biomedical Corporation     | Five pharmaceutical segments | <b>426</b>  | 404  |
| Sirtris Pharmaceuticals, Inc. | Five pharmaceutical segments | <b>294</b>  | 329  |
| Pfizer HIV business           | ViiV Healthcare group        | <b>255</b>  |      |
| GlaxoSmithKline K.K.          | Japan pharmaceuticals        | <b>208</b>  | 238  |
| Domantis Limited              | Five pharmaceutical segments | <b>181</b>  | 181  |

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|                                     |  |              |       |
|-------------------------------------|--|--------------|-------|
| CNS, Inc.                           | Consumer Healthcare  | <b>137</b>   | 153   |
| Polfa Poznan S.A.                   | Poland pharmaceuticals                                     | <b>118</b>   | 128   |
| Certain businesses from<br>UCB S.A. | Emerging Markets and Asia Pacific/Japan<br>pharmaceuticals | <b>87</b>    |       |
| NovaMin Technology Inc.             | Consumer Healthcare  | <b>50</b>    |       |
| Others                              |  | <b>270</b>   | 183   |
|                                     |  | <b>3,361</b> | 2,101 |

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Notes to the financial statements

### 18 Goodwill continued

Goodwill is allocated to cash generating units which are tested for impairment at least annually. Following the implementation of IFRS 8 Operating segments in 2009 the cash generating units to which some of the goodwill balances are allocated have changed. The goodwill arising on the acquisitions of ID Biomedical, Sirtris Pharmaceuticals and Domantis has been split between the five pharmaceutical segments (USA, Europe, Emerging Markets, Asia Pacific/Japan and Other) for impairment testing purposes as either the benefit of the acquired businesses is split among the five pharmaceutical segments or they do not generate independent cash flows.

The valuation of the US pharmaceuticals cash generating unit for Reliant Pharmaceuticals has been prepared on a fair value less costs to sell basis, using turnover and earnings multiples derived from observed market data. The value of goodwill inherent in the US pharmaceuticals cash generating unit is considerably in excess of the book value of the acquired goodwill.

The recoverable amounts of the other cash generating units are assessed using either a value in use or a fair value less costs to sell model. Value in use is calculated as the net present value of the projected risk-adjusted post-tax cash flows plus a terminal value of the cash generating unit to which the goodwill is allocated. Initially a post-tax discount rate is applied to calculate the net present value of the post-tax cash flows. The post-tax discount rate used is based on the Group WACC of 8%, as most cash generating units have integrated operations across large parts of the Group. The Group WACC is equivalent to a pre-tax discount rate of approximately 11%. The discount rate is increased where specific country risks are sufficiently significant to have a material impact on the outcome of the impairment test. Where the impairment test indicates that the recoverable value of the unit is close to or below its carrying value, the test is reperformed using a pre-tax discount rate and pre-tax cash flows in order to determine if an impairment exists and to establish its magnitude.

Fair value is calculated using a similar discounted cash flow approach based on the Group's acquisition valuation model. A post-tax discount rate is applied to the projected risk-adjusted post-tax cash flows and terminal value. Details relating to the discounted cash flow models used in the impairment tests of the other significant goodwill balances are as follows:

|                              | <b>Stiefel Laboratories CGU</b>  | <b>ViiV Healthcare CGU</b>  | <b>Five pharmaceutical segments CGUs</b>   |
|------------------------------|--|---|--|
| Valuation basis              | Fair value less costs to sell  | Fair value less costs to sell   | Value in use   |
| Key assumptions              | Sales growth rates<br>Profit margins<br>Achievement of synergy targets<br>Discount rate  | Sales growth rates<br>Profit margins<br>Discount rate   | Sales growth rates<br>Profit margins<br>Discount rate  |
| Determination of assumptions | Growth rates are internal forecasts based on both internal and external market information. Margins reflect past experience, adjusted for expected changes. Post-acquisition synergy | Growth rates are internal forecasts based on both internal and external market information. Margins reflect past experience, adjusted for expected changes. Discount rate | Growth rates are internal forecasts based on both internal and external market information. Margins reflect past experience, adjusted for expected changes. Discount rate based on Group WACC. |

targets reflect management based on Group WACC.  
 expectations of cost savings  
 that can be achieved.  
 Discount rate based on  
 Group WACC.

|  |          |          |         |
|--|----------|----------|---------|
| Period of<br>specific<br>projected cash<br>flows | 10 years | 20 years | 5 years |
| Discount rate                                    | 8%       | 8%       | 8%      |
| Terminal growth<br>rate                          | 2% p.a.  | 2% p.a.  | 2% p.a. |



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**18 Goodwill continued**

|   | <b>Japan Pharmaceuticals CGU<br/>for GlaxoSmithKline KK</b>  | <b>Consumer Healthcare CGU<br/>for CNS</b>  | <b>Poland Pharmaceuticals CGU<br/>for Polfa Poznan</b>  |
|---|--|---|---|
| Valuation basis                         | Fair value less costs to sell  | Fair value less costs to sell   | Value in use  |
| Key assumptions                         | Sales growth rates<br>Profit margins<br>Discount rate  | Sales growth rates<br>Advertising and promotion investment<br>Terminal growth rate<br>Discount rate   | Sales growth rates<br>Profit margins<br>Discount rate   |
| Determination of assumptions            | Growth rates are internal forecasts based on both internal and external market information. Margins reflect past experience, adjusted for expected changes. Discount rate based on Group WACC. | Growth rates are internal forecasts based on both internal and external market information. Advertising and promotion investment based on historical levels adjusted for management's view of support needed for innovation and expansion. Terminal growth rate based on management's estimate of future long-term average growth rates. Discount rate based on Group WACC. | Growth rates are internal forecasts based on both internal and external market information. Margins reflect past experience, adjusted for expected changes. Discount rate based on Group WACC, adjusted for country-specific risks. |
| Period of specific projected cash flows | 5 years  | 4 years   | 5 years   |
| Discount rate                           | 8%   | 8%  | 9.75%   |
| Terminal growth rate                    | 2% p.a.  | 3% p.a.   | 13% p.a. decline.   |

The terminal growth rates do not exceed the long-term projected growth rates for the relevant markets. The terminal growth rate used in the value in use calculation for the Poland Pharmaceuticals cash generating unit reflects the impact of future generic competition and takes no account of new product launches. The Consumer Healthcare cash generating unit comprises a collection of smaller cash generating units including brands with indefinite lives with a carrying value of £1,796 million (2008 £1,794 million). The Stiefel Laboratories cash generating unit also comprises a collection of smaller cash generating units including assets with indefinite lives with a carrying value of £660 million. Details of indefinite life brands are given in Note 19 Other intangible assets .

In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

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## Notes to the financial statements

**19 Other intangible assets**

|   | Computer<br>software<br>£m | Licences,<br>patents,<br>etc.<br>£m | Amortised<br>brands<br>£m | Indefinite<br>life<br>brands<br>£m | <b>Total<br/>£m</b> |
|---|----------------------------|-------------------------------------|---------------------------|------------------------------------|---------------------|
| Cost at 1st January 2008                  | 801                        | 3,393                               | 266                       | 1,353                              | <b>5,813</b>        |
| Exchange adjustments                      | 110                        | 738                                 | 65                        | 371                                | <b>1,284</b>        |
| Capitalised internal development costs    | 27                         |                                     |                           |                                    | <b>27</b>           |
| Additions through business combinations   |                            | 171                                 |                           |                                    | <b>171</b>          |
| Other additions                           | 58                         | 492                                 |                           | 99                                 | <b>649</b>          |
| Disposals and asset write-offs            | (2)                        |                                     |                           |                                    | <b>(2)</b>          |
| Transfer to assets held for sale          | 9                          |                                     |                           |                                    | <b>9</b>            |
| <b>Cost at 31st December 2008</b>         | <b>1,003</b>               | <b>4,794</b>                        | <b>331</b>                | <b>1,823</b>                       | <b>7,951</b>        |
| Exchange adjustments                      | (36)                       | (193)                               | (23)                      | (99)                               | <b>(351)</b>        |
| Capitalised internal development costs    | 13                         |                                     |                           |                                    | <b>13</b>           |
| Additions through business combinations   | 30                         | 1,883                               | 51                        | 758                                | <b>2,722</b>        |
| Other additions                           | 41                         | 391                                 |                           |                                    | <b>432</b>          |
| Disposals and asset write-offs            | (17)                       | (26)                                |                           |                                    | <b>(43)</b>         |
| Reclassifications                         | (4)                        |                                     |                           |                                    | <b>(4)</b>          |
| <b>Cost at 31st December 2009</b>         | <b>1,030</b>               | <b>6,849</b>                        | <b>359</b>                | <b>2,482</b>                       | <b>10,720</b>       |
| Amortisation at 1st January 2008          | (530)                      | (622)                               | (10)                      |                                    | <b>(1,162)</b>      |
| Exchange adjustments                      | (75)                       | (168)                               | (3)                       |                                    | <b>(246)</b>        |
| Provision for the year                    | (96)                       | (204)                               | (11)                      |                                    | <b>(311)</b>        |
| Disposals and asset write-offs            | 3                          | (1)                                 |                           |                                    | <b>2</b>            |
| <b>Amortisation at 31st December 2008</b> | <b>(698)</b>               | <b>(995)</b>                        | <b>(24)</b>               |                                    | <b>(1,717)</b>      |
| Exchange adjustments                      | 27                         | 58                                  |                           |                                    | <b>85</b>           |
| Provision for the year                    | (113)                      | (306)                               | (13)                      |                                    | <b>(432)</b>        |
| Disposals and asset write-offs            | 16                         | 1                                   |                           |                                    | <b>17</b>           |
| <b>Amortisation at 31st December 2009</b> | <b>(768)</b>               | <b>(1,242)</b>                      | <b>(37)</b>               |                                    | <b>(2,047)</b>      |
| Impairment at 1st January 2008            | (24)                       | (150)                               |                           | (21)                               | <b>(195)</b>        |
| Exchange adjustments                      | (1)                        | (46)                                |                           | (8)                                | <b>(55)</b>         |
| Impairment losses                         | (7)                        | (118)                               |                           |                                    | <b>(125)</b>        |
| Reversal of impairments                   |                            | 10                                  |                           |                                    | <b>10</b>           |
| <b>Impairment at 31st December 2008</b>   | <b>(32)</b>                | <b>(304)</b>                        |                           | <b>(29)</b>                        | <b>(365)</b>        |

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|   |            |              |            |              |                |
|---|------------|--------------|------------|--------------|----------------|
| Exchange adjustments                                    | 1          | 19           |            | 3            | <b>23</b>      |
| Impairment losses                                       | (4)        | (168)        |            |              | <b>(172)</b>   |
| Disposals and asset write-offs                          | 2          | 22           |            |              | <b>24</b>      |
| Impairment at 31st December 2009                        | (33)       | (431)        |            | (26)         | <b>(490)</b>   |
| Total amortisation and impairment at 31st December 2008 | (730)      | (1,299)      | (24)       | (29)         | <b>(2,082)</b> |
| Total amortisation and impairment at 31st December 2009 | (801)      | (1,673)      | (37)       | (26)         | <b>(2,537)</b> |
| Net book value at 1st January 2008                      | 247        | 2,621        | 256        | 1,332        | <b>4,456</b>   |
| Net book value at 31st December 2008                    | 273        | 3,495        | 307        | 1,794        | <b>5,869</b>   |
| <b>Net book value at 31st December 2009</b>             | <b>229</b> | <b>5,176</b> | <b>322</b> | <b>2,456</b> | <b>8,183</b>   |

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**19 Other intangible assets continued**

Amortisation and impairment losses, net of reversals, have been charged in the income statement as follows:

|                                     | Amortisation |      | Net impairment losses |      |
|-------------------------------------|--------------|------|-----------------------|------|
|                                     | 2009         | 2008 | 2009                  | 2008 |
|                                     | £m           | £m   | £m                    | £m   |
| Cost of sales                       | 29           | 34   | 1                     |      |
| Selling, general and administration | 270          | 181  | 1                     | 25   |
| Research and development            | 133          | 96   | 170                   | 90   |
|                                     | 432          | 311  | 172                   | 115  |

The net book value of computer software includes £80 million (2008 £125 million) of internally generated costs. Licences, patents, etc. includes a large number of acquired licences, patents, know-how agreements and marketing rights, which are either marketed or in use, or still in development. The net book value includes £6 million (2008 £7 million) of internally generated costs. Impairment losses of £168 million (2008 £118 million) principally arise on assets in development that are no longer being actively pursued. Note 38, Acquisitions and disposals gives details of additions through business combinations in the year. The book values of the largest individual items are as follows:

|                    | 2009  | 2008  |
|--------------------|-------|-------|
|                    | £m    | £m    |
| <i>Fluviral</i>    | 648   | 654   |
| <i>Lovaza</i>      | 637   | 781   |
| <i>Selzentry</i>   | 337   |       |
| <i>Arzerra</i>     | 191   | 156   |
| <i>Duac</i>        | 165   |       |
| <i>Fraxiparine</i> | 158   | 180   |
| Others             | 3,040 | 1,724 |
|                    | 5,176 | 3,495 |

Amortised brands include OTC rights relating to *alli*, with a book value at 31st December 2009 of £260 million (2008 £294 million).

Indefinite life brands comprise a portfolio of Consumer Healthcare products primarily acquired with the acquisitions of Sterling Winthrop, Inc. in 1994, Block Drug Company, Inc. in 2001 and CNS, Inc. in 2006, together with a number of pharmaceutical brands from the acquisition of Stiefel Laboratories, Inc. in 2009. The book values of the major brands are as follows:

|                    | 2009 | 2008 |
|--------------------|------|------|
|                    | £m   | £m   |
| <i>Panadol</i>     | 399  | 411  |
| <i>Sensodyne</i>   | 271  | 289  |
| Stiefel trade name | 209  |      |

|                      |              |       |
|----------------------|--------------|-------|
| <i>Breathe Right</i> | <b>193</b>   | 216   |
| <i>Physiogel</i>     | <b>176</b>   |       |
| <i>Polident</i>      | <b>115</b>   | 123   |
| <i>Corega</i>        | <b>102</b>   | 109   |
| <i>Biotene</i>       | <b>108</b>   | 99    |
| <i>Poligrip</i>      | <b>71</b>    | 75    |
| <i>Solpadeine</i>    | <b>59</b>    | 60    |
| Others               | <b>753</b>   | 412   |
|                      | <b>2,456</b> | 1,794 |

Each of these brands is considered to have an indefinite life, given the strength and durability of the brand and the level of marketing support. The brands are in relatively similar stable and profitable market sectors, with similar risk profiles, and their size, diversification and market shares mean that the risk of market-related factors causing a reduction in the lives of the brands is considered to be relatively low. The Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factor which could limit their useful lives. Accordingly, they are not amortised.

Each brand is tested annually for impairment applying a fair value less costs to sell methodology, generally using four year post-tax cash flow forecasts with a terminal value calculation and a discount rate equal to the Group post-tax WACC of 8%, adjusted where appropriate for country-specific risks. The main assumptions include future sales price and volume growth, product contribution and the future expenditure required to maintain the product's marketability and registration in the relevant jurisdictions. These assumptions are based on past experience and are reviewed as part of management's budgeting and strategic planning cycle for changes in market conditions and sales erosion through competition. The terminal growth rates applied of between 2% and 3% are management's estimates of future long-term average growth rates of the relevant markets. In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of these brands.

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Notes to the financial statements

**20 Investments in associates and joint ventures**

|  | Joint<br>ventures<br>£m | Associated<br>undertakings<br>£m | <b>2009<br/>Total<br/>£m</b> | Joint<br>ventures<br>£m | Associated<br>undertakings<br>£m | 2008<br>Total<br>£m |
|--|-------------------------|----------------------------------|------------------------------|-------------------------|----------------------------------|---------------------|
| At 1st January                         | 28                      | 524                              | <b>552</b>                   | 15                      | 314                              | 329                 |
| Exchange adjustments                   | (3)                     | (44)                             | <b>(47)</b>                  | 6                       | 131                              | 137                 |
| Additions                              | 36                      | 312                              | <b>348</b>                   | 6                       | 3                                | 9                   |
| Disposals                              |                         | (69)                             | <b>(69)</b>                  |                         |                                  |                     |
| Transfer from other<br>investments     |                         | 56                               | <b>56</b>                    |                         | 39                               | 39                  |
| Fair value adjustment                  |                         | 8                                | <b>8</b>                     |                         | 3                                | 3                   |
| Retained (loss)/profit for the<br>year | (15)                    | 62                               | <b>47</b>                    | 1                       | 34                               | 35                  |
| At 31st December                       | 46                      | 849                              | <b>895</b>                   | 28                      | 524                              | 552                 |

The Group held two significant associated undertakings at 31st December 2009.

Quest Diagnostics Inc., a US clinical laboratory business listed on the New York Stock Exchange. The investment had a book value at 31st December 2009 of £410 million (2008 £463 million) and a market value of £1,153 million (2008 £1,316 million). At 31st December 2009, the Group owned 16.8% of Quest (2008 18.7%). During the year, the Group sold 5.7 million shares in Quest, realising a profit of £115 million. Although the Group holds less than 20% of the ownership interest and voting control in Quest, the Group has the ability to exercise significant influence through both its significant shareholding and its nominated director's active participation on the Quest Board of Directors and Board sub-committees.

In November 2009, GSK increased its shareholding in Aspen Pharmacare Holdings Limited by acquiring 68.5 million shares in consideration for the transfer of certain assets. GSK's shareholding in Aspen on 31st December 2009 was 81.7 million shares or 19%. Aspen, listed on the Johannesburg Stock Exchange, is Africa's largest pharmaceutical manufacturer and a major supplier of branded and generic pharmaceutical, healthcare and nutritional products to the southern African and selected international markets. After elimination of unrealised gains, the investment had a book value at 31st December 2009 of £372 million, including estimated goodwill of £259 million. The market value of the shares held by GSK at 31st December 2009 was £505 million. Although the Group holds less than 20% of the ownership interest and voting control of Aspen, the Group has the ability to exercise significant influence through both its shareholding and its nominated director's active participation on the Aspen Board of Directors.

The transfer from other investments in 2009 relates to the Group's holding in Aspen, previously classified within Other investments.

In August 2009, GSK invested £20 million to establish a 40% interest in Shenzhen GlaxoSmithKline Neptunus Biologicals Co., Ltd, a new joint venture primarily operating in the fields of research, development and manufacture of flu vaccines.

During 2009, GSK made additional capital contributions totalling £16 million to Shionogi-GlaxoSmithKline Holdings, L.P.

Summarised balance sheet information in respect of the Group's associates is set out below:

|             |      |
|-------------|------|
| <b>2009</b> | 2008 |
| <b>£m</b>   | £m   |

|                                   |                |         |
|-----------------------------------|----------------|---------|
| Total assets:                     |                |         |
| Quest Diagnostics Inc.            | <b>5,319</b>   | 5,836   |
| Aspen Pharmacare Holdings Limited | <b>1,318</b>   |         |
| Others                            | <b>121</b>     | 115     |
|                                   | <b>6,758</b>   | 5,951   |
| Total liabilities:                |                |         |
| Quest Diagnostics Inc.            | <b>(2,828)</b> | (3,333) |
| Aspen Pharmacare Holdings Limited | <b>(689)</b>   |         |
| Others                            | <b>(19)</b>    | (20)    |
|                                   | <b>(3,536)</b> | (3,353) |
| Net assets                        | <b>3,222</b>   | 2,598   |

The summarised balance sheet information in respect of Aspen Pharmacare Holdings Limited is based on analysts forecasts available at 31st December 2009.

Investments in joint ventures comprise £57 million share of gross assets (2008 £36 million) and £11 million share of gross liabilities (2008 £8 million). These principally arise from 50% interests in two joint ventures, Shionogi-GlaxoSmithKline Holdings, L.P., which is developing specified chemical compounds, and GlaxoSmithKline Shire Canada, which primarily co-markets *Combivir*, *Trizivir* and *Epivir* in certain territories, both of which are now part of the ViiV Healthcare business. Investments in joint ventures also include a 28% interest in Pharmaceutical Insurance Limited, which is a mutual insurance company covering pharmaceutical business risk, and a 40% interest in GlaxoSmithKline NeptunusBio, which is a flu vaccine research, development and manufacturing venture.

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**21 Other investments**

|  | <b>2009</b> | 2008 |
|--|-------------|------|
|  | <b>£m</b>   | £m   |
| At 1st January   | <b>478</b>  | 517  |
| Exchange adjustments                                     | <b>(48)</b> | 129  |
| Additions  | <b>175</b>  | 87   |
| Net fair value movements                                 | <b>57</b>   | (94) |
| Impairment losses  | <b>(95)</b> | (65) |
| Transfer to investments in associates and joint ventures | <b>(56)</b> | (39) |
| Disposals  | <b>(57)</b> | (57) |
| At 31st December   | <b>454</b>  | 478  |

Other investments comprise non-current equity investments which are available-for-sale investments recorded at fair value at each balance sheet date. For investments traded in an active market, the fair value is determined by reference to the relevant stock exchange quoted bid price. For other investments, the fair value is estimated by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets. The Group holds a number of equity investments in entities where the Group has entered into research collaborations. Other investments include listed investments of £245 million (2008 £319 million).

On disposal of investments, fair value movements are reclassified from reserves to the income statement based on average cost for shares acquired at different times.

The impairment losses recorded in the tables above have been recognised in the income statement for the year within other operating income, together with amounts reclassified from the fair value reserve on recognition of the impairments. These impairments initially result from prolonged or significant declines in the fair value of the equity investments below acquisition cost, subsequent to which any further declines in fair value are immediately taken to the income statement. At 31st December 2009 impaired assets with a fair value of £105 million (2008 £118 million) are included in other investments.

The transfer to associates relates to the Group's holding in Aspen Pharmicare Holdings Limited, which increased during the year to 19%.

**22 Other non-current assets**

|   | <b>2009</b> | 2008 |
|---|-------------|------|
|   | <b>£m</b>   | £m   |
| Amounts recoverable under insurance contracts | <b>299</b>  | 293  |
| Pension schemes in surplus                    | <b>23</b>   | 39   |
| Other receivables                             | <b>261</b>  | 247  |
|   | <b>583</b>  | 579  |

**23 Inventories**

|  | <b>2009</b> | 2008 |
|--|-------------|------|
|  | <b>£m</b>   | £m   |

|                               |              |       |
|-------------------------------|--------------|-------|
| Raw materials and consumables | <b>1,153</b> | 1,127 |
| Work in progress              | <b>1,437</b> | 1,295 |
| Finished goods                | <b>1,474</b> | 1,634 |
|                               | <b>4,064</b> | 4,056 |

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## Notes to the financial statements

**24 Trade and other receivables**

|                                      | <b>2009</b>  | 2008  |
|--------------------------------------|--------------|-------|
|                                      | <b>£m</b>    | £m    |
| Trade receivables                    | <b>5,486</b> | 5,333 |
| Prepaid pension contributions        | <b>1</b>     | 1     |
| Other prepayments and accrued income | <b>301</b>   | 294   |
| Interest receivable                  | <b>20</b>    | 39    |
| Employee loans and advances          | <b>48</b>    | 63    |
| Other receivables                    | <b>636</b>   | 535   |
|                                      | <b>6,492</b> | 6,265 |

Trade receivables include £32 million (2008 £4 million) due from associates and joint ventures.

|   | <b>2009</b> | 2008 |
|---|-------------|------|
|   | <b>£m</b>   | £m   |
| <b>Bad and doubtful debt provision</b>        |             |      |
| At 1st January                                | <b>129</b>  | 98   |
| Exchange adjustments                          | <b>(10)</b> | 29   |
| Charge for the year                           | <b>21</b>   | 21   |
| Subsequent recoveries of amounts provided for | <b>(18)</b> | (15) |
| Utilised                                      | <b>(6)</b>  | (4)  |
| At 31st December                              | <b>116</b>  | 129  |

**25 Cash and cash equivalents**

|                          | <b>2009</b>  | 2008  |
|--------------------------|--------------|-------|
|                          | <b>£m</b>    | £m    |
| Cash at bank and in hand | <b>856</b>   | 652   |
| Short-term deposits      | <b>5,689</b> | 4,971 |
|                          | <b>6,545</b> | 5,623 |

**26 Assets held for sale**

|                               | <b>2009</b> | 2008 |
|-------------------------------|-------------|------|
|                               | <b>£m</b>   | £m   |
| Land and buildings            | <b>13</b>   | 2    |
| Plant, equipment and vehicles | <b>1</b>    |      |
|                               | <b>14</b>   | 2    |



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Notes to the financial statements

**27 Trade and other payables**

|                                     | <b>2009</b>  | 2008  |
|-------------------------------------|--------------|-------|
|                                     | <b>£m</b>    | £m    |
| Trade payables                      | <b>1,855</b> | 1,153 |
| Wages and salaries                  | <b>1,089</b> | 946   |
| Social security                     | <b>125</b>   | 148   |
| Other payables                      | <b>280</b>   | 233   |
| Deferred income                     | <b>156</b>   | 103   |
| Customer return and rebate accruals | <b>1,379</b> | 1,337 |
| Other accruals                      | <b>1,888</b> | 2,155 |
|                                     | <b>6,772</b> | 6,075 |

Customer return and rebate accruals are provided for by the Group at the point of sale in respect of the estimated rebates, discounts or allowances payable to customers, principally in the USA. Provisions are made at the time of sale but the actual amounts paid are based on claims made some time after the initial recognition of the sale. As the amounts are estimated they may not fully reflect the final outcome and the amounts are subject to change dependent upon, amongst other things, the types of buying group and product sales mix. The level of provision is reviewed and adjusted quarterly in the light of historical experience of actual rebates, discounts or allowances given and returns made and any changes in arrangements. Future events could cause the assumptions on which the provisions are based to change, which could affect the future results of the Group.

**28 Pensions and other post-employment benefits**

|  | <b>2009</b> | 2008 | 2007 |
|--|-------------|------|------|
|  | <b>£m</b>   | £m   | £m   |
| <b>Pension and other post-employment costs</b> |             |      |      |
| UK pension schemes                             | <b>206</b>  | 236  | 108  |
| US pension schemes                             | <b>94</b>   | 60   | 24   |
| Other overseas pensions schemes                | <b>101</b>  | 87   | 89   |
| Unfunded post-retirement healthcare schemes    | <b>90</b>   | 118  | 90   |
| Other post-employment costs                    |             | 4    | 2    |
|  | <b>491</b>  | 505  | 313  |
| Analysed as:                                   |             |      |      |
| Funded defined benefit/hybrid pension schemes  | <b>338</b>  | 318  | 171  |
| Unfunded defined benefit pension schemes       | <b>25</b>   | 23   | 17   |
| Unfunded post-retirement healthcare schemes    | <b>90</b>   | 118  | 90   |
| Defined benefit schemes                        | <b>453</b>  | 459  | 278  |
| Defined contribution pension schemes           | <b>38</b>   | 42   | 33   |
| Other post-employment costs                    |             | 4    | 2    |
|  | <b>491</b>  | 505  | 313  |

The costs of the defined benefit pension and post-retirement healthcare schemes are charged in the income statement as follows:

|                                     |            |     |     |
|-------------------------------------|------------|-----|-----|
| Cost of sales                       | <b>121</b> | 179 | 72  |
| Selling, general and administration | <b>195</b> | 160 | 129 |
| Research and development            | <b>137</b> | 120 | 77  |
|                                     | <b>453</b> | 459 | 278 |

GSK entities operate pension arrangements which cover the Group's material obligations to provide pensions to retired employees. These arrangements have been developed in accordance with local practices in the countries concerned. Pension benefits can be provided by state schemes; by defined contribution schemes, whereby retirement benefits are determined by the value of funds arising from contributions paid in respect of each employee; or by defined benefit schemes, whereby retirement benefits are based on employee pensionable remuneration and length of service. Some hybrid defined benefit schemes also include defined contribution sections.

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Notes to the financial statements

### 28 Pensions and other post-employment benefits continued

Pension costs of defined benefit schemes for accounting purposes have been calculated using the projected unit method. In certain countries pension benefits are provided on an unfunded basis, some administered by trustee companies. Formal, independent, actuarial valuations of the Group's main plans are undertaken regularly, normally at least every three years.

Actuarial movements in the year are recognised through the statement of comprehensive income. Discount rates are derived from AA rated corporate bond yields except in countries where there is no deep market in corporate bonds where government bond yields are used. Discount rates are selected to reflect the term of the expected benefit payments. The expected rate of return on bonds reflects the portfolio mix of index-linked, government and corporate bonds. An equity risk premium of between 3% and 4% is added to longer term government bond yields to give the expected rate of return on equities. Projected inflation rate and pension increases are long-term predictions based on the yield gap between long-term index-linked and fixed interest Gilts. In the UK, mortality rates are determined by adjusting the PCA00 standard mortality tables to reflect recent scheme experience. These rates are then projected to reflect improvements in life expectancy in line with the medium cohort (i.e. improvements at recently observed higher levels which are assumed to continue to 2020) with minimum improvements thereafter of 1% per year for males and 0.5% for females. In the USA, mortality rates are calculated using the RP2000 fully generational table, projected using scale AA, with the white collar adjustment.

The average life expectancy assumed now for an individual at the age of 60 and projected to apply in 2029 for an individual then at the age of 60 is as follows:

|                    | UK            |                 | USA           |                 |
|--------------------|---------------|-----------------|---------------|-----------------|
|                    | Male<br>Years | Female<br>Years | Male<br>Years | Female<br>Years |
| Current            | 27.3          | 28.2            | 24.5          | 26.2            |
| Projected for 2029 | 29.6          | 29.5            | 26.4          | 27.3            |

The assets of funded schemes are generally held in separately administered trusts, either as specific assets or as a proportion of a general fund, or are insurance contracts. Assets are invested in different classes in order to maintain a balance between risk and return. Investments are diversified to limit the financial effect of the failure of any individual investment. Following an asset liability study in 2007, the Group decided to adopt a strategy to reduce gradually the allocation of investment in equities. During 2009, it was agreed that the pace of reallocation would be increased primarily through investment of the deficit reduction contributions in bonds. The target allocation of equities and property in the US scheme has been reduced to 50% of the total.

In the UK the defined benefit pension schemes operated for the benefit of former Glaxo Wellcome employees and former SmithKline Beecham employees remain separate. These schemes were closed to new entrants in 2001 and subsequent UK employees are entitled to join a defined contribution scheme. In the USA the former Glaxo Wellcome and SmithKline Beecham defined benefit schemes were merged during 2001. In addition, the Group operates a number of post-retirement healthcare schemes, the principal one of which is in the USA.

The Group has applied the following financial assumptions in assessing the defined benefit liabilities:

|                                     | UK           |              |              | USA          |              |              | Rest of World |              |              |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|
|                                     | 2009<br>% pa | 2008<br>% pa | 2007<br>% pa | 2009<br>% pa | 2008<br>% pa | 2007<br>% pa | 2009<br>% pa  | 2008<br>% pa | 2007<br>% pa |
| Rate of increase of future earnings | <b>4.60</b>  | 3.90         | 4.25         | <b>4.50</b>  | 4.50         | 5.00         | <b>3.00</b>   | 3.10         | 3.25         |
| Discount rate                       | <b>5.70</b>  | 6.20         | 5.75         | <b>5.75</b>  | 6.00         | 6.00         | <b>4.70</b>   | 5.00         | 4.75         |

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|                                     |             |      |      |             |      |      |             |      |      |
|-------------------------------------|-------------|------|------|-------------|------|------|-------------|------|------|
| Expected pension increases          | <b>3.60</b> | 2.90 | 3.25 | <b>n/a</b>  | n/a  | n/a  | <b>2.20</b> | 2.10 | 2.00 |
| Cash balance credit/conversion rate | <b>n/a</b>  | n/a  | n/a  | <b>4.75</b> | 4.50 | 4.75 | <b>1.60</b> | 1.20 | 1.60 |
| Inflation rate                      | <b>3.60</b> | 2.70 | 3.25 | <b>2.50</b> | 2.50 | 2.50 | <b>1.70</b> | 1.70 | 1.75 |

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Notes to the financial statements

**28 Pensions and other post-employment benefits** continued

The amounts recorded in the income statement and statement of comprehensive income for the three years ended 31st December 2009 in relation to the defined benefit pension and post-retirement healthcare schemes were as follows:

|  |       |       |                  | Post-retirement<br>Pensions | Post-retirement<br>benefits |
|--|-------|-------|------------------|-----------------------------|-----------------------------|
|  | UK    | USA   | Rest of<br>World | Group                       | Group                       |
| <b>2009</b>  | £m    | £m    | £m               | £m                          | £m                          |
| Amounts charged to operating profit  |       |       |                  |                             |                             |
| Current service cost   | 121   | 66    | 64               | <b>251</b>                  | <b>35</b>                   |
| Past service cost  |       | (6)   |                  | <b>(6)</b>                  | <b>(27)</b>                 |
| Expected return on pension scheme assets                                   | (347) | (121) | (46)             | <b>(514)</b>                |                             |
| Interest on scheme liabilities   | 378   | 148   | 62               | <b>588</b>                  | <b>74</b>                   |
| Settlements and curtailments   | 54    | 7     | (17)             | <b>44</b>                   | <b>8</b>                    |
|  | 206   | 94    | 63               | <b>363</b>                  | <b>90</b>                   |
| Actuarial (losses)/gains recorded in the statement of comprehensive income | (578) | (5)   | (77)             | <b>(660)</b>                | <b>1</b>                    |

|  |       |       |                  | Post-retirement<br>Pensions | Post-retirement<br>benefits |
|--|-------|-------|------------------|-----------------------------|-----------------------------|
|  | UK    | USA   | Rest of<br>World | Group                       | Group                       |
| <b>2008</b>  | £m    | £m    | £m               | £m                          | £m                          |
| Amounts charged to operating profit  |       |       |                  |                             |                             |
| Current service cost   | 126   | 61    | 59               | 246                         | 30                          |
| Past service cost  |       | 10    | 2                | 12                          | 4                           |
| Expected return on pension scheme assets                                   | (442) | (144) | (47)             | (633)                       |                             |
| Interest on scheme liabilities   | 377   | 121   | 53               | 551                         | 62                          |
| Settlements and curtailments   | 175   | 12    | (22)             | 165                         | 22                          |
|  | 236   | 60    | 45               | 341                         | 118                         |
| Actuarial (losses)/gains recorded in the statement of comprehensive income | (776) | (576) | (82)             | (1,434)                     | 64                          |

|  |       |       |                  | Post-retirement<br>Pensions | Post-retirement<br>benefits |
|--|-------|-------|------------------|-----------------------------|-----------------------------|
|  | UK    | USA   | Rest of<br>World | Group                       | Group                       |
| <b>2007</b>  | £m    | £m    | £m               | £m                          | £m                          |
| Amounts charged to operating profit  |       |       |                  |                             |                             |
| Current service cost   | 126   | 61    | 59               | 246                         | 30                          |
| Past service cost  |       | 10    | 2                | 12                          | 4                           |
| Expected return on pension scheme assets                                   | (442) | (144) | (47)             | (633)                       |                             |
| Interest on scheme liabilities   | 377   | 121   | 53               | 551                         | 62                          |
| Settlements and curtailments   | 175   | 12    | (22)             | 165                         | 22                          |
|  | 236   | 60    | 45               | 341                         | 118                         |
| Actuarial (losses)/gains recorded in the statement of comprehensive income | (776) | (576) | (82)             | (1,434)                     | 64                          |

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|  | £m    | £m    | £m   | £m    | £m |
|--|-------|-------|------|-------|----|
| Amounts charged to operating profit  |       |       |      |       |    |
| Current service cost   | 138   | 60    | 57   | 255   | 30 |
| Past service cost  |       | (7)   | 1    | (6)   |    |
| Expected return on pension scheme assets                                   | (389) | (141) | (37) | (567) |    |
| Interest on scheme liabilities   | 335   | 107   | 41   | 483   | 54 |
| Settlements and curtailments   | 24    | 5     | (6)  | 23    | 6  |
|  | 108   | 24    | 56   | 188   | 90 |
| Actuarial (losses)/gains recorded in the statement of comprehensive income | 523   | 66    | 43   | 632   | 39 |

The total actuarial losses recorded in the statement of comprehensive income since 1st January 2003 amount to £2,047 million.

The amounts included within settlements and curtailments include £72 million (2008 £208 million; 2007 £35 million) of augmentation costs arising from major restructuring programmes (see Note 29 Other provisions ).

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Notes to the financial statements

**28 Pensions and other post-employment benefits** continued

The fair values of the assets and liabilities of the UK and US defined benefit pension schemes, together with aggregated data for other defined benefit pension schemes in the Group are as follows:

|   | Expected<br>rate<br>of<br>return<br>% | UK                  | Expected<br>rate<br>of<br>return<br>% | USA                 | Rest of World                                    | Fair<br>value<br>£m | Group               |
|---|---------------------------------------|---------------------|---------------------------------------|---------------------|--|---------------------|---------------------|
|   |                                       | Fair<br>value<br>£m |                                       | Fair<br>value<br>£m | Average<br>expected<br>rate<br>of<br>return<br>% |                     | Fair<br>value<br>£m |
| <b>At 31st December 2009</b>                            |                                       |                     |                                       |                     |  |                     |                     |
| Equities  | 8.00                                  | 4,209               | 8.25                                  | 914                 | 7.50   | 232                 | <b>5,355</b>        |
| Property  | 7.00                                  | 291                 | 7.25                                  | 159                 | 7.00   | 20                  | <b>470</b>          |
| Bonds   | 4.90                                  | 2,632               | 5.00                                  | 907                 | 3.50   | 562                 | <b>4,101</b>        |
| Other assets  | 0.50                                  | 367                 | 0.25                                  | 92                  | 3.80   | 309                 | <b>768</b>          |
| Fair value of assets                                    |                                       | 7,499               |                                       | 2,072               |  | 1,123               | <b>10,694</b>       |
| Present value of scheme obligations                     |                                       | (8,446)             |                                       | (2,628)             |  | (1,364)             | <b>(12,438)</b>     |
|   |                                       | (947)               |                                       | (556)               |  | (241)               | <b>(1,744)</b>      |
| Unrecognised past service cost                          |                                       |                     |                                       | (2)                 |  | 1                   | <b>(1)</b>          |
| Recognised on the balance sheet                         |                                       | (947)               |                                       | (558)               |  | (240)               | <b>(1,745)</b>      |
| Included in other non-current assets                    |                                       |                     |                                       |                     |  | 23                  | <b>23</b>           |
| Included in pensions and other post-employment benefits |                                       | (947)               |                                       | (558)               |  | (263)               | <b>(1,768)</b>      |
|   |                                       | (947)               |                                       | (558)               |  | (240)               | <b>(1,745)</b>      |
| Actual return on plan assets                            |                                       | 1,076               |                                       | 243                 |  | 65                  | <b>1,384</b>        |
|   |                                       |                     |                                       |                     |  |                     |                     |
|   | Expected<br>rate<br>of<br>return<br>% | UK                  | Expected<br>rate<br>of<br>return<br>% | USA                 | Rest of World                                    | Fair<br>value<br>£m | Group               |
|   |                                       | Fair<br>value<br>£m |                                       | Fair<br>value<br>£m | Average<br>expected<br>rate<br>of<br>return<br>% |                     | Fair<br>value<br>£m |
| <b>At 31st December 2008</b>                            |                                       |                     |                                       |                     |  |                     |                     |
| Equities  | 7.75                                  | 3,334               | 8.25                                  | 838                 | 7.00   | 211                 | 4,383               |
| Property  | 6.75                                  | 331                 | 7.25                                  | 259                 | 6.75   | 22                  | 612                 |

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|   |      |         |      |         |      |         |          |
|---|------|---------|------|---------|------|---------|----------|
| Bonds   | 4.75 | 2,430   | 5.25 | 893     | 3.25 | 598     | 3,921    |
| Other assets  | 2.75 | 40      | 1.50 | 26      | 4.25 | 306     | 372      |
| Fair value of assets                                    |      | 6,135   |      | 2,016   |      | 1,137   | 9,288    |
| Present value of scheme obligations                     |      | (6,885) |      | (2,738) |      | (1,357) | (10,980) |
|   |      | (750)   |      | (722)   |      | (220)   | (1,692)  |
| Unrecognised past service cost                          |      |         |      |         |      | 1       | 1        |
| Restriction on surplus                                  |      |         |      |         |      | (6)     | (6)      |
| Recognised on the balance sheet                         |      | (750)   |      | (722)   |      | (225)   | (1,697)  |
| Included in other non-current assets                    |      |         |      |         |      | 39      | 39       |
| Included in pensions and other post-employment benefits |      | (750)   |      | (722)   |      | (264)   | (1,736)  |
|   |      | (750)   |      | (722)   |      | (225)   | (1,697)  |
| Actual return on plan assets                            |      | (1,249) |      | (470)   |      | (87)    | (1,806)  |

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Notes to the financial statements

**28 Pensions and other post-employment benefits** continued

|   |          | UK      |          | USA     | Rest of World |         | Group    |
|---|----------|---------|----------|---------|---------------|---------|----------|
|   | Expected | Fair    | Expected | Fair    | Average       | Fair    | Fair     |
|   | rate     | value   | rate     | value   | expected      | value   | value    |
|   | of       | £m      | of       | £m      | of            | £m      | £m       |
| <b>At 31st December 2007</b>                            | return   |         | return   |         | return        |         |          |
|   | %        |         | %        |         | %             |         |          |
| Equities  | 8.00     | 4,578   | 8.50     | 1,446   | 7.50          | 223     | 6,247    |
| Property  | 7.00     | 338     | 7.50     | 213     | 7.00          | 20      | 571      |
| Bonds   | 5.00     | 2,322   | 5.00     | 335     | 4.00          | 430     | 3,087    |
| Other assets  | 6.00     | 55      | 4.75     | 10      | 4.25          | 212     | 277      |
| Fair value of assets                                    |          | 7,293   |          | 2,004   |               | 885     | 10,182   |
| Present value of scheme obligations                     |          | (7,371) |          | (1,945) |               | (1,022) | (10,338) |
|   |          | (78)    |          | 59      |               | (137)   | (156)    |
| Included in other non-current assets                    |          | 10      |          | 215     |               | 30      | 255      |
| Included in pensions and other post-employment benefits |          | (88)    |          | (156)   |               | (167)   | (411)    |
|   |          | (78)    |          | 59      |               | (137)   | (156)    |
| Actual return on plan assets                            |          | 557     |          | 187     |               | 19      | 763      |

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Notes to the financial statements

**28 Pensions and other post-employment benefits** continued

|  | UK<br>£m | USA<br>£m | Rest of<br>World<br>£m | Post-retirement         |                         |
|--|----------|-----------|------------------------|-------------------------|-------------------------|
|  |          |           |                        | Pensions<br>Group<br>£m | benefits<br>Group<br>£m |
| <b>Movements in defined benefit obligations</b>          |          |           |                        |                         |                         |
| Obligations at 1st January 2007                          | (7,444)  | (1,949)   | (952)                  | <b>(10,345)</b>         | <b>(1,063)</b>          |
| Exchange adjustments                                     |          | 34        | (80)                   | <b>(46)</b>             | <b>9</b>                |
| Service cost   | (138)    | (53)      | (58)                   | <b>(249)</b>            | <b>(30)</b>             |
| Interest cost  | (335)    | (107)     | (41)                   | <b>(483)</b>            | <b>(54)</b>             |
| Settlements and curtailments                             | (24)     | (5)       | 4                      | <b>(25)</b>             | <b>(6)</b>              |
| Actuarial gains  | 355      | 20        | 61                     | <b>436</b>              | <b>39</b>               |
| Scheme participants contributions                        | (38)     |           | (5)                    | <b>(43)</b>             |                         |
| Benefits paid  | 253      | 115       | 49                     | <b>417</b>              | <b>44</b>               |
| Transfers to other provisions                            |          |           |                        |                         | <b>89</b>               |
| Recognised on the balance sheet at 31st<br>December 2007 | (7,371)  | (1,945)   | (1,022)                | <b>(10,338)</b>         | <b>(972)</b>            |
| Unrecognised past service cost                           |          |           |                        |                         | <b>(47)</b>             |
| Obligations at 31st December 2007                        | (7,371)  | (1,945)   | (1,022)                | <b>(10,338)</b>         | <b>(1,019)</b>          |
| Exchange adjustments                                     |          | (753)     | (353)                  | <b>(1,106)</b>          | <b>(351)</b>            |
| Service cost   | (126)    | (71)      | (61)                   | <b>(258)</b>            | <b>(28)</b>             |
| Interest cost  | (377)    | (121)     | (53)                   | <b>(551)</b>            | <b>(62)</b>             |
| Settlements and curtailments                             | (175)    | (12)      | 19                     | <b>(168)</b>            | <b>(16)</b>             |
| Actuarial gains  | 915      | 38        | 58                     | <b>1,011</b>            | <b>64</b>               |
| Scheme participants contributions                        | (33)     |           | (5)                    | <b>(38)</b>             | <b>(9)</b>              |
| Benefits paid  | 282      | 126       | 60                     | <b>468</b>              | <b>53</b>               |
| Transfers to other provisions                            |          |           |                        |                         | <b>14</b>               |
| Obligations at 31st December 2008                        | (6,885)  | (2,738)   | (1,357)                | <b>(10,980)</b>         | <b>(1,354)</b>          |
| Exchange adjustments                                     |          | 294       | 109                    | <b>403</b>              | <b>133</b>              |
| Service cost   | (121)    | (58)      | (64)                   | <b>(243)</b>            | <b>(5)</b>              |
| Interest cost  | (378)    | (148)     | (62)                   | <b>(588)</b>            | <b>(74)</b>             |
| Settlements and curtailments                             | (54)     | (7)       | 68                     | <b>7</b>                | <b>(8)</b>              |
| Actuarial (losses)/gains                                 | (1,307)  | (127)     | (102)                  | <b>(1,536)</b>          | <b>1</b>                |
| Scheme participants contributions                        | (17)     |           | (8)                    | <b>(25)</b>             | <b>(11)</b>             |
| Benefits paid  | 345      | 156       | 71                     | <b>572</b>              | <b>69</b>               |
| Acquisitions   | (29)     |           | (19)                   | <b>(48)</b>             | <b>(4)</b>              |
| Obligations at 31st December 2009                        | (8,446)  | (2,628)   | (1,364)                | <b>(12,438)</b>         | <b>(1,253)</b>          |
| Unrecognised past service cost                           |          | (2)       | 1                      | <b>(1)</b>              | <b>40</b>               |
|  | (8,446)  | (2,630)   | (1,363)                | <b>(12,439)</b>         | <b>(1,213)</b>          |

Recognised on the balance sheet at 31st  
December 2009

The UK defined benefit schemes include defined contribution sections with obligations totalling £765 million at 31st December 2009 (2008 £553 million; 2007 £693 million).

The liability for the US post-retirement healthcare scheme has been assessed using the same assumptions as for the US pension scheme, together with the assumption for future medical inflation of 8.5% (2008 9.0%), reducing by 0.5% per year to 5% in 2017 and thereafter. During 2007, the US post-retirement healthcare scheme was amended. The main change was an increase in the cap on Group costs. During 2009, both the US pension and post-retirement healthcare plan were amended. The changes resulted in a one-off gain of £37 million in the income statement. At 31st December 2009 the US plan obligation was £1,102 million (2008 £1,223 million; 2007 £879 million). However, in accordance with IAS 19 the unvested part of a benefit improvement is not recognised immediately on the balance sheet but is recognised gradually through the income statement. At 31st December 2009, the unrecognised amount of £40 million (2008 £51 million; 2007 £47 million) primarily relates to the effect of this change in the US post-retirement scheme. At 31st December 2008, the past service cost not recognised from this scheme amounted to £53 million.

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Notes to the financial statements

**28 Pensions and other post-employment benefits** continued

The defined benefit pension obligation is analysed as follows:

|          | <b>2009</b>     | 2008     | 2007     |
|----------|-----------------|----------|----------|
|          | <b>£m</b>       | £m       | £m       |
| Funded   | <b>(12,126)</b> | (10,662) | (10,079) |
| Unfunded | <b>(312)</b>    | (318)    | (259)    |
|          | <b>(12,438)</b> | (10,980) | (10,338) |

Post-retirement benefits are unfunded.

|                                    | UK      | USA   | Rest of<br>World | Post-retirement<br>Pensions<br>Group | Post-retirement<br>benefits<br>Group |
|------------------------------------|---------|-------|------------------|--------------------------------------|--------------------------------------|
|                                    | £m      | £m    | £m               | £m                                   | £m                                   |
| Movements in fair values of assets |         |       |                  |                                      |                                      |
| Assets at 1st January 2007         | 6,554   | 1,953 | 741              | <b>9,248</b>                         |                                      |
| Exchange adjustments               |         | (29)  | 68               | <b>39</b>                            |                                      |
| Expected return on assets          | 389     | 141   | 37               | <b>567</b>                           |                                      |
| Settlements and curtailments       |         |       | 2                | <b>2</b>                             |                                      |
| Actuarial gains/(losses)           | 168     | 46    | (18)             | <b>196</b>                           |                                      |
| Employer contributions             | 397     | 8     | 99               | <b>504</b>                           | <b>41</b>                            |
| Scheme participants contributions  | 38      |       | 5                | <b>43</b>                            | <b>3</b>                             |
| Benefits paid                      | (253)   | (115) | (49)             | <b>(417)</b>                         | <b>(44)</b>                          |
| Assets at 31st December 2007       | 7,293   | 2,004 | 885              | <b>10,182</b>                        |                                      |
| Exchange adjustments               |         | 598   | 298              | <b>896</b>                           |                                      |
| Expected return on assets          | 442     | 144   | 47               | <b>633</b>                           |                                      |
| Settlements and curtailments       |         |       | 3                | <b>3</b>                             |                                      |
| Actuarial losses                   | (1,691) | (614) | (134)            | <b>(2,439)</b>                       |                                      |
| Employer contributions             | 340     | 10    | 93               | <b>443</b>                           | <b>44</b>                            |
| Scheme participants contributions  | 33      |       | 5                | <b>38</b>                            | <b>9</b>                             |
| Benefits paid                      | (282)   | (126) | (60)             | <b>(468)</b>                         | <b>(53)</b>                          |
| Assets at 31st December 2008       | 6,135   | 2,016 | 1,137            | <b>9,288</b>                         |                                      |
| Exchange adjustments               |         | (221) | (93)             | <b>(314)</b>                         |                                      |
| Expected return on assets          | 347     | 121   | 46               | <b>514</b>                           |                                      |
| Settlements and curtailments       |         |       | (51)             | <b>(51)</b>                          |                                      |
| Actuarial gains                    | 729     | 122   | 19               | <b>870</b>                           |                                      |
| Employer contributions             | 594     | 190   | 110              | <b>894</b>                           | <b>58</b>                            |
| Scheme participants contributions  | 17      |       | 8                | <b>25</b>                            | <b>11</b>                            |
| Benefits paid                      | (345)   | (156) | (71)             | <b>(572)</b>                         | <b>(69)</b>                          |
| Acquisitions                       | 22      |       | 18               | <b>40</b>                            |                                      |



|                              |       |       |       |               |
|------------------------------|-------|-------|-------|---------------|
| Assets at 31st December 2009 | 7,499 | 2,072 | 1,123 | <b>10,694</b> |
|------------------------------|-------|-------|-------|---------------|

The UK defined benefit schemes include defined contribution sections with account balances totalling £765 million at 31st December 2009 (2008 £553 million; 2007 £693 million).

During 2009, the Group made special funding contributions to the UK pension schemes totalling £332 million and £95 million to the US scheme (2008 £200 million to the UK pension schemes). In 2009, GSK reached an agreement with the trustees of the UK pension schemes to make additional contributions to eliminate the pension deficit identified at the 31st December 2008 actuarial funding valuation. The additional contributions are expected to be £365 million per year for 2010 to 2013. The contributions are based on a discount rate of 5.25% and an inflation assumption of 2.8%. The next review of contribution levels is expected to be at the 31st December 2011 actuarial valuation although the Group has agreed to review mortality assumptions before then which could result in an earlier revision to contributions.

Employer contributions for 2010, including special funding contributions, are estimated to be approximately £800 million in respect of defined benefit pension schemes and £60 million in respect of post-retirement benefits.

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Notes to the financial statements

**28 Pensions and other post-employment benefits** continued

|   | UK      | USA     | Rest of | Post-retirement<br>Pensions | Post-retirement<br>benefits |
|---|---------|---------|---------|-----------------------------|-----------------------------|
|   | UK      | USA     | World   | Group                       | Group                       |
| <b>History of experience gains and losses</b>             | £m      | £m      | £m      | £m                          | £m                          |
| <b>2009</b>   |         |         |         |                             |                             |
| Experience gains of scheme assets                         | 729     | 122     | 19      | <b>870</b>                  |                             |
| Percentage of scheme assets at 31st<br>December 2009      | 10%     | 6%      | 2%      | <b>8%</b>                   |                             |
| Experience gains/(losses) of scheme<br>liabilities        | 162     | (27)    | (15)    | <b>120</b>                  | <b>6</b>                    |
| Percentage of scheme obligations at 31st<br>December 2009 | 2%      | 1%      | 1%      | <b>1%</b>                   |                             |
| Fair value of assets                                      | 7,499   | 2,072   | 1,123   | <b>10,694</b>               |                             |
| Present value of scheme obligations                       | (8,446) | (2,628) | (1,364) | <b>(12,438)</b>             | <b>(1,253)</b>              |
| Deficits in the schemes                                   | (947)   | (556)   | (241)   | <b>(1,744)</b>              | <b>(1,253)</b>              |
| <b>2008</b>   |         |         |         |                             |                             |
| Experience losses of scheme assets                        | (1,691) | (614)   | (134)   | <b>(2,439)</b>              |                             |
| Percentage of scheme assets at 31st<br>December 2008      | 28%     | 30%     | 12%     | <b>26%</b>                  |                             |
| Experience (losses)/gains of scheme<br>liabilities        | (148)   | 2       | 1       | <b>(145)</b>                | <b>(14)</b>                 |
| Percentage of scheme obligations at 31st<br>December 2008 | 2%      |         |         | <b>1%</b>                   | <b>1%</b>                   |
| Fair value of assets                                      | 6,135   | 2,016   | 1,137   | <b>9,288</b>                |                             |
| Present value of scheme obligations                       | (6,885) | (2,738) | (1,357) | <b>(10,980)</b>             | <b>(1,354)</b>              |
| Deficits in the schemes                                   | (750)   | (722)   | (220)   | <b>(1,692)</b>              | <b>(1,354)</b>              |
| <b>2007</b>   |         |         |         |                             |                             |
| Experience gains/(losses) of scheme assets                | 168     | 46      | (18)    | <b>196</b>                  |                             |
|   | 2%      | 2%      | 2%      | <b>2%</b>                   |                             |

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Percentage of scheme assets at 31st  
December 2007

|  |         |         |         |                 |                |
|--|---------|---------|---------|-----------------|----------------|
| Experience gains/(losses) of scheme liabilities        | 33      | (30)    | 6       | <b>9</b>        |                |
| Percentage of scheme obligations at 31st December 2007 |         | 2%      | 1%      |                 |                |
| Fair value of assets                                   | 7,293   | 2,004   | 885     | <b>10,182</b>   |                |
| Present value of scheme obligations                    | (7,371) | (1,945) | (1,022) | <b>(10,338)</b> | <b>(1,019)</b> |
| (Deficits)/surpluses in the schemes                    | (78)    | 59      | (137)   | <b>(156)</b>    | <b>(1,019)</b> |

**2006**

|  |         |         |       |                 |                |
|--|---------|---------|-------|-----------------|----------------|
| Experience gains of scheme assets                      | 227     | 168     | 26    | <b>421</b>      |                |
| Percentage of scheme assets at 31st December 2006      | 3%      | 9%      | 4%    | <b>5%</b>       |                |
| Experience (losses)/gains of scheme liabilities        | (37)    | (16)    | (42)  | <b>(95)</b>     | <b>17</b>      |
| Percentage of scheme obligations at 31st December 2006 |         | 1%      | 4%    | <b>1%</b>       | <b>2%</b>      |
| Fair value of assets                                   | 6,554   | 1,953   | 741   | <b>9,248</b>    |                |
| Present value of scheme obligations                    | (7,444) | (1,949) | (952) | <b>(10,345)</b> | <b>(1,063)</b> |
| (Deficits)/surpluses in the schemes                    | (890)   | 4       | (211) | <b>(1,097)</b>  | <b>(1,063)</b> |

**2005**

|  |         |         |       |                 |                |
|--|---------|---------|-------|-----------------|----------------|
| Experience gains of scheme assets                      | 647     | 3       | 35    | <b>685</b>      |                |
| Percentage of scheme assets at 31st December 2005      | 11%     |         | 5%    | <b>8%</b>       |                |
| Experience losses of scheme liabilities                | (94)    | (10)    | (35)  | <b>(139)</b>    | <b>(4)</b>     |
| Percentage of scheme obligations at 31st December 2005 | 1%      |         | 4%    | <b>1%</b>       |                |
| Fair value of assets                                   | 5,744   | 1,976   | 657   | <b>8,377</b>    |                |
| Present value of scheme obligations                    | (7,054) | (2,150) | (922) | <b>(10,126)</b> | <b>(1,308)</b> |
| Deficits in the schemes                                | (1,310) | (174)   | (265) | <b>(1,749)</b>  | <b>(1,308)</b> |



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Notes to the financial statements

**28 Pensions and other post-employment benefits** continued

Sensitivity analysis

Effect of changes in assumptions used on the annual defined benefit pension and post-retirement costs or the benefit obligations:

|   | £m  |
|---|-----|
| A 0.25% decrease in discount rate would have the following approximate effect:                        |     |
| Increase in annual pension cost   | 7   |
| Increase in annual post-retirement benefits cost  |     |
| Increase in pension obligation  | 440 |
| Increase in post-retirement benefits obligation   | 36  |
| A one year increase in life expectancy would have the following approximate effect:                   |     |
| Increase in annual pension cost   | 24  |
| Increase in annual post-retirement benefits cost  | 7   |
| Increase in pension obligation  | 249 |
| Increase in post-retirement benefits obligation   | 49  |
| A 0.25% decrease in expected rates of returns on assets would have the following approximate effect:  |     |
| Increase in annual pension cost   | 24  |
| A 1% increase in the rate of future healthcare inflation would have the following approximate effect: |     |
| Increase in annual post-retirement benefits cost  | 2   |
| Increase in post-retirement benefits obligation   | 45  |
| A 0.25% increase in inflation would have the following approximate effect:                            |     |
| Increase in annual pension cost   | 24  |
| Increase in pension obligation  | 316 |

**29 Other provisions**

| Legal<br>and other<br>disputes<br>£m | Major<br>restructuring<br>programmes<br>£m | Employee<br>related<br>provisions<br>£m | Integration<br>and<br>manufacturing<br>re-organisation<br>£m | Other<br>provisions<br>£m | <b>Total<br/>£m</b> |
|--------------------------------------|--|---|--|---------------------------|---------------------|
|--------------------------------------|--|---|--|---------------------------|---------------------|

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|                                       |       |       |      |      |      |              |
|---------------------------------------|-------|-------|------|------|------|--------------|
| At 1st January 2009                   | 1,903 | 652   | 268  | 90   | 186  | <b>3,099</b> |
| Exchange adjustments                  | (211) | (33)  | (20) | (5)  | (17) | <b>(286)</b> |
| Charge for the year                   | 667   | 487   | 57   | 1    | 32   | <b>1,244</b> |
| Reversed unused                       | (86)  | (15)  | (4)  | (7)  | (13) | <b>(125)</b> |
| Unwinding of discount                 | 1     | 3     |      |      | 7    | <b>11</b>    |
| Utilised                              | (254) | (450) | (69) | (21) | (26) | <b>(820)</b> |
| Acquisition of subsidiary             |       |       |      |      | 17   | <b>17</b>    |
| Transfer to pensions obligations      |       | (72)  |      |      |      | <b>(72)</b>  |
| Reclassifications and other movements |       | 2     | 9    | (3)  | 165  | <b>173</b>   |
| At 31st December 2009                 | 2,020 | 574   | 241  | 55   | 351  | <b>3,241</b> |
| To be settled within one year         | 1,717 | 399   | 31   | 7    | 102  | <b>2,256</b> |
| To be settled after one year          | 303   | 175   | 210  | 48   | 249  | <b>985</b>   |
| At 31st December 2009                 | 2,020 | 574   | 241  | 55   | 351  | <b>3,241</b> |

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Notes to the financial statements

**29 Other provisions** continued

Legal and other disputes

GSK is involved in a number of legal and other disputes, including notification of possible claims, as set out in Note 44 Legal proceedings . Provisions for legal and other disputes include amounts relating to US anti-trust, product liability, contract terminations, self-insurance, environmental clean-up and property rental.

The discount on these provisions increased by £5 million in 2009 (2008 £61 million decrease) and was calculated using risk-adjusted projected cash flows and risk-free rates of return. The movement in 2009 includes an increase of £6 million arising from a change in the discount rate in the year. Certain products have a history of claims made and settlements which makes it possible to use an IBNR (incurred but not reported) actuarial technique to determine a reasonable estimate of the Group's exposure for unasserted claims in relation to those products. Apart from the IBNR provision, no provisions have been made for unasserted claims. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

It is in the nature of the Group's business that a number of these matters, including those provided using the IBNR actuarial technique, may be the subject of negotiation and litigation over several years. The largest individual amounts provided are expected to be settled within three years.

At 31st December 2009, it is expected that £97 million

(2008 £112 million) of the provision made for legal and other disputes will be reimbursed by third party insurers.

This amount is included within other receivables in Note 22, Other non-current assets and Note 24, Trade and other receivables . For a discussion of legal issues, see Note 44 Legal proceedings .

Major restructuring programmes

In October 2007 GSK announced a significant new Operational Excellence programme to improve the effectiveness and productivity of its operations (see Note 7 Major restructuring programme ). A significant expansion of the Operational Excellence programme was approved by the Board and announced in February 2009. A further expansion was approved by the Board and announced in February 2010.

Provisions for staff severance payments are made when management has made a formal decision to eliminate certain positions and this has been communicated to the groups of employees affected. No provision is made for staff severance payments that are made immediately.

Pension augmentations arising from staff redundancies of £72 million have been charged during the year and then transferred to the pension obligations provision as shown in Note 28 Pensions and other post-employment benefits . Asset write-downs have been recognised as impairments of property, plant and equipment in Note 17 Property, plant and equipment .

Employee related provisions

Employee related provisions includes the exchange offer incentive programme which operated at the time of the merger to encourage staff to convert Glaxo Wellcome or SmithKline Beecham share options into GlaxoSmithKline share options. The incentive is paid either when employees exercise the relevant options, or when the options lapse, up to 2010. There is no impact of discounting on this provision in 2009 (2008 £nil), which was calculated using risk-free rates of return. The Group also provides certain medical benefits to disabled employees and their spouses in the USA. At 31st December 2009, the provision for these benefits amounted to £118 million. Other employee benefits reflect a variety of provisions for severance costs, jubilee awards and other long-service benefits.

Integration and manufacturing re-organisation

Provisions for integration and manufacturing re-organisations reflect costs related to ongoing restructuring programmes not included within the costs disclosed in Note 7, Major restructuring programmes .

Other provisions

The Group has recognised contingent consideration in respect of the acquisitions of Bristol Myers Squibb Pakistan (Private) Limited and Stiefel Laboratories, Inc. as described in Note 38 Acquisitions and disposals . The contingent consideration is payable upon certain criteria being met by certain specified dates in the future. The initial recognition

of these provisions are included within reclassifications and other movements . The aggregate provision for these items amounts to £161 million at 31st December 2009.



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Notes to the financial statements

**30 Other non-current liabilities**

|                              | <b>2009</b> | 2008 |
|------------------------------|-------------|------|
|                              | <b>£m</b>   | £m   |
| Accruals and deferred income | <b>124</b>  | 96   |
| Other payables               | <b>481</b>  | 331  |
|                              | <b>605</b>  | 427  |

**31 Contingent liabilities**

At 31st December 2009, contingent liabilities, comprising guarantees, discounted bills and other items arising in the normal course of business, amounted to £150 million (2008 £134 million). At 31st December 2009, £9 million (2008 £12 million) of financial assets were pledged as collateral for contingent liabilities. For discussions of tax and legal issues, refer to Note 14, Taxation and Note 44, Legal proceedings .

**32 Net debt**

|                                       | <b>2009</b>    | 2008    |
|---------------------------------------|----------------|---------|
| <b>Listing exchange</b>               | <b>£m</b>      | £m      |
| Current assets:                       |                |         |
| Liquid investments                    | <b>268</b>     | 391     |
| Cash and cash equivalents             | <b>6,545</b>   | 5,623   |
|                                       | <b>6,813</b>   | 6,014   |
| Short-term borrowings:                |                |         |
| 3.25% European Medium Term Note 2009  |                | (481)   |
| US\$ Floating Rate Note 2010          | <b>(621)</b>   |         |
| Commercial paper                      | <b>(621)</b>   |         |
| Bank loans and overdrafts             | <b>(182)</b>   | (426)   |
| Loan stock                            | <b>(7)</b>     |         |
| Other loans                           |                | (1)     |
| Obligations under finance leases      | <b>(40)</b>    | (48)    |
|                                       | <b>(1,471)</b> | (956)   |
| Long-term borrowings:                 |                |         |
| US\$ Floating rate Note 2010          |                | (694)   |
| 3.00% European Medium Term Note 2012  | <b>(662)</b>   | (718)   |
| 5.125% European Medium Term Note 2012 | <b>(1,985)</b> | (2,154) |
| 4.85% US\$ US Medium Term Note 2013   | <b>(1,548)</b> | (1,728) |
| 4.375% US\$ US Medium Term Note 2014  | <b>(990)</b>   | (1,146) |
| 3.875% European Medium Term Note 2015 | <b>(1,404)</b> |         |
| 5.625% European Medium Term Note 2017 | <b>(1,100)</b> | (1,193) |
| 5.65% US\$ US Medium Term Note 2018   | <b>(1,701)</b> | (1,901) |
| 4.00% European Medium Term Note 2025  | <b>(653)</b>   | (709)   |

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|   |                         |                 |          |
|---|-------------------------|-----------------|----------|
| 5.25% £ European Medium Term Note 2033  | London Stock Exchange   | <b>(979)</b>    | (979)    |
| 5.375% US\$ US Medium Term Note 2034    | London Stock Exchange   | <b>(308)</b>    | (344)    |
| 6.375% US\$ US Medium Term Note 2038    | New York Stock Exchange | <b>(1,689)</b>  | (1,888)  |
| 6.375% £ European Medium Term Note 2039 | London Stock Exchange   | <b>(693)</b>    | (693)    |
| 5.25% £ European Medium Term Note 2042  | London Stock Exchange   | <b>(984)</b>    | (984)    |
| Loan stock                              |                         |                 | (8)      |
| Bank loans                              |                         |                 | (1)      |
| Other loans and private financing       |                         |                 | (3)      |
| Obligations under finance leases        |                         | <b>(90)</b>     | (88)     |
|   |                         | <b>(14,786)</b> | (15,231) |
| Net debt                                |                         | <b>(9,444)</b>  | (10,173) |

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## Notes to the financial statements

**32 Net debt** continued

## Current assets

Liquid investments are classified as available-for-sale investments. At 31<sup>st</sup> December 2009, they included US Treasury notes and other government bonds. The effective interest rate on liquid investments at 31<sup>st</sup> December 2009 was approximately 4.6% (2008 approximately 5.5%). Liquid investment balances at 31<sup>st</sup> December 2009 earning interest at floating and fixed rates amount to £1 million and £267 million, respectively (2008 £1 million and £390 million).

The effective interest rate on cash and cash equivalents at 31<sup>st</sup> December 2009 was approximately 0.7% (2008 approximately 1.8%). Cash and cash equivalents balances at 31<sup>st</sup> December 2009 earning interest at floating and fixed rates amount to £6,372 million and £17 million, respectively (2008 £5,520 million and £4 million).

GSK's policy regarding the credit quality of cash and cash equivalents is referred to in Note 41, Financial instruments and related disclosures.

## Short-term borrowings

Commercial paper comprises a US \$10 billion programme, of which \$1 billion (£621 million) was in issue at 31<sup>st</sup> December 2009 (2008 \$nil (£nil)), backed up by committed facilities of 364 days duration of \$3.9 billion (£2.4 billion) (2008 \$3.9 billion (£2.7 billion)) renewable annually, and liquid investments, cash and cash equivalents as shown in the table above.

The weighted average interest rate on current bank loans and overdrafts at 31<sup>st</sup> December 2009 was 4.8% (2008 1.59%).

## Long-term borrowings

At the year-end, GSK had long-term borrowings of £14.8 billion (2008 £15.2 billion) of which £9.5 billion (2008 £9.8 billion) falls due in more than five years.

Long-term borrowings repayable after five years carry interest at effective rates between 3.88% and 6.38%. The repayment dates range from 2015 to 2042. The average effective interest rate of all notes at 31<sup>st</sup> December 2009 was approximately 4.9% (2008 approximately 5.0%).

## Secured liabilities

GSK had no loans secured by charges on non-current and current assets in the year (2008 £nil). The Group has pledged investments in US Treasury Notes with a par value of \$103 million (2008 \$198 million) as security against irrevocable letters of credit issued on the Group's behalf in respect of the Group's self-insurance activity. Provisions in respect of self-insurance are included within the provisions for legal and other disputes discussed in Note 29, Other provisions.

|  | 2009 | 2008 |
|--|------|------|
|  | £m   | £m   |
| <b>Finance lease obligations</b>                 |      |      |
| Rental payments due within one year              | 44   | 53   |
| Rental payments due between one and two years    | 38   | 39   |
| Rental payments due between two and three years  | 26   | 30   |
| Rental payments due between three and four years | 16   | 17   |
| Rental payments due between four and five years  | 6    | 6    |
| Rental payments due after five years             | 16   | 9    |
| Total future rental payments                     | 146  | 154  |
| Future finance charges                           | (16) | (18) |
| Total finance lease obligations                  | 130  | 136  |

Finance lease obligations at 31<sup>st</sup> December 2009 bearing interest at floating and fixed rates amount to £89 million and £41 million, respectively (2008 £98 million and £38 million).

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Notes to the financial statements

**33 Share capital and share premium account**

|  | Ordinary Shares of 25p each<br>Number | £m    | Share<br>premium<br>£m |
|--|---------------------------------------|-------|------------------------|
| <b>Share capital authorised</b>                                      |                                       |       |                        |
| At 31 <sup>st</sup> December 2007                                    | 10,000,000,000                        | 2,500 |                        |
| At 31 <sup>st</sup> December 2008                                    | 10,000,000,000                        | 2,500 |                        |
| At 31 <sup>st</sup> December 2009                                    | 10,000,000,000                        | 2,500 |                        |
| <b>Share capital issued and fully paid</b>                           |                                       |       |                        |
| At 1 <sup>st</sup> January 2007                                      | 5,991,601,848                         | 1,498 | 858                    |
| Issued under share option schemes                                    | 37,307,678                            | 9     | 408                    |
| Share capital purchased and cancelled                                | (16,322,500)                          | (4)   |                        |
| At 31 <sup>st</sup> December 2007                                    | 6,012,587,026                         | 1,503 | 1,266                  |
| Issued under share option schemes                                    | 5,640,119                             | 2     | 60                     |
| Share capital purchased and cancelled                                | (356,910,908)                         | (90)  |                        |
| At 31 <sup>st</sup> December 2008                                    | 5,661,316,237                         | 1,415 | 1,326                  |
| Issued under share option schemes                                    | 3,812,482                             | 1     | 42                     |
| At 31 <sup>st</sup> December 2009                                    | 5,665,128,719                         | 1,416 | 1,368                  |
|  | <b>31st December<br/>2009</b>         |       | 31st December<br>2008  |
| Number ( 000) of shares issuable under outstanding options (Note 42) | <b>213,110</b>                        |       | 220,459                |
| Number ( 000) of unissued shares not under option                    | <b>4,121,761</b>                      |       | 4,118,225              |

At 31st December 2009, of the issued share capital, 117,735,257 shares were held in the ESOP Trust, 474,194,158 shares were held as Treasury shares and 5,073,199,304 shares were in free issue. All issued shares are fully paid. The nominal, carrying and market values of the shares held in the ESOP Trust are disclosed in Note 42, Employee share schemes .

The company did not make any purchases of its own shares in 2009. There have been no purchases since 31st December 2009. GSK does not expect to make significant share repurchases in 2010.

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**34 Movements in equity**

Retained earnings and other reserves amounted to £7,221 million at 31st December 2009 (2008 £5,190 million; 2007 £6,834 million) of which £390 million (2008 £391 million; 2007 £218 million) relates to joint ventures and associated undertakings. The cumulative translation exchange in equity is shown below in the following table:

|  | Net translation exchange included in: |                         |                         | Total translation exchange<br>£m |
|--|---------------------------------------|-------------------------|-------------------------|----------------------------------|
|  | Fair value reserve<br>£m              | Retained earnings<br>£m | Minority interest<br>£m |                                  |
| At 1st January 2007  | 9                                     | (59)                    | (92)                    | (142)                            |
| Exchange movements on overseas net assets                          |                                       | 394                     | 17                      | 411                              |
| At 31st December 2007  | 9                                     | 335                     | (75)                    | 269                              |
| Exchange movements on overseas net assets                          | 1                                     | 952                     | 64                      | 1,017                            |
| Reclassification of exchange on liquidation of overseas subsidiary |                                       | 84                      |                         | 84                               |
| At 31st December 2008  | 10                                    | 1,371                   | (11)                    | 1,370                            |
| Exchange movements on overseas net assets                          | 1                                     | (161)                   | (34)                    | (194)                            |
| Reclassification of exchange on liquidation of overseas subsidiary |                                       | (44)                    |                         | (44)                             |
| At 31st December 2009  | 11                                    | 1,166                   | (45)                    | 1,132                            |

The analysis of other reserves is as follows:

|   | ESOP Trust<br>shares<br>£m | Fair value reserve<br>£m | Cash flow hedge reserve<br>£m | Other reserves<br>£m | Total<br>£m |
|---|----------------------------|--------------------------|-------------------------------|----------------------|-------------|
| At 1st January 2007   | (1,999)                    | 137                      | (3)                           | 1,930                | <b>65</b>   |
| Transferred to income and expense in the year on disposals  |                            | (34)                     |                               |                      | <b>(34)</b> |
| Transferred to income and expense in the year on impairment |                            | (12)                     |                               |                      | <b>(12)</b> |
| Net fair value movement in the year                         |                            | (42)                     | (4)                           |                      | <b>(46)</b> |
| Ordinary Shares purchased and cancelled                     |                            |                          |                               | 4                    | <b>4</b>    |
| Ordinary Shares acquired by ESOP Trusts                     | (26)                       |                          |                               |                      | <b>(26)</b> |
| Ordinary Shares transferred by ESOP Trusts                  | 116                        |                          |                               |                      | <b>116</b>  |
| Write-down of shares held by ESOP Trusts                    | 292                        |                          |                               |                      | <b>292</b>  |

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|   |                |            |            |              |             |
|---|----------------|------------|------------|--------------|-------------|
| At 31st December 2007                                       | (1,617)        | 49         | (7)        | 1,934        | <b>359</b>  |
| Transferred to income and expense in the year on disposals  |                | (32)       |            |              | <b>(32)</b> |
| Transferred to income and expense in the year on impairment |                | (2)        |            |              | <b>(2)</b>  |
| Net fair value movement in the year                         |                | (23)       | 4          |              | <b>(19)</b> |
| Ordinary Shares purchased and cancelled                     |                |            |            | 90           | <b>90</b>   |
| Ordinary Shares acquired by ESOP Trusts                     | (19)           |            |            |              | <b>(19)</b> |
| Ordinary Shares transferred by ESOP Trusts                  | 10             |            |            |              | <b>10</b>   |
| Write-down of shares held by ESOP Trusts                    | 181            |            |            |              | <b>181</b>  |
| <b>At 31st December 2008</b>                                | <b>(1,445)</b> | <b>(8)</b> | <b>(3)</b> | <b>2,024</b> | <b>568</b>  |
| Transferred to income and expense in the year on disposals  |                | (40)       | 1          |              | <b>(39)</b> |
| Transferred to income and expense in the year on impairment |                | 40         |            |              | <b>40</b>   |
| Net fair value movement in the year                         |                | 30         | (4)        |              | <b>26</b>   |
| Ordinary Shares acquired by ESOP Trusts                     | (57)           |            |            |              | <b>(57)</b> |
| Ordinary Shares transferred by ESOP Trusts                  | 13             |            |            |              | <b>13</b>   |
| Write-down of shares held by ESOP Trusts                    | 351            |            |            |              | <b>351</b>  |
| Put option over minority interest                           |                |            |            | (2)          | <b>(2)</b>  |
| <b>At 31st December 2009</b>                                | <b>(1,138)</b> | <b>22</b>  | <b>(6)</b> | <b>2,022</b> | <b>900</b>  |

Other reserves include various non-distributable merger and pre-merger reserves amounting to £1,849 million at 31st December 2009 (2008 £1,849 million; 2007 £1,849 million). Other reserves also include the capital redemption reserve created as a result of the share buy-back programme amounting to £175 million at 31st December 2009 (2008 £175 million; 2007 £85 million).

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**35 Related party transactions**

GSK held a 16.8% interest in Quest Diagnostics Inc. at 31st December 2009 (2008 18.7%). The Group and Quest Diagnostics are parties to a long-term contractual relationship under which Quest Diagnostics is the primary provider of clinical laboratory testing to support the Group's clinical trials testing requirements worldwide. During 2009, Quest Diagnostics provided services of £47 million (2008 £42 million) to the Group. At 31st December 2009, the balance payable by GSK to Quest Diagnostics was £10 million (2008 £nil).

In March 2009, 5,749,157 shares in the Group's associate Quest Diagnostics Inc. were sold for a cash consideration of £178 million, the majority of the shares being sold direct to Quest Diagnostics Inc. with the remainder being sold in the market.

On 30th November 2009, GSK completed the extension of its strategic relationship with Aspen Pharmacare Holdings Limited by the acquisition of a minority shareholding in the South African based pharmaceutical company. The transaction resulted in GSK acquiring 68.5 million shares in Aspen in consideration for the transfer of certain assets and in Aspen becoming an associate. A gain of £183 million on the transaction is included within other operating income. At 31st December 2009, GSK held 81.7 million shares, a 19% interest in Aspen.

During December 2009, GSK distributed £18 million of its products through Aspen's extensive distribution network. At 31st December 2009, the balance due to GSK from Aspen was £18 million (2008 £nil) and the balance payable by GSK to Aspen was £13 million (2008 £nil).

In 2009, both the Group and Shionogi & Co. Ltd. entered into transactions with their 50/50 US joint venture company in support of the research and development activities conducted by that joint venture company. During 2009, GSK provided services to the joint venture of £15 million (2008 £7 million). At 31st December 2009, the balance due to GSK from the joint venture was £14 million (2008 £5 million).

The aggregate compensation of the Directors and CET is given in Note 10, Employee Costs.

**36 Adjustments reconciling profit after tax to operating cash flows**

|   | <b>2009</b>  | 2008  | 2007  |
|---|--------------|-------|-------|
|   | <b>£m</b>    | £m    | £m    |
| Profit after tax  | <b>5,669</b> | 4,712 | 5,310 |
| Tax on profits  | <b>2,222</b> | 1,947 | 2,142 |
| Share of after tax profits of associates and joint ventures | <b>(64)</b>  | (48)  | (50)  |
| Finance income net of finance costs                         | <b>713</b>   | 530   | 191   |
| Depreciation  | <b>1,130</b> | 920   | 796   |
| Amortisation of intangible assets                           | <b>432</b>   | 311   | 226   |
| Impairment and assets written off                           | <b>445</b>   | 436   | 206   |
| Profit on sale of intangible assets                         | <b>(835)</b> | (170) | (5)   |
| Profit on sale of investments in associates                 | <b>(115)</b> |       |       |
| Profit on sale of equity investments                        | <b>(40)</b>  | (33)  | (32)  |
| Changes in working capital:                                 |              |       |       |
| Increase in inventories                                     | <b>(132)</b> | (411) | (457) |
| (Increase)/decrease in trade receivables                    | <b>(473)</b> | 519   | (77)  |
| (Increase)/decrease in other receivables                    | <b>(134)</b> | 22    | (2)   |
| Increase/(decrease) in trade payables                       | <b>499</b>   | (39)  | 9     |
| Increase/(decrease) in other payables                       | <b>409</b>   | (162) | (196) |
| (Decrease)/increase in pension and other provisions         | <b>(320)</b> | 548   | (123) |
| Share-based incentive plans                                 | <b>179</b>   | 241   | 237   |
| Other   | <b>(40)</b>  | (268) | (95)  |



|                                |              |       |       |
|--------------------------------|--------------|-------|-------|
|                                | <b>3,876</b> | 4,343 | 2,770 |
| Cash generated from operations | <b>9,545</b> | 9,055 | 8,080 |

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## Notes to the financial statements

**37 Reconciliation of net cash flow to movement in net debt**

|   | <b>2009</b>     | 2008     | 2007    |
|---|-----------------|----------|---------|
|   | <b>£m</b>       | £m       | £m      |
| Net debt at beginning of year                     | <b>(10,173)</b> | (6,039)  | (2,450) |
| Increase in cash and bank overdrafts              | <b>1,054</b>    | 1,148    | 1,411   |
| Cash (inflow)/outflow from liquid investments     | <b>(87)</b>     | (905)    | 39      |
| Net increase in long-term loans                   | <b>(1,358)</b>  | (5,523)  | (3,276) |
| Net repayment of/(increase in) short-term loans   | <b>102</b>      | 3,059    | (1,632) |
| Net repayment of obligations under finance leases | <b>48</b>       | 48       | 39      |
| Debt of subsidiary undertakings acquired          | <b>(9)</b>      |          |         |
| Exchange adjustments                              | <b>1,041</b>    | (1,918)  | (88)    |
| Other non-cash movements                          | <b>(62)</b>     | (43)     | (82)    |
| <b>Movement in net debt</b>                       | <b>729</b>      | (4,134)  | (3,589) |
| <b>Net debt at end of year</b>                    | <b>(9,444)</b>  | (10,173) | (6,039) |

| <b>Analysis of changes in net debt</b>             | At       |          | <b>Other</b> | <b>Reclassifications</b> | <b>Acquisitions</b> | <b>Cash flow</b> | <b>At</b>       |
|--|----------|----------|--------------|--------------------------|---------------------|------------------|-----------------|
|  | 31.12.08 | Exchange |              |                          |                     |                  |                 |
|  | £m       | £m       | £m           | £m                       | £m                  | £m               | £m              |
| Liquid investments                                 | 391      | (36)     |              |                          |                     | (87)             | <b>268</b>      |
| Cash and cash equivalents                          | 5,623    | (171)    |              |                          | 94                  | 999              | <b>6,545</b>    |
| Overdrafts   | (151)    | 13       |              |                          |                     | (39)             | <b>(177)</b>    |
|  | 5,472    | (158)    |              |                          | 94                  | 960              | <b>6,368</b>    |
| <b>Debt due within one year:</b>                   |          |          |              |                          |                     |                  |                 |
| Commercial paper                                   |          |          |              |                          |                     | (621)            | <b>(621)</b>    |
| Eurobonds and Medium-Term Notes                    | (481)    | 69       | (38)         | (641)                    |                     | 470              | <b>(621)</b>    |
| Other  | (324)    | 33       | (20)         | (25)                     | (9)                 | 293              | <b>(52)</b>     |
|  | (805)    | 102      | (58)         | (666)                    | (9)                 | 142              | <b>(1,294)</b>  |
| <b>Debt due after one year:</b>                    |          |          |              |                          |                     |                  |                 |
| Eurobonds, Medium-Term Notes and private financing | (15,131) | 1,128    | 24           | 641                      |                     | (1,358)          | <b>(14,696)</b> |
| Other  | (100)    | 5        | (28)         | 25                       |                     | 8                | <b>(90)</b>     |

|          |          |       |      |     |         |                 |
|----------|----------|-------|------|-----|---------|-----------------|
|          | (15,231) | 1,133 | (4)  | 666 | (1,350) | <b>(14,786)</b> |
| Net debt | (10,173) | 1,041 | (62) |     | 85      | <b>(9,444)</b>  |

For further information on significant changes in net debt see Note 32 Net debt .

### **38 Acquisitions and disposals**

Details of the acquisition and disposal of subsidiary and associated undertakings, joint ventures and other businesses are given below:

#### **2009**

##### Acquisitions

##### Genelabs Technologies Inc.

On 7th January 2009, the Group acquired all of the share capital of Genelabs Technologies Inc, a California biotechnology company with a strong and focused portfolio in hepatitis C vaccines. The purchase price of £42 million included £12 million of cash and cash equivalents, with the remainder represented by preliminary net asset valuations of £30 million. This transaction has been accounted for by the purchase method of accounting. Genelabs Technologies Inc. had turnover of £nil and a loss after tax of £8 million for the year, of which turnover of £nil and £8 million of loss after tax related to the period since acquisition and are included in the Group accounts.

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**38 Acquisitions and disposals** continued**2009**

Acquisitions continued

Genelabs Technologies Inc. continued

|  | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|--|---------------------|--------------------------------|---------------------|
| Net assets acquired                              |                     |                                |                     |
| Intangible assets                                |                     | 1                              | 1                   |
| Property, plant and equipment                    | 2                   |                                | 2                   |
| Other assets including cash and cash equivalents | 14                  |                                | 14                  |
| Deferred tax asset                               |                     | 26                             | 26                  |
| Other liabilities                                | (2)                 |                                | (2)                 |
|  | 14                  | 27                             | 41                  |
| Goodwill   |                     | 1                              | 1                   |
| Total consideration                              | 14                  | 28                             | 42                  |

**Bristol Myers Squibb Pakistan (Private) Limited**

On 30th January 2009, the Group acquired all of the share capital of Bristol Myers Squibb Pakistan (Private) Limited and certain associated trademarks for a consideration of £25 million. As a result, the Group has acquired a portfolio of over 30 well-established pharmaceutical brands, many of which occupy leading market positions in key therapeutic disease areas in Pakistan. The purchase price of £25 million was represented by provisional valuations of intangible assets of £8 million, goodwill of £10 million and other net assets of £7 million. The goodwill arising on the acquisition reflects the potential for product growth throughout the region and the expected synergies for the Group. This transaction has been accounted for by the purchase method of accounting. Bristol Myers Squibb Pakistan (Private) Limited had a turnover of £15 million and a profit after tax of £0.3 million for the year, of which £14 million of turnover and £0.4 million of profit after tax related to the period since acquisition and are included in the Group accounts.

|  | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|--|---------------------|--------------------------------|---------------------|
| Net assets acquired                              |                     |                                |                     |
| Intangible assets                                | 7                   | 1                              | 8                   |
| Property, plant and equipment                    | 5                   | 3                              | 8                   |
| Other assets including cash and cash equivalents | 6                   |                                | 6                   |
| Deferred tax provision                           | (1)                 |                                | (1)                 |
| Other liabilities                                | (5)                 | (1)                            | (6)                 |
|  | 12                  | 3                              | 15                  |
| Goodwill   |                     | 10                             | 10                  |

|                     |    |    |    |
|---------------------|----|----|----|
| Total consideration | 12 | 13 | 25 |
|---------------------|----|----|----|

#### Certain businesses from UCB S.A.

On 31st March 2009, the Group acquired from UCB S.A. its marketed product portfolio across certain territories in Africa, the Middle East, Asia Pacific and Latin America which includes several leading pharmaceutical brands in a number of disease areas. Subsequent to this date the Group completed further country acquisitions which formed part of the original transaction. The purchase price of £477 million included £5 million of net cash, £445 million of intangible assets, £87 million of goodwill and £60 million of other net liabilities. These are provisional valuations and may change in the future. The goodwill arising on the acquisition of this business reflects the potential for product growth throughout the regions and the expected synergies for the Group. This transaction has been accounted for by the purchase method of accounting.

The transaction included acquisition of both a number of legal entities and product rights that had been previously marketed outside of those entities. The product portfolio acquired has been integrated into the GSK business in the period since acquisition and it is not therefore practicable to identify the result after tax arising as a result of this transaction for the period after acquisition.

Prior to acquisition it is estimated that the product portfolio recorded turnover of £26 million. Since acquisition GSK has recorded turnover of £77 million from the products acquired.

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Notes to the financial statements

**38 Acquisitions and disposals** continued**2009**

Certain businesses from UCB S.A. continued

|                               | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|-------------------------------|---------------------|--------------------------------|---------------------|
| Net assets acquired           |                     |                                |                     |
| Intangible assets             | 417                 | 28                             | 445                 |
| Property, plant and equipment | 1                   |                                | 1                   |
| Cash and cash equivalents     | 5                   |                                | 5                   |
| Deferred tax provision        |                     | (56)                           | (56)                |
| Other liabilities             | (5)                 |                                | (5)                 |
|                               | 418                 | (28)                           | 390                 |
| Goodwill                      |                     | 87                             | 87                  |
| Total consideration           | 418                 | 59                             | 477                 |

**AZ Tika**

On 21st April 2009, the Group acquired all of the share capital of AZ Tika, a wholly owned subsidiary of Astra Zeneca plc for a cash consideration of £146 million. As a result, the Group has acquired a number of leading over-the-counter products, predominantly sold in Sweden, including *Alvedon*, the country's leading analgesic treatment. The purchase price of £146 million was represented by intangible assets of £109 million, goodwill of £50 million and other net liabilities of £13 million. The goodwill arising on the acquisition reflects the potential for product growth and the expected synergies for the Group. This transaction has been accounted for by the purchase method of accounting. Prior to acquisition the products acquired were marketed outside the entity acquired. The products acquired have been integrated into the GSK business in the period since acquisition and it is not therefore practicable to identify the result after tax arising as a result of the transaction for the period after acquisition. Prior to acquisition it is estimated that the product portfolio recorded turnover of £7 million. Since acquisition GSK has recorded turnover of £24 million from the products acquired.

|  | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|--|---------------------|--------------------------------|---------------------|
| Net assets acquired                              |                     |                                |                     |
| Intangible assets                                | 72                  | 37                             | 109                 |
| Other assets including cash and cash equivalents |                     | 1                              | 1                   |
| Deferred tax provision                           |                     | (14)                           | (14)                |
|  | 72                  | 24                             | 96                  |
| Goodwill   |                     | 50                             | 50                  |
| Total consideration                              | 72                  | 74                             | 146                 |

Stiefel Laboratories, Inc.

On 22nd July 2009, the Group acquired all of the share capital of Stiefel Laboratories, Inc., the world's largest private dermatological company for a cash consideration of £1,993 million net of cash acquired and including £326 million of debt repaid on acquisition. The purchase price of £2,219 million (including contingent cash consideration of £152 million payable upon certain criteria being met by specified dates in the future) included £74 million of cash and cash equivalents, £1,513 million of intangible assets, £885 million of goodwill, representing the potential for additional growth from the combination of the Stiefel business and GSK's existing dermatology portfolio, and £253 million of other net liabilities. The purchase price includes potential obligations to make additional payments of up to \$300 million (£183 million) depending on the future performance of certain products. These are provisional valuations and may change in the future. Stiefel Laboratories Inc. had a turnover of £547 million and a loss after tax (including restructuring costs) of £103 million for the year ended 31st December 2009, of which £248 million of turnover and £78 million of loss after tax (including restructuring costs) related to the period since acquisition and are included in the Group accounts. Since acquisition, Stiefel made an operating profit of £35 million before restructuring costs and intangible assets amortisation.

The new business will provide significant opportunities for both sales and cost synergies. Stiefel's products will benefit from GSK's global distribution and commercial organisations, particularly in markets such as Brazil, Russia, India, China and Japan. GSK's products will benefit from Stiefel's speciality sales force relationships and experienced management in dermatology.

Cost synergies for the new business are expected primarily from combining manufacturing and administrative functions. As previously reported, GSK expects to deliver annual pre-tax cost savings of up to £155 million by 2012 with restructuring costs of approximately £205 million, of which £71 million was charged in 2009 and the remainder will be incurred over the next two years. Excluding restructuring costs, the Stiefel acquisition resulted in a dilution of GSK's earnings per share of less than 1% in 2009 and is expected to result in an improvement of 1-2% in 2010.

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Notes to the financial statements

**38 Acquisitions and disposals** continued**2009**

Stiefel Laboratories, Inc. continued

|  | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|--|---------------------|--------------------------------|---------------------|
| Net assets acquired                              |                     |                                |                     |
| Intangible assets                                | 274                 | 1,239                          | 1,513               |
| Property, plant and equipment                    | 111                 |                                | 111                 |
| Other assets including cash and cash equivalents | 210                 | 47                             | 257                 |
| Deferred tax provision                           | 35                  | (331)                          | (296)               |
| Other liabilities                                | (251)               |                                | (251)               |
|  | 379                 | 955                            | 1,334               |
| Goodwill   |                     | 885                            | 885                 |
| Total consideration                              | 379                 | 1,840                          | 2,219               |

## ViiV Healthcare Limited

On 30th October 2009, GSK acquired Pfizer Inc.'s HIV business and combined it with its own HIV business to form ViiV Healthcare Limited, a sub-group owned 85% by GSK and 15% by Pfizer. The consideration given by GSK, representing 15% of the net value of GSK's HIV business, contingent consideration and transaction costs, was valued at £383 million. This was represented by £595 million of intangible assets, £172 million of deferred tax liability, £21 million of other net assets, £316 million increase in minority interests and £255 million of goodwill representing the economies of scale gained from the combination of the two businesses and the potential for growth of both partners' HIV products within ViiV Healthcare. These are provisional valuations and may change in the future. The minority interest represents Pfizer's interest in ViiV Healthcare including the right to preferential dividends based on the sales performance of certain products.

GSK has recognised an accounting gain of £296 million on this transaction arising on the disposal of a 15% interest in GSK's HIV business to Pfizer recorded at book value, in return for 85% of Pfizer's HIV business recorded at fair value. The acquired Pfizer HIV business had a turnover of £89 million and a loss after tax of £39 million for the year, of which, after taking account of the transition status in various territories, £1 million of turnover and £23 million of loss after tax has been recognised in the Group accounts, including restructuring costs.

|  | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|--|---------------------|--------------------------------|---------------------|
| Net assets acquired                              |                     |                                |                     |
| Intangible assets                                | 13                  | 582                            | 595                 |
| Other assets including cash and cash equivalents | 10                  | 11                             | 21                  |
| Deferred tax provision                           |                     | (172)                          | (172)               |
|  | 23                  | 421                            | 444                 |
| Minority interests                               |                     | (316)                          | (316)               |



|  |    |     |     |
|--|----|-----|-----|
| Goodwill   |    | 255 | 255 |
| Total consideration                                | 23 | 360 | 383 |
| Consideration                                      |    |     |     |
| Fair value of assets contributed by GSK            |    |     | 328 |
| Fair value of contingent equity contributed by GSK |    |     | 37  |
| Direct costs                                       |    |     | 18  |
| Total consideration                                |    |     | 383 |

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Notes to the financial statements

**38 Acquisitions and disposals** continued**2009**

Acquisitions continued

Laboratoire Pharmaceutique Algérien

On 10th November 2009, GSK acquired 100% of the share capital of the Algerian pharmaceutical, manufacturing and distribution group, Laboratoire Pharmaceutique Algérien, for a cash consideration of £26 million net of cash acquired. The purchase price of £29 million included £3 million of cash and cash equivalents, £35 million of goodwill, £15 million of other net liabilities, and a £6 million reduction in the value of an existing investment. These are provisional valuations and may change in the future. The goodwill reflects the potential for business synergies and further sales growth through the increase in GSK's market presence following the acquisition of an established market participant. This transaction has been accounted for by the purchase method of accounting. Laboratoire Pharmaceutique Algérien had a turnover of £61 million for the year ended 31st December 2009. The result for the year has not yet been determined but is estimated to be a loss of £25 million. Turnover of £6 million and £1 million of loss related to the period after acquisition are recorded in the Group accounts.

|   | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|---|---------------------|--------------------------------|---------------------|
| Net assets acquired   |                     |                                |                     |
| Property, plant and equipment                                       | 29                  |                                | 29                  |
| Cash and cash equivalents   | 3                   |                                | 3                   |
| Other liabilities   | (44)                |                                | (44)                |
|   | (12)                |                                | (12)                |
| Goodwill  |                     | 35                             | 35                  |
| Fair value loss arising on increased investment in LPA Distribution |                     | 6                              | 6                   |
| Total consideration   | (12)                | 41                             | 29                  |

NovaMin Technology Inc.

On 18th December 2009, GSK acquired 100% of the share capital of NovaMin Technology Inc., a privately held US company for a cash consideration of £87 million. The purchase price included £51 million of intangible assets, £53 million of goodwill and £17 million of net liabilities. These are provisional valuations and may change in the future. The company has a specialty oral care ingredient for the treatment of dentine hypersensitivity and the goodwill arising from the acquisition represents the potential for additional growth from the combination of the company's technology with specific GSK oral care products. This transaction has been accounted for by the purchase method of accounting. NovaMin Technology Inc. had a turnover of £0.1 million and a loss after tax of £0.5 million for the year, of which £nil of turnover and £nil of loss after tax related to the period since acquisition and are included in the Group accounts.

|                     | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|---------------------|---------------------|--------------------------------|---------------------|
| Net assets acquired |                     |                                |                     |
| Intangible assets   | 1                   | 50                             | 51                  |

|                        |   |      |      |
|------------------------|---|------|------|
| Deferred tax provision |   | (17) | (17) |
|                        | 1 | 33   | 34   |
| Goodwill               |   | 53   | 53   |
| Total consideration    | 1 | 86   | 87   |

If the above acquisitions had been made at the beginning of the year, it is estimated that Group turnover would have increased by £477 million for the year. As some of the acquisitions have been fully integrated into the GSK business it is not practicable to separately identify the impact of the acquisitions on the Group profit for the year.

Other acquisitions in the year include £16 million invested in Shionogi-GlaxoSmithKline Holdings, L.P., a joint venture in which the Group has a 50% share and £20 million invested in Shenzhen GlaxoSmithKline Neptunus Biologicals Co., Ltd, an associate in which the Group has an initial 40% share.

| Cash flows                         | Genelab (Pakistan) |    | Certain<br>BMS businesses<br>of UCB | Laboratoire<br>AZ | Stiefel<br>Pharmaceuticals<br>Inc. | Laboratoire<br>Algérien | Nova<br>Inc | Min<br>Other | Total |
|------------------------------------|--------------------|----|-------------------------------------|-------------------|------------------------------------|-------------------------|-------------|--------------|-------|
|                                    | £m                 | £m | £m                                  | £m                | £m                                 | £m                      | £m          | £m           | £m    |
| Cash consideration                 | 42                 | 23 | 477                                 | 146               | 2,067                              | 29                      | 87          | 44           | 2,915 |
| Cash and cash equivalents acquired | (12)               |    | (5)                                 |                   | (74)                               | (3)                     |             |              | (94)  |
| Net cash consideration             | 30                 | 23 | 472                                 | 146               | 1,993                              | 26                      | 87          | 44           | 2,821 |
| Contingent consideration           |                    | 2  |                                     |                   | 152                                |                         |             |              | 154   |
| Net purchase consideration         | 30                 | 25 | 472                                 | 146               | 2,145                              | 26                      | 87          | 44           | 2,975 |

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Notes to the financial statements

**38 Acquisitions and disposals** continued**2008**

Acquisitions continued

Sirtris Pharmaceuticals Inc.

On 5th June 2008, the Group acquired 100% of the issued share capital of Sirtris Pharmaceuticals Inc., a biopharmaceutical company based in Massachusetts, USA for a cash consideration of £376 million. The company is focused on discovering and developing proprietary, orally available, small molecule drugs with the potential to treat diseases associated with ageing, including metabolic diseases such as Type 2 diabetes. Sirtris drug candidates are designed to mimic certain beneficial health effects of calorie restriction by activation of sirtuins, a recently discovered class of enzymes that Sirtris believes control the ageing process. This transaction has been accounted for by the purchase method of accounting. The goodwill arising on the acquisition reflects the potential for enabling GSK to enhance its metabolic, neurology, and immuno-inflammation research efforts by establishing a world-leading presence in the sirtuin field, aided by the existence in the company of a highly experienced development team that encompasses all aspects of sirtuin biology. Sirtris Pharmaceuticals Inc. had a turnover of £nil and a loss after tax of £25 million for the year, of which £nil of turnover and £14 million of loss after tax related to the period since acquisition and are included in the Group accounts.

|  | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|--|---------------------|--------------------------------|---------------------|
| Net assets acquired                              |                     |                                |                     |
| Intangible assets                                |                     | 106                            | 106                 |
| Property, plant and equipment                    | 2                   |                                | 2                   |
| Other assets including cash and cash equivalents | 86                  |                                | 86                  |
| Deferred tax provision                           |                     | (21)                           | (21)                |
| Other liabilities                                | (39)                |                                | (39)                |
|  | 49                  | 85                             | 134                 |
| Goodwill   |                     | 242                            | 242                 |
| Total consideration                              | 49                  | 327                            | 376                 |

Bristol Myers Squibb (Egypt)

On 14th October 2008, the Group acquired the Egyptian mature products business of Bristol Myers Squibb (BMS) for a cash consideration of £140 million of this amount £10 million is deferred with payment being made when alternative supply arrangements are established. The Group acquired 20 branded products that occupy leading market positions in four therapeutic disease areas in Egypt, including *Duricef* (antibiotic); *Capozide* and *Capoten* (ACE inhibitors); *Theragran-H* (iron supplement) and *Kenacomb* (topical steroid). Total sales of this combined mature products pharmaceuticals business in 2007 were \$48.5 million. The Group will also take ownership of BMS's high quality manufacturing facility in Giza (Greater Cairo) that will continue to supply the acquired products. The Group will have the ability to export generic versions of the acquired products to markets outside of Egypt, thereby creating a further opportunity to drive sales growth in the Middle East and North Africa region and this fact is reflected in the goodwill arising on the acquisition. The business had a turnover of £25 million and a profit after tax of £4 million for the year, of which £4 million of turnover and £0.2 million of profit after tax are related to the period since acquisition and are included in the Group accounts.

|                               | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|-------------------------------|---------------------|--------------------------------|---------------------|
| Net assets acquired           |                     |                                |                     |
| Intangible assets             |                     | 65                             | 65                  |
| Property, plant and equipment | 9                   | 9                              | 18                  |
| Inventory                     | 5                   |                                | 5                   |
|                               | 14                  | 74                             | 88                  |
| Goodwill                      |                     | 52                             | 52                  |
| Total consideration           | 14                  | 126                            | 140                 |

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Notes to the financial statements

**38 Acquisitions and disposals** continued

If Sirtris and BMS (Egypt) had been acquired at the beginning of 2008, combined Group turnover for the year would have been £24,373 million and combined Group profit for the year would have been £4,705 million.

| Cash flows                            | Sirtris<br>£m | BMS<br>(Egypt)<br>£m | Shionogi-<br>Euclid SR GlaxoSmithKline |                      |             | Total<br>£m |
|---------------------------------------|---------------|----------------------|--|----------------------|-------------|-------------|
|                                       |               |                      | Partners<br>LP<br>£m                   | Holdings, L.P.<br>£m | Other<br>£m |             |
| Cash consideration                    | 376           | 130                  | 2                                      | 6                    | 1           | 515         |
| Cash and cash equivalents<br>acquired | (52)          |                      |  |                      |             | (52)        |
| Net cash payment on<br>acquisitions   | 324           | 130                  | 2                                      | 6                    | 1           | 463         |

**Euclid SR Partners, LP**

During 2008, an additional £2 million was invested in Euclid SR Partners, LP, an associate in which the Group has a 38.6% share.

**Shionogi-GlaxoSmithKline Holdings, L.P.**

During 2008, an additional £6 million was invested in Shionogi-GlaxoSmithKline Holdings, L.P., a joint venture in which the Group has a 50% share.

**2007**

**Acquisitions**

**Reliant Pharmaceuticals Inc.**

On 18th December 2007, the Group acquired 100% of the issued share capital of Reliant Pharmaceuticals Inc., a pharmaceutical company based in the USA for a cash consideration of £814 million. The company specialises in the development and marketing of speciality medicines to combat heart disease which includes the US rights to *Lovaza*, a treatment for adult patients with very high levels of triglycerides. This transaction has been accounted for by the purchase method of accounting. The goodwill arising on the acquisition reflects the potential for product growth throughout the USA and Puerto Rico and the expected synergies for the Group. Reliant Pharmaceuticals Inc. had a turnover of £276 million and a profit after tax of £8 million for the year, of which £8 million of turnover and £1 million of profit after tax related to the period since acquisition and are included in the Group accounts.

|  | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|--|---------------------|--------------------------------|---------------------|
| Net assets acquired                              |                     |                                |                     |
| Intangible assets                                | 13                  | 600                            | 613                 |
| Property, plant and equipment                    | 2                   | 4                              | 6                   |
| Other assets including cash and cash equivalents | 80                  | 16                             | 96                  |
| Deferred tax provision                           |                     | (175)                          | (175)               |
| Other liabilities                                | (75)                | (1)                            | (76)                |
|  | 20                  | 444                            | 464                 |
|  |                     |                                | 302                 |

|                     |    |     |     |
|---------------------|----|-----|-----|
| Goodwill            |    | 350 | 350 |
| Total consideration | 20 | 794 | 814 |

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Notes to the financial statements

**38 Acquisitions and disposals** continued

## Domantis Limited

On 5th January 2007, the Group acquired 100% of the issued share capital of Domantis Limited, a drug discovery company based in the UK for a cash consideration of £234 million. The company is developing the next generation of antibody therapies. This transaction has been accounted for by the purchase method of accounting. The goodwill arising on the acquisition reflects the potential for combining the world-leading technology of Domantis with the development programme already in place within GSK to put the Group at the forefront of biotechnology. Domantis Limited had a turnover of £nil and a loss after tax of £10 million for the year, of which £nil of turnover and £9 million of loss after tax related to the period since acquisition and are included in the Group accounts.

|  | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|--|---------------------|--------------------------------|---------------------|
| Net assets acquired                              |                     |                                |                     |
| Intangible assets                                |                     | 51                             | 51                  |
| Property, plant and equipment                    | 1                   |                                | 1                   |
| Other assets including cash and cash equivalents | 19                  |                                | 19                  |
| Deferred tax provision                           |                     | (14)                           | (14)                |
| Other liabilities                                | (4)                 |                                | (4)                 |
|  | 16                  | 37                             | 53                  |
| Goodwill   |                     | 181                            | 181                 |
| Total consideration                              | 16                  | 218                            | 234                 |

## Praecis Pharmaceuticals Inc.

On 16th February 2007, the Group acquired 100% of the issued share capital of Praecis Pharmaceuticals, Inc., a biopharmaceutical company based in the USA, for a cash consideration of £39 million. The company has developed a more efficient method of identifying drug leads targeting human disease using proprietary technology. This transaction has been accounted for by the purchase method of accounting. Praecis Pharmaceuticals Inc. had a turnover of £nil and a loss after tax of £11 million for the year, of which £nil of turnover and £9 million of loss after tax related to the period since acquisition and are included in the Group accounts.

|  | Book<br>value<br>£m | Fair value<br>adjustment<br>£m | Fair<br>value<br>£m |
|--|---------------------|--------------------------------|---------------------|
| Net assets acquired                              |                     |                                |                     |
| Intangible assets                                |                     | 7                              | 7                   |
| Property, plant and equipment                    | 1                   |                                | 1                   |
| Other assets including cash and cash equivalents | 25                  |                                | 25                  |
| Deferred tax asset                               |                     | 10                             | 10                  |
| Other liabilities                                | (6)                 |                                | (6)                 |
|  | 20                  | 17                             | 37                  |
| Goodwill   |                     | 2                              | 2                   |



|                                    |               |                |               |             |             |
|------------------------------------|---------------|----------------|---------------|-------------|-------------|
| Total consideration                |               |                | 20            | 19          | 39          |
| <b>Cash flows</b>                  | Reliant<br>£m | Domantis<br>£m | Praecis<br>£m | Other<br>£m | Total<br>£m |
| Cash consideration                 | 814           | 234            | 39            | 1           | 1,088       |
| Cash and cash equivalents acquired | (20)          | (16)           | (24)          |             | (60)        |
| Net cash payment on acquisitions   | 794           | 218            | 15            | 1           | 1,028       |

If Reliant, Domantis and Praecis had been acquired at the beginning of the year, combined Group turnover for the year would have been £22,984 million and combined Group profit for the year would have been £5,314 million.

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## Notes to the financial statements

**39 Commitments**

|  | <b>2009</b>   | 2008   |
|--|---------------|--------|
|  | <b>£m</b>     | £m     |
| <b>Contractual obligations and commitments</b>               |               |        |
| Contracted for but not provided in the financial statements: |               |        |
| Intangible assets  | <b>12,280</b> | 13,048 |
| Property, plant and equipment                                | <b>416</b>    | 489    |
| Investments  | <b>86</b>     | 56     |
| Purchase commitments   | <b>82</b>     | 145    |
| Business combinations  |               | 227    |
| Pensions   | <b>1,460</b>  | 597    |
| Other commitments  | <b>52</b>     | 46     |
| Interest on loans  | <b>10,733</b> | 11,868 |
| Finance lease charges  | <b>16</b>     | 18     |
|  | <b>25,125</b> | 26,494 |

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. The amounts are not risk-adjusted or discounted. As the majority of the intangible commitments are denominated in US dollars, the weakening of foreign currencies during the year has led to an decrease in the commitments reported above. A number of commitments were made in 2009 under licensing and other agreements, including arrangements with Chroma Therapeutics Limited, Concert Pharmaceuticals, Inc., Idenix Pharmaceuticals, Inc., Prosensa B.V. and Seattle Genetics, Inc.

In 2009, GSK reached an agreement with the trustees of the UK pension schemes to make additional contributions to eliminate the pension deficit identified at the 31st December 2008 actuarial funding valuation. The table above shows this commitment, but excludes the normal ongoing annual funding requirement of approximately £150 million. The Group also has other commitments which principally relate to revenue payments to be made under licences and other alliances.

Commitments in respect of future interest payable on loans are disclosed before taking into account the effect of interest rate swaps.

|   | <b>2009</b> | 2008 |
|---|-------------|------|
|   | <b>£m</b>   | £m   |
| <b>Commitments under non-cancellable operating leases</b> |             |      |
| Rental payments due within one year                       | <b>111</b>  | 140  |
| Rental payments due between one and two years             | <b>72</b>   | 109  |
| Rental payments due between two and three years           | <b>50</b>   | 76   |
| Rental payments due between three and four years          | <b>21</b>   | 54   |
| Rental payments due between four and five years           | <b>14</b>   | 22   |
| Rental payments due after five years                      | <b>69</b>   | 47   |
| Total commitments under non-cancellable operating leases  | <b>337</b>  | 448  |

**40 Post balance sheet events**

On 17th February 2010, GSK received a Complete Response letter from the FDA regarding the new drug application for *Horizant* Extended Release tablets for restless legs syndrome. The letter indicated that questions remained that precluded the approval of *Horizant* for restless legs syndrome at that time. GSK is evaluating the letter and considering the appropriate next steps. The Group's intangible assets include £85 million in relation to this compound. It is not yet possible to determine the amount, if any, of any impairment that may be recorded in future periods, pending completion of a full analysis of the situation.

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Notes to the financial statements

**41 Financial instruments and related disclosures**

GlaxoSmithKline plc reports in Sterling and pays dividends out of Sterling profits. The role of Corporate Treasury is to manage and monitor our external and internal funding requirements and financial risks in support of our strategic objectives. Treasury activities are governed by policies and procedures approved by the Board of Directors, most recently on 1st October 2009.

A Treasury Management Group (TMG) chaired by our Chief Financial Officer, meets on a monthly basis to review treasury activities. Its members receive management information relating to treasury activities. Our internal auditors review the Treasury internal control environment regularly.

GSK uses a variety of financial instruments to finance its operations and derivative financial instruments to manage risks from these operations. These derivatives, principally comprising forward foreign currency contracts, interest rate and currency swaps, are used to swap borrowings and liquid assets into currencies required for Group purposes and to manage exposure to funding risks from changes in foreign exchange rates and interest rates.

GSK does not hold or issue derivatives for speculative purposes and our Treasury policies specifically prohibit such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

**Capital management**

We manage our capital to ensure that entities in the Group are able to operate as going concerns and to optimise return to shareholders through an appropriate balance of debt and equity. The Board reviews the Group's dividend policy and funding requirements annually.

The capital structure of the Group consists of net debt (see Note 32, Net debt) and shareholders' equity (see Consolidated statement of changes in equity on page 97).

We continue to expect investment opportunities to arise that will allow the Group to invest in support of its strategic priorities. To ensure we have sufficient flexibility to take advantage of these opportunities we do not currently expect to make significant share repurchases in 2010. Investment opportunities will continue to be assessed against strict financial criteria.

GSK operates on a global basis, primarily through subsidiary companies established in the markets in which we trade. With significant levels of patent or trademark protection, our pharmaceutical products compete largely on product efficacy or differentiation rather than on price.

Selling margins are sufficient to cover normal operating costs and our operations are cash generative.

Operating cash flow is used to fund investment in research and development of new products. It is also used to make the routine outflows of capital expenditure, tax, dividends, repayment of maturing debt and, to the extent determined by the Board, share repurchases.

Our policy is to borrow centrally, using a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

These borrowings, together with cash generated from operations, are on-lent, contributed as equity to certain subsidiaries or used to pay dividends and make acquisitions. GSK did not make any share repurchases in 2009.

Total capital (equity and net debt) of the Group has increased from £18,491 million in 2008 to £20,186 million in 2009. The increase of £1,695 million principally represents the retained profit for the year offset by actuarial losses on defined benefit pension plans and a reduction in net debt. Net debt reduced compared with 2008 primarily as a consequence of GSK's decision to suspend share repurchases in 2009. The Group's positive cash generation along with the issuance of a 1.6 billion bond under our EMTN programme and \$1 billion of commercial paper was sufficient to repay maturing short-term debt and finance the Group's acquisitions in the year whilst also increasing the Group's overall cash position at 31st December 2009.

**Liquidity risk**

We manage our net borrowing requirements through a portfolio of long-term borrowings, including bonds, together with short-term finance under the US\$10 billion commercial paper programme. The commercial paper programme is backed by \$3.9 billion of committed facilities. The facilities were last renewed in October 2009. We consider this

level of committed facilities to be adequate given our current cash holdings. For further information on these facilities, please refer to Note 32 to the financial statements, Net debt . We also benefit from strong positive cash flow from operating units.

We have a European Medium Term Note programme of £15 billion. At 31st December 2009, we had £8.5 billion of notes in issue under this programme. We also have a US shelf registration statement. At 31st December 2009, we had \$11 billion (£6.9 billion) of notes in issue under this programme. The TMG monitors the cash flow forecast on a monthly basis.

The long-term borrowings mature at dates between 2012 and 2042. Our long-term debt ratings have remained stable since February 2008. Currently we are rated A+ stable outlook by Standard and Poor's and A1 stable outlook by Moody's. Our short-term debt ratings are A-1 and P-1 with Standard and Poor's and Moody's respectively.

As well as our committed facilities we also had substantial cash and liquid investments, which amounted to £6.8 billion at 31st December 2009. We also benefit from strong positive cash flow from operating units.

Notes to the financial statements

#### 41 Financial instruments and related disclosures continued

##### Market risk

##### Interest rate risk management

The policy on interest rate risk management limits the amount of floating interest payments to a prescribed percentage of trading profit.

We use an interest rate swap to redenominate one of our external borrowings into the interest rate coupon required by GSK. The duration of this swap matches the duration of the principal instrument. Interest rate derivative instruments are accounted for as fair value or cash flow hedges of the relevant assets or liabilities.

##### Foreign exchange risk management

Foreign currency transaction exposures arising on internal and external trade flows are not hedged. The exposure of overseas operating subsidiaries to transaction risk is minimised by matching local currency income with local currency costs. For this purpose, our internal trading transactions are matched centrally and we manage intercompany payment terms to reduce foreign currency risk. Exceptional foreign currency cash flows are hedged selectively under the management of Corporate Treasury. We manage the cash surpluses or borrowing requirements of subsidiary companies centrally using forward contracts to hedge future repayments back into the originating currency.

We seek to denominate borrowings in the currencies of our principal assets and cash flows. These are primarily denominated in US dollars, Euros and Sterling. Certain borrowings are swapped into other currencies as required. Borrowings denominated in, or swapped into, foreign currencies that match investments in overseas Group assets may be treated as a hedge against the relevant assets. Forward contracts are also used in major currencies to reduce our exposure to our investment in overseas Group assets (see Net investment hedges section of this note for further details). The TMG reviews the ratio of borrowings to assets for major currencies monthly.

##### Credit risk

The Group considers its maximum credit risk to be £13,434 million (2008 £13,265 million) which is the total of the Group's financial assets with the exception of Other investments which do not bear credit risk. See page 155 for details on the Group's total financial assets.

GSK's greatest concentration of credit risk is £1.3 billion (2008 £1.9 billion) invested in US Treasury and Treasury repo only money market funds which bear credit exposure to the US Government.

##### Treasury-related credit risk

In 2009, credit risk remained high during the global credit crisis. GSK has continued to maintain its conservative approach to counterparty risk throughout this period. A report on relationship banks and their credit ratings is presented annually to the TMG for approval.

The aggregate credit risk in respect of financial instruments the Group may have with one counterparty is limited by reference to the long-term credit ratings assigned for that counterparty by Moody's and Standard and Poor's. The table below sets out the credit ratings of counterparties for liquid investments, cash and cash equivalents and derivatives. The gross asset position on each derivative contract is considered for the purpose of this table, though, under the ISDA contracts, the amount at risk is the net asset position with each counterparty.

| 2009  | Credit rating of counterparty |        |         |       |           |          |      | Total<br>£m |
|---|-------------------------------|--------|---------|-------|-----------|----------|------|-------------|
|   | Aaa/AAA                       | Aa2/AA | Aa3/AA- | A1/A+ | Baa2/BBB+ | Baa3/BBB | BBB- |             |
|   | £m                            | £m     | £m      | £m    | £m        | £m       | £m   |             |
| Bank balances and deposits                            | 793                           | 1,385  | 1,359   | 1,467 | 102       | 27       | 73   | 5,206       |
| US Treasury and Treasury repo only money market funds | 1,305                         |        |         |       |           |          |      | 1,305       |
| Corporate debt instruments                            |                               |        | 10      |       |           |          |      | 10          |
| Government securities                                 | 237                           |        |         | 43    |           |          | 12   | 292         |
| 3rd party financial derivatives                       |                               | 48     | 32      | 106   |           |          |      | 186         |

|       |       |       |       |       |     |    |    |              |
|-------|-------|-------|-------|-------|-----|----|----|--------------|
| Total | 2,335 | 1,433 | 1,401 | 1,616 | 102 | 27 | 85 | <b>6,999</b> |
|-------|-------|-------|-------|-------|-----|----|----|--------------|

| 2008  | Credit rating of counterparty |               |               |             |                |                |         | Total<br>£m |
|---|-------------------------------|---------------|---------------|-------------|----------------|----------------|---------|-------------|
|   | Aaa/AAA<br>£m                 | Aa2/AA+<br>£m | Aa3/AA-<br>£m | A1/A+<br>£m | Ba2/BBB+<br>£m | Ba3/BBB-<br>£m | B<br>£m |             |
| Bank balances and deposits                            | 64                            | 1,025         | 646           | 1,981       | 32             |                | 27      | 3,775       |
| US Treasury and Treasury repo only money market funds | 1,852                         |               |               |             |                |                |         | 1,852       |
| Corporate debt instruments                            |                               |               | 75            |             |                |                |         | 75          |
| Government securities                                 | 231                           |               |               | 49          |                |                | 32      | 312         |
| 3rd party financial derivatives                       |                               | 160           | 210           | 540         |                |                |         | 910         |
| Total   | 2,147                         | 1,185         | 931           | 2,570       | 32             |                | 59      | 6,924       |

The credit ratings in the above tables are as assigned by Moody's Investor Services and Standard and Poor's respectively. Where the opinion of the two rating agencies differ, GSK assigns the lower rating of the two to the counterparty. Where local rating agency data is the only source available, the ratings are converted to global ratings equivalent to those of Moody's Investor Services or Standard and Poor's using published conversion tables. 2008 figures have been restated to reflect equivalent global or sovereign ratings where appropriate rather than those of local ratings providers.

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Notes to the financial statements

**41 Financial instruments and related disclosures** continued

Our centrally managed cash reserves amounted to £4.9 billion at 31st December 2009, all available within 3 months. The Group invests centrally managed liquid assets in bank deposits, AAA/Aaa rated US Treasuries and US Treasury repo only money market funds, short term corporate debt instruments with a minimum short-term credit rating of A-1/P1 and bank deposits.

Global counterparty limits are assigned to each of GSK's banking and investment counterparties based on long-term credit ratings from Moody's and Standard and Poor's. Corporate Treasury's usage of these limits is monitored daily by a Corporate Compliance Officer (CCO) who operates independently of Corporate Treasury. Any breach of these limits would be reported to the CFO immediately. The CCO also monitors the credit rating of these counterparties and, when changes in ratings occur, notifies Corporate Treasury so that changes can be made to investment levels or authority limits as appropriate.

**Wholesale and retail credit risk**

In the USA, in line with other pharmaceutical companies, the Group sells its products through a small number of wholesalers in addition to hospitals, pharmacies, physicians and other groups. Sales to the three largest wholesalers amount to approximately 85% of the Group's US pharmaceutical sales. At 31st December 2009, the Group had trade receivables due from these three wholesalers totalling £867 million (2008 £1,067 million). The Group is exposed to a concentration of credit risk in respect of these wholesalers such that, if one or more of them encounters financial difficulty, it could materially and adversely affect the Group's financial results.

The Group's credit risk monitoring activities relating to these wholesalers includes review of their quarterly financial information and Standard & Poor's credit ratings, development of GSK internal risk ratings, and establishment and periodic review of credit limits. However, the Group believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful debts (see Note 24, Trade and other receivables). Outside the USA no customer accounts for more than 5% of the trade receivables balance.

**Fair value of financial assets and liabilities**

The table on page 155 presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 31st December 2009 and 31st December 2008.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents approximates to the carrying amount

Liquid investments based on quoted market prices in the case of marketable securities; based on principal amounts in the case of non-marketable securities because of their short repricing periods

Other investments investments traded in an active market determined by reference to the relevant stock exchange quoted bid price; other investments determined by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets

Short-term loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments

Long-term loans based on quoted market prices in the case of the Eurobonds and other fixed rate borrowings; approximates to the carrying amount in the case of floating rate bank loans and other loans

Forward exchange contracts based on market data and exchange rates at the balance sheet date

Currency swaps based on market data at the balance sheet date



Interest rate swaps based on the net present value of discounted cash flows

Receivables and payables approximates to the carrying amount

Lease obligations approximates to the carrying amount.

Fair value of investments in GSK shares

At 31st December 2009, the Employee Share Ownership Plan (ESOP) Trusts held GSK shares with a carrying value of £1,138 million (2008 £1,445 million) with a fair value of £1,554 million (2008 £1,657 million) based on quoted market price. The shares represent purchases by the ESOP Trusts to satisfy future exercises of options and awards under employee incentive schemes. The carrying value, which is the lower of cost or expected proceeds, of these shares has been recognised as a deduction from other reserves. At 31st December 2009, GSK held Treasury shares at a cost of £6,286 million (2008 £6,286 million) which has been deducted from retained earnings.

Committed facilities

The Group has committed facilities to back up the commercial paper programme of \$3.9 billion (£2.4 billion) (2008 \$3.9 billion (£2.7 billion)) of 364 days duration, renewable annually. At 31st December 2009, undrawn committed facilities totalled \$3.9 billion (£2.4 billion) (2008 \$3.9 billion (£2.7 billion)).

Notes to the financial statements

**41 Financial instruments and related disclosures** continued

|  | <b>Carrying<br/>value<br/>£m</b> | <b>2009<br/>Fair<br/>value<br/>£m</b> | Carrying<br>value<br>£m | 2008<br>Fair<br>value<br>£m |
|--|----------------------------------|---------------------------------------|-------------------------|-----------------------------|
| Cash and cash equivalents  | <b>6,545</b>                     | <b>6,545</b>                          | 5,623                   | 5,623                       |
| Available-for-sale investments:  |                                  |                                       |                         |                             |
| Liquid investments:  |                                  |                                       |                         |                             |
| Government bonds   | 254                              | 254                                   | 299                     | 299                         |
| other  | 14                               | 14                                    | 92                      | 92                          |
| Total liquid investments   | <b>268</b>                       | <b>268</b>                            | 391                     | 391                         |
| Other investments  | <b>454</b>                       | <b>454</b>                            | 478                     | 478                         |
| Loans and receivables:   |                                  |                                       |                         |                             |
| Trade and other receivables and Other non-current<br>assets in scope of IAS 39   | <b>6,424</b>                     | <b>6,424</b>                          | 6,288                   | 6,288                       |
| Held-for-trading financial assets:   |                                  |                                       |                         |                             |
| Derivatives designated as accounting hedges                                      | <b>104</b>                       | <b>104</b>                            | 111                     | 111                         |
| Other derivatives  | <b>93</b>                        | <b>93</b>                             | 852                     | 852                         |
| Total financial assets   | <b>13,888</b>                    | <b>13,888</b>                         | 13,743                  | 13,743                      |
| Financial liabilities measured at amortised cost:                                |                                  |                                       |                         |                             |
| Borrowings:  |                                  |                                       |                         |                             |
| bonds in a designated hedging relationship                                       | <b>(6,139)</b>                   | <b>(6,499)</b>                        | (5,693)                 | (5,813)                     |
| other bonds  | <b>(9,178)</b>                   | <b>(9,864)</b>                        | (9,919)                 | (10,214)                    |
| commercial paper   | <b>(621)</b>                     | <b>(621)</b>                          |                         |                             |
| bank loans and overdrafts  | <b>(182)</b>                     | <b>(182)</b>                          | (427)                   | (427)                       |
| other loans and private financing  | <b>(7)</b>                       | <b>(7)</b>                            | (12)                    | (12)                        |
| obligations under finance leases   | <b>(130)</b>                     | <b>(130)</b>                          | (136)                   | (136)                       |
| Total borrowings   | <b>(16,257)</b>                  | <b>(17,303)</b>                       | (16,187)                | (16,602)                    |
| Trade and other payables and Other non-current<br>liabilities in scope of IAS 39 | <b>(6,051)</b>                   | <b>(6,051)</b>                        | (5,452)                 | (5,452)                     |
| Held-for-trading financial liabilities:  |                                  |                                       |                         |                             |
| Derivatives designated as accounting hedges                                      | <b>(55)</b>                      | <b>(55)</b>                           | (638)                   | (638)                       |

|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Other derivatives                              | (113)    | (113)    | (116)    | (116)    |
| Total financial liabilities                    | (22,476) | (23,522) | (22,393) | (22,808) |
| Net financial assets and financial liabilities | (8,588)  | (9,634)  | (8,650)  | (9,065)  |

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**41 Financial instruments and related disclosures** continued

The following tables categorise the Group's financial assets and liabilities held at fair value by the valuation methodology applied in determining their fair value. Where possible, quoted prices in active markets are used (Level 1). Where such prices are not available, the asset or liability is classified as Level 2, provided all significant inputs to the valuation model used are based on observable market data. If one or more of the significant inputs to the valuation model is not based on observable market data, the instrument is classified as Level 3.

Financial assets at fair value

| <b>At 31st December 2009</b>                | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | <b>Total<br/>£m</b> |
|---|---------------|---------------|---------------|---------------------|
| Held for trading financial assets           |               |               |               |                     |
| Derivatives designated as accounting hedges |               | 104           |               | <b>104</b>          |
| Other derivatives                           |               | 93            |               | <b>93</b>           |
| Available for sale financial assets         |               |               |               |                     |
| Liquid investments                          | 249           | 19            |               | <b>268</b>          |
| Other investments                           | 245           |               | 209           | <b>454</b>          |
|   | 494           | 216           | 209           | <b>919</b>          |

Financial liabilities at fair value

| <b>At 31st December 2009</b>                | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | <b>Total<br/>£m</b> |
|---|---------------|---------------|---------------|---------------------|
| Held for trading financial liabilities      |               |               |               |                     |
| Derivatives designated as accounting hedges |               | (55)          |               | <b>(55)</b>         |
| Other derivatives                           |               | (113)         |               | <b>(113)</b>        |
|   |               | (168)         |               | <b>(168)</b>        |

Movements in the year for financial instruments measured using Level 3 valuation methods are presented below:

|  | <b>Other<br/>investments<br/>£m</b> |
|--|-------------------------------------|
| At 1st January 2009                            | <b>159</b>                          |
| Losses recognised in profit or loss            | <b>(11)</b>                         |
| Gains recognised in other comprehensive income | <b>1</b>                            |
| Additions                                      | <b>81</b>                           |
| Disposals                                      | <b>(4)</b>                          |
| Transfers to/from Level 3                      |                                     |
| Exchange                                       | <b>(17)</b>                         |

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At 31st December 2009

**209**

**2009**  
**£m**

Losses relating to Level 3 financial assets included in Other operating  
income which are attributable to assets held at the end of the year

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Notes to the financial statements

**41 Financial instruments and related disclosures** continued

Trade and other receivables and other non-current assets in scope of IAS 39

The following table reconciles financial assets within Trade and other receivables and Other non-current assets which fall within the scope of IAS 39 to the relevant balance sheet amounts. The financial assets are predominantly non-interest earning. Other assets include tax receivables, pension surplus balances and prepayments, which are outside the scope of IAS 39.

|                                       | <b>2009</b>  | 2008  |
|---------------------------------------|--------------|-------|
|                                       | <b>£m</b>    | £m    |
| Trade and other receivables (Note 24) | <b>6,492</b> | 6,265 |
| Other non-current assets (Note 22)    | <b>583</b>   | 579   |
|                                       | <b>7,075</b> | 6,844 |
| Analysed as:                          |              |       |
| Financial assets in scope of IAS 39   | <b>6,424</b> | 6,288 |
| Other assets                          | <b>651</b>   | 556   |
|                                       | <b>7,075</b> | 6,844 |

The following table shows the age of such financial assets which are past due and for which no provision for bad or doubtful debts has been made:

|                                | <b>2009</b> | 2008 |
|--------------------------------|-------------|------|
|                                | <b>£m</b>   | £m   |
| Past due by 1 - 30 days        | <b>262</b>  | 310  |
| Past due by 31 - 90 days       | <b>105</b>  | 154  |
| Past due by 91 - 180 days      | <b>60</b>   | 115  |
| Past due by 181 - 365 days     | <b>54</b>   | 89   |
| Past due by more than 365 days | <b>78</b>   | 117  |
|                                | <b>559</b>  | 785  |

Amounts past due by greater than 90 days total £192 million (2008 £321 million). Of this balance £132 million (2008 £227 million) relates to receivables due from state hospital authorities in certain European countries. Given the profile of our customers, including large wholesalers and government backed agencies, no further credit risk has been identified with the trade receivables not past due other than those balances for which an allowance has been made.

Trade and other payables and other non-current liabilities in scope of IAS 39

The following table reconciles financial liabilities within Trade and other payables and Other non-current liabilities which fall within the scope of IAS 39 to the relevant balance sheet amounts. The financial liabilities are predominantly non-interest bearing. Accrued wages and salaries are included within financial liabilities. Other liabilities include payments on account and tax and social security payables, which are outside the scope of IAS 39.

|  | <b>2009</b>    | 2008    |
|--|----------------|---------|
|  | <b>£m</b>      | £m      |
| Trade and other payables (Note 27)       | <b>(6,772)</b> | (6,075) |
| Other non-current liabilities (Note 30)  | <b>(605)</b>   | (427)   |
|  | <b>(7,377)</b> | (6,502) |
| Analysed as:                             |                |         |
| Financial liabilities in scope of IAS 39 | <b>(6,051)</b> | (5,452) |
| Other liabilities                        | <b>(1,326)</b> | (1,050) |
|  | <b>(7,377)</b> | (6,502) |

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Notes to the financial statements

**41 Financial instruments and related disclosures** continued

## Debt interest rate repricing table

The following table sets out the exposure of the Group to interest rates on debt before and after the effect of interest rate swaps. The maturity analysis of fixed rate debt is stated by contractual maturity and of floating rate debt by interest rate repricing dates. For the purpose of this table, debt is defined as all classes of borrowings other than obligations under finance leases.

|   |          |          | 2009            |          |           | 2008     |
|---|----------|----------|-----------------|----------|-----------|----------|
|   | Debt     | Effect   | Total           | Debt     | Effect of | Total    |
|   | £m       | of       | £m              | £m       | interest  | £m       |
|   |          | interest |                 |          | rate      |          |
|   |          | rate     |                 |          | swaps     |          |
|   |          | swaps    |                 |          | £m        |          |
|   |          | £m       |                 |          |           |          |
| Floating and fixed rate debt less than one year | (1,431)  | (990)    | <b>(2,421)</b>  | (901)    | (1,146)   | (2,047)  |
| Between one and two years                       |          |          |                 | (703)    |           | (703)    |
| Between two and three years                     | (2,647)  |          | <b>(2,647)</b>  |          |           |          |
| Between three and four years                    | (1,548)  |          | <b>(1,548)</b>  | (2,872)  |           | (2,872)  |
| Between four and five years                     | (990)    | 990      |                 | (1,728)  |           | (1,728)  |
| Between five and ten years                      | (4,205)  |          | <b>(4,205)</b>  | (4,240)  | 1,146     | (3,094)  |
| Greater than ten years                          | (5,306)  |          | <b>(5,306)</b>  | (5,597)  |           | (5,597)  |
| Total   | (16,127) |          | <b>(16,127)</b> | (16,041) |           | (16,041) |
| Original issuance profile:                      |          |          |                 |          |           |          |
| Fixed rate interest                             | (14,696) | 990      | <b>(13,706)</b> | (14,922) | 1,146     | (13,776) |
| Floating rate interest                          | (1,430)  | (990)    | <b>(2,420)</b>  | (1,119)  | (1,146)   | (2,265)  |
| Total interest bearing                          | (16,126) |          | <b>(16,126)</b> | (16,041) |           | (16,041) |
| Non-interest bearing                            | (1)      |          | <b>(1)</b>      | (10)     |           | (10)     |
|   | (16,127) |          | <b>(16,127)</b> | (16,051) |           | (16,051) |

## Sensitivity analysis

The sensitivity analysis has been prepared on the assumption that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31st December.

Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. The following analyses are intended to illustrate the sensitivity of such financial instruments to changes in relevant foreign exchange and interest rates.

## Foreign exchange sensitivity

The table below shows the Group's sensitivity to foreign exchange rates on its US dollar, Euro and Yen financial instruments excluding obligations under finance leases and certain non-derivative financial instruments not in net debt and which do not present a material exposure. These three currencies are the major foreign currencies in which GSK's financial instruments are denominated. GSK has considered movements in these currencies over the last three years



and has concluded that a 20% movement in rates is a reasonable benchmark. In this table, financial instruments are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them. Intercompany loans which are fully hedged to maturity with a currency swap have been excluded from this analysis.

|                                   | <b>Increase/(decrease)<br/>in income<br/>£m</b> | <b>2009<br/>Reduction<br/>in equity<br/>£m</b> | <b>2008<br/>Increase/(decrease)<br/>in income<br/>£m</b> | <b>2008<br/>Reduction<br/>in equity<br/>£m</b> |
|-----------------------------------|---|--|--|--|
| 20% appreciation of the US dollar | <b>251</b>                                      | <b>755</b>                                     | 210  | 991  |
| 20% appreciation of the Euro      | <b>8</b>  | <b>1,779</b>                                   | (20)   | 1,760  |
| 20% appreciation of the Yen       |   | <b>45</b>                                      | 1  | 52   |

A 20% depreciation of the stated currencies would have an equal and opposite effect. The movements in the income statement relate primarily to hedging instruments for US dollar legal provisions, and to trade payables and trade receivables. Whilst the hedging instruments provide economic hedges, the related provisions are not financial instruments and therefore are not included in the table above. The combined sensitivity of these hedging instruments and the provisions would be insignificant if the provisions were included. The movements in equity relate to foreign exchange positions used to hedge Group assets denominated in US dollar, Euro and Yen. Therefore, a depreciation on the currency swap would give rise to a corresponding appreciation on the Group asset. Foreign exchange sensitivity on Group assets other than financial instruments is not included above.

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Notes to the financial statements

#### 41 Financial instruments and related disclosures continued

##### Interest rate sensitivity

The table below shows the Group's sensitivity to interest rates on its floating rate Sterling, US dollar and Euro financial instruments, being the currencies in which GSK has historically issued debt and held investments. GSK has considered movements in these interest rates over the last three years and has concluded that a 2% increase is a reasonable benchmark. Debt with a maturity of less than one year is floating rate for this calculation. A 2% movement in interest rates is not deemed to have a material effect on equity.

|   | <b>2009</b>                | 2008                |
|---|----------------------------|---------------------|
|   | <b>Increase/(decrease)</b> | Increase/(decrease) |
|   | <b>in income</b>           | in income           |
|   | <b>£m</b>                  | £m                  |
| 2% increase in Sterling interest rates  | <b>(2)</b>                 | 16                  |
| 2% increase in US dollar interest rates | <b>38</b>                  | 13                  |
| 2% increase in Euro interest rates      | <b>18</b>                  | 4                   |

These interest rates could not be decreased by 2% as they are currently less than 1.0%. The maximum increase/(decrease) in income would therefore be limited to £1 million, (£4 million) and (£2 million) for Sterling, US Dollar and Euro interest rates respectively (2008 (£16 million), (£1 million) and (£4 million)). Interest rate movements on obligations under finance leases, foreign currency derivatives, trade payables, trade receivables and other financial instruments not in net debt do not present a material exposure to the Group's balance sheet based on a 2% increase or decrease in these interest rates.

##### Contractual cash flows for non-derivative financial liabilities and derivative instruments

The following is an analysis of the anticipated contractual cash flows including interest payable for the Group's non-derivative financial liabilities on an undiscounted basis. For the purpose of this table, debt is defined as all classes of borrowings except for obligations under finance leases. Interest is calculated based on debt held at 31st December without taking account of future issuance. Floating rate interest is estimated using the prevailing interest rate at the balance sheet date. Cash flows in foreign currencies are translated using spot rates at 31st December.

|                              | Debt    | Interest on | Obligations | Finance | Trade and   | <b>Total</b>    |
|------------------------------|---------|-------------|-------------|---------|-------------|-----------------|
|                              | £m      | debt        | under       | charge  | other       | <b>£m</b>       |
| <b>At 31st December 2009</b> |         | £m          | finance     | on      | payables    |                 |
|                              |         |             | leases      | finance | not         |                 |
|                              |         |             | £m          | leases  | in net debt |                 |
|                              |         |             |             | £m      | £m          |                 |
| Due in less than one year    | (1,431) | (757)       | (40)        | (4)     | (5,828)     | <b>(8,060)</b>  |
| Between one and two years    |         | (753)       | (32)        | (6)     | (161)       | <b>(952)</b>    |
| Between two and three years  | (2,655) | (754)       | (24)        | (2)     | (28)        | <b>(3,463)</b>  |
| Between three and four years | (1,553) | (594)       | (14)        | (2)     | (14)        | <b>(2,177)</b>  |
| Between four and five years  | (932)   | (536)       | (5)         | (1)     | (5)         | <b>(1,479)</b>  |
| Between five and ten years   | (4,230) | (2,088)     | (15)        | (1)     | (15)        | <b>(6,349)</b>  |
| Greater than ten years       | (5,382) | (5,251)     |             |         |             | <b>(10,633)</b> |

|                              |            |                           |   |   |  |  |       |
|------------------------------|------------|---------------------------|---|---|--|--|-------|
| Gross contractual cash flows | (16,183)   | (10,733)                  | (130)   | (16)  | (6,051)  | (33,113)                                 |       |
|                              |            |                           |   |   | Finance charge on obligations under finance leases | Trade and other payables not in net debt | Total |
| <b>At 31st December 2008</b> | Debt<br>£m | Interest on<br>debt<br>£m | Obligations<br>under<br>finance<br>leases<br>£m | obligations<br>under<br>finance<br>leases<br>£m | £m   | £m                                       | £m    |
| Due in less than one year    | (907)      | (790)                     | (48)  | (5)   | (5,246)  | (6,996)                                  |       |
| Between one and two years    | (704)      | (767)                     | (35)  | (4)   | (68)   | (1,578)                                  |       |
| Between two and three years  |            | (757)                     | (27)  | (3)   | (25)   | (812)                                    |       |
| Between three and four years | (2,885)    | (757)                     | (14)  | (2)   | (32)   | (3,690)                                  |       |
| Between four and five years  | (1,736)    | (582)                     | (4)   | (2)   | (5)  | (2,329)                                  |       |
| Between five and ten years   | (4,156)    | (2,373)                   | (8)   | (2)   | (76)   | (6,615)                                  |       |
| Greater than ten years       | (5,678)    | (5,850)                   |   |   |  | (11,528)                                 |       |
| Gross contractual cash flows | (16,066)   | (11,876)                  | (136)   | (18)  | (5,452)  | (33,548)                                 |       |

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Notes to the financial statements

**41 Financial instruments and related disclosures** continued

The following table provides an analysis of the anticipated contractual cash flows for the Group's derivative instruments, excluding embedded derivatives and equity options which are not material, using undiscounted cash flows. Cash flows in foreign currencies are translated using spot rates at 31st December.

|                              | <b>Receivables</b> | <b>Payables</b> | Receivables | Payables |
|------------------------------|--------------------|-----------------|-------------|----------|
|                              | <b>£m</b>          | <b>£m</b>       | £m          | £m       |
| Less than one year           | <b>33,779</b>      | <b>(33,606)</b> | 36,105      | (37,738) |
| Between one and two years    | <b>124</b>         | <b>(136)</b>    | 184         | (204)    |
| Between two and three years  | <b>581</b>         | <b>(593)</b>    | 110         | (120)    |
| Between three and four years | <b>42</b>          | <b>(54)</b>     | 521         | (532)    |
| Between four and five years  |                    | <b>(6)</b>      | 35          | (46)     |
| Greater than five years      |                    |                 |             | (6)      |
| Gross contractual cash flows | <b>34,526</b>      | <b>(34,395)</b> | 36,955      | (38,646) |

**Derivative financial instruments and hedging programmes**

The following table sets out the fair values of derivatives held by GSK.

|   | <b>2009</b>   |                    | 2008   |             |
|---|---------------|--------------------|--------|-------------|
|   | <b>Assets</b> | <b>Liabilities</b> | Assets | Liabilities |
|   | <b>£m</b>     | <b>£m</b>          | £m     | £m          |
| Cash flow hedges                                |               |                    |        |             |
| Cross currency swaps                            |               |                    |        |             |
| (principal amount                               |               |                    |        |             |
| £nil (2008 - £481 million))                     |               |                    |        | (37)        |
| Fair value hedges                               |               |                    |        |             |
| Interest rate swaps                             |               |                    |        |             |
| (principal amount                               |               |                    |        |             |
| £932 million (2008 - £1,042 million))           | <b>68</b>     |                    | 107    |             |
| Net investment hedges                           |               |                    |        |             |
| Foreign exchange contracts                      |               |                    |        |             |
| (principal amount                               |               |                    |        |             |
| £(7,756) million (2008 - £(12,848) million))    | <b>36</b>     | <b>(55)</b>        | 4      | (601)       |
| Derivatives designated as accounting hedges     | <b>104</b>    | <b>(55)</b>        | 111    | (638)       |
| Foreign exchange contracts                      |               |                    |        |             |
| (principal amount                               |               |                    |        |             |
| £8,568 million (2008 - £12,093 million))        | <b>89</b>     | <b>(108)</b>       | 837    | (108)       |
| Embedded and other derivatives                  | <b>4</b>      | <b>(5)</b>         | 15     | (8)         |
| Derivatives not designated as accounting hedges | <b>93</b>     | <b>(113)</b>       | 852    | (116)       |

|                              |            |              |     |       |
|------------------------------|------------|--------------|-----|-------|
| Total derivative instruments | <b>197</b> | <b>(168)</b> | 963 | (754) |
| Analysed as:                 |            |              |     |       |
| Current                      | <b>129</b> | <b>(168)</b> | 856 | (752) |
| Non-current                  | <b>68</b>  |              | 107 | (2)   |
| Total                        | <b>197</b> | <b>(168)</b> | 963 | (754) |

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Notes to the financial statements

**41 Financial instruments and related disclosures** continued

Derivative financial instruments

The principal amount on foreign exchange contracts is calculated based on outstanding positions at the balance sheet date, calculated net by currency and buy/sell side position. The majority of contracts are for periods of 12 months or less.

At 31st December 2009, the Group held outstanding foreign exchange contracts consisting primarily of currency swaps with a total credit fair value of £19 million (2008 £729 million debit) which represent hedges of inter-company loans and deposits, but are not designated as accounting hedges. Changes in fair value are taken to profit and loss in the period to offset the exchange gains and losses on the related inter-company lending and borrowing.

Cash flow hedges

The Group had entered into two cross currency swaps and designated them as a cash flow hedge converting fixed Euro interest on Euro debt within the Group's Japanese subsidiary, payable annually, to fixed Yen payments. The bond and swaps matured on 3rd June 2009. The risk being hedged was the variability of cash flows arising from currency fluctuations. No ineffectiveness was recorded on the hedge. The amounts recognised in comprehensive income were reclassified to the income statement to offset the exchange gains or losses in the same period on the underlying bond as a result of revaluation at the relevant reporting date.

Fair value hedges

The Group has designated an interest rate swap as a fair value hedge. The risk being hedged is the variability of the fair value of the bond arising from interest rate fluctuations. Gains and losses on fair value hedges are disclosed in Note 12, Finance costs.

Net investment hedges

Foreign exchange contracts have been designated as net investment hedges in respect of the foreign currency translation risk principally arising on consolidation of the Group's net investment in its US dollar, Euro and Yen foreign operations. In addition, Euro loan capital issued during 2009 of 1.6 billion, and 4.25 billion from previous years, has been designated as a monetary net investment hedge in respect of the foreign currency translation risk principally arising on consolidation of the Group's net investment in its Euro operations. Net investment hedge ineffectiveness is disclosed in Note 11, Finance income.

**42 Employee share schemes**

The Group operates share option schemes, whereby options are granted to employees to acquire shares or ADS in GlaxoSmithKline plc at the grant price, savings-related share option schemes and share award schemes. In addition, GSK operates the Performance Share Plan, whereby awards are granted to employees to acquire shares or ADS in GlaxoSmithKline plc at no cost, subject to the achievement by the Group of specified performance targets and the Share Value Plan, whereby awards are granted to employees to acquire shares or ADS in GlaxoSmithKline plc at no cost after a three year vesting period. The granting of restricted share awards has replaced the granting of options to certain employees as the cost of the scheme more readily equates to the potential gain to be made by the employee. Grants under share option schemes are normally exercisable between three and ten years from the date of grant. Grants of restricted shares and share awards are normally exercisable at the end of the three year vesting/performance period. Grants under savings-related share option schemes are normally exercisable after three years saving. Options under the share option schemes are granted at the market price ruling at the date of grant. In accordance with UK practice, the majority of options under the savings-related share option schemes are granted at a price 20% below the market price ruling at the date of grant. Share options awarded to the Directors and, with effect from the 2004 grant, the CET are subject to performance criteria.

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**42 Employee share schemes** continued

## Option pricing

For the purposes of valuing options and awards to arrive at the share based payment charge, the Black-Scholes option pricing model has been used. The assumptions used in the model for 2007, 2008 and 2009 are as follows:

|  | 2009      |      | 2008    |      | 2007    |      |
|--|-----------|------|---------|------|---------|------|
| Risk-free interest rate                              | 1.4%      | 2.9% | 1.3%    | 4.8% | 4.7%    | 5.3% |
| Dividend yield                                       | 5.2%      |      | 4.8%    |      | 4.0%    |      |
| Volatility   | 23%       | 29%  | 19%     | 24%  | 17%     | 25%  |
| Expected lives of options granted under:             |           |      |         |      |         |      |
| Share option schemes                                 | 5 years   |      | 5 years |      | 5 years |      |
| Savings-related share option and share award schemes | 3-4 years |      | 3 years |      | 3 years |      |
| Weighted average share price for grants in the year: |           |      |         |      |         |      |
| Ordinary Shares                                      | £11.72    |      | £11.59  |      | £14.41  |      |
| ADS  | \$33.73   |      | \$45.02 |      | \$57.59 |      |

Volatility is determined based on the three and five year share price history where appropriate. The fair value of performance share plan grants take into account market conditions. Expected lives of options were determined based on weighted average historic exercises of options.

| Options outstanding | Share option schemes shares |                         |                     | Share option schemes ADS |                         |                     | Savings-related share option schemes |                         |                     |
|---------------------|-----------------------------|-------------------------|---------------------|--------------------------|-------------------------|---------------------|--------------------------------------|-------------------------|---------------------|
|                     | Number 000                  | Weighted exercise price | Weighted fair value | Number 000               | Weighted exercise price | Weighted fair value | Number 000                           | Weighted exercise price | Weighted fair value |
| At 1st January 2007 | 156,703                     | £15.22                  |                     | 88,431                   | \$48.02                 |                     | 8,173                                | £11.11                  |                     |
| Options granted     | 10,587                      | £14.82                  | £3.07               | 8,624                    | \$57.58                 | \$10.93             | 3,212                                | £10.50                  | £2.87               |
| Options exercised   | (9,863)                     | £12.10                  |                     | (18,149)                 | \$44.27                 |                     | (1,140)                              | £9.74                   |                     |
| Options lapsed      | (8,386)                     | £15.64                  |                     | (1,632)                  | \$50.90                 |                     | (1,707)                              | £11.33                  |                     |
| At 31st             |                             |                         |                     |                          |                         |                     |                                      |                         |                     |
| December 2007       | 149,041                     | £15.38                  |                     | 77,274                   | \$49.91                 |                     | 8,538                                | £11.02                  |                     |
| Options granted     | 11,314                      | £11.50                  | £1.32               | 7,690                    | \$44.89                 | \$3.84              | 5,570                                | £9.51                   | £2.56               |
| Options exercised   | (2,198)                     | £11.84                  |                     | (1,989)                  | \$42.18                 |                     | (453)                                | £10.26                  |                     |
| Options lapsed      | (21,602)                    | £16.52                  |                     | (7,497)                  | \$53.13                 |                     | (2,401)                              | £10.67                  |                     |
| At 31st             |                             |                         |                     |                          |                         |                     |                                      |                         |                     |
| December 2008       | 136,555                     | £14.93                  |                     | 75,478                   | \$49.29                 |                     | 11,254                               | £10.38                  |                     |
| Options granted     | 11,393                      | £11.76                  | £1.16               | 7,741                    | \$33.68                 | \$3.41              | 1,648                                | £9.72                   | £2.22               |
| Options exercised   | (2,660)                     | £11.80                  |                     | (353)                    | \$37.03                 |                     | (1,460)                              | £11.34                  |                     |
| Options lapsed      | (21,269)                    | £17.18                  |                     | (9,447)                  | \$55.64                 |                     | (3,377)                              | £11.09                  |                     |

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|   |         |            |         |            |       |           |
|---|---------|------------|---------|------------|-------|-----------|
| At 31st<br>December 2009                          | 124,019 | £14.32     | 73,419  | \$46.88    | 8,065 | £9.77     |
| Range of exercise<br>prices                       | £10.76  | £19.40     | \$33.42 | \$58.88    | £9.51 | £11.45    |
| Weighted average<br>market<br>price on exercise   |         | £12.33     |         | \$40.48    |       | £12.04    |
| Weighted average<br>remaining<br>contractual life |         | 4.12 years |         | 4.77 years |       | 2.3 years |

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Notes to the financial statements

#### 42 Employee share schemes continued

In order to encourage employees to convert options, excluding savings-related share options, held over Glaxo Wellcome or SmithKline Beecham shares or ADS, into those over GlaxoSmithKline shares or ADS, a programme was established to give an additional cash benefit of 10% of the exercise price of the original option provided that the employee did not voluntarily leave the Group for two years from the date of the merger and did not exercise the option before the earlier of six months from the expiry date of the original option and two years from the date of the merger. The cash benefit will also be paid if the options expire unexercised if the market price is below the exercise price on the date of expiry.

| Options outstanding<br>at 31st December 2009 | Share option<br>schemes shares |                               |                            | Share option<br>schemes ADS |                               |                            | Savings-related<br>share option schemes |                               |                            |
|--|--------------------------------|-------------------------------|----------------------------|-----------------------------|-------------------------------|----------------------------|---|-------------------------------|----------------------------|
|  | Number                         | Weighted<br>exercise<br>price | Latest<br>exercise<br>date | Number                      | Weighted<br>exercise<br>price | Latest<br>exercise<br>date | Number                                  | Weighted<br>Exercise<br>price | Latest<br>exercise<br>date |
| Year of grant                                | 000                            |                               |                            | 000                         |                               |                            | 000                                     |                               |                            |
| 2000   | 12,367                         | £14.89                        | 10.09.10                   | 279                         | \$58.88                       | 09.08.10                   |   |                               |                            |
| 2001   | 32,944                         | £18.13                        | 25.11.11                   | 20,828                      | \$51.85                       | 28.11.11                   |   |                               |                            |
| 2002   | 13,469                         | £11.97                        | 03.12.12                   | 5,605                       | \$37.66                       | 03.12.12                   |   |                               |                            |
| 2003   | 18,595                         | £12.67                        | 13.12.13                   | 10,333                      | \$43.54                       | 16.12.13                   |   |                               |                            |
| 2004   | 6,080                          | £11.23                        | 02.12.14                   | 6,128                       | \$43.16                       | 02.12.14                   |   |                               |                            |
| 2005   | 171                            | £13.05                        | 30.10.15                   | 412                         | \$47.32                       | 30.10.15                   |   |                               |                            |
| 2006   | 8,498                          | £14.69                        | 25.11.16                   | 6,848                       | \$51.28                       | 28.07.16                   | 254                                     | £11.40                        | 25.04.10                   |
| 2007   | 9,850                          | £14.81                        | 25.07.17                   | 8,069                       | \$57.59                       | 25.07.17                   | 1,289                                   | £10.50                        | 24.04.11                   |
| 2008   | 10,828                         | £11.50                        | 23.07.18                   | 7,336                       | \$44.91                       | 05.11.18                   | 4,881                                   | £9.51                         | 22.04.12                   |
| 2009   | 11,217                         | £11.76                        | 19.07.19                   | 7,581                       | \$33.68                       | 22.07.19                   | 1,641                                   | £9.72                         | 21.04.13                   |
| Total  | 124,019                        | £14.32                        |                            | 73,419                      | \$46.88                       |                            | 8,065                                   | £9.77                         |                            |

Options normally become exercisable from three years from the date of grant but may, under certain circumstances, vest earlier as set out within the various scheme rules.

There has been no change in the effective exercise price of any outstanding options during the year.

| Options exercisable      | Share option<br>schemes shares |                               | Share option<br>schemes ADS |                               | Savings-related<br>share option<br>schemes |                               |
|--------------------------|--------------------------------|-------------------------------|-----------------------------|-------------------------------|--|-------------------------------|
|                          | Number                         | Weighted<br>exercise<br>price | Number                      | Weighted<br>exercise<br>price | Number                                     | Weighted<br>exercise<br>price |
| At 31st<br>December 2007 | 129,209                        | £15.47                        | 60,927                      | \$48.70                       | 307  | £9.52                         |
| At 31st<br>December 2008 | 109,207                        | £15.29                        | 55,384                      | \$48.57                       | 3,248                                      | £11.45                        |
|                          | 94,967                         | £14.86                        | 53,493                      | \$47.63                       | 254  | £11.40                        |

At 31st  
December 2009

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Notes to the financial statements

**42 Employee share schemes** continued

## GlaxoSmithKline share award schemes

## Performance Share Plan

The Group operates a Performance Share Plan whereby awards are granted to Directors and senior executives at no cost. The percentage of each award that vests is based upon the performance of the Group over a three year measurement period. Awards granted to Directors and members of the CET prior to 2009 are subject to a single performance condition which compares GSK's TSR over the period with the TSR of companies in the comparator group over the same period. For awards granted from 2009 onwards to Directors and members of the CET, 40% of the award will be based on the achievement of adjusted free cash flow targets over a three year measurement period. The remaining 60% of the award will be based on relative TSR performance against a comparator group as described on page 78. Half of the TSR element of each award will be measured over three years and half over four years. For those awards made to all other eligible employees prior to 2009 the performance conditions consist of two parts, each of which applies to 50% of the award. The first part of the performance condition compares GSK's EPS growth to the increase in the UK Retail Prices Index over the three year measurement period. The second part of the performance condition compares GSK's TSR over the period with the TSR of companies in the comparator group over the same period. For awards granted from 2009 onwards, the first part of the performance condition continues to be based on EPS. The second part of the performance condition is based on strategic or operational business measures, over a three year measurement period, specific to the employee's business area.

|  | Shares<br>Number<br>(000) | Weighted<br>fair value<br>£ | ADS<br>Number<br>(000) | Weighted<br>fair value<br>\$ |
|--|---------------------------|-----------------------------|------------------------|------------------------------|
| <b>Number of shares and ADS issuable</b> |                           |                             |                        |                              |
| At 1st January 2007                      | 4,756                     |                             | 4,034                  |                              |
| Awards granted                           | 2,071                     | £10.26                      | 1,501                  | \$34.87                      |
| Awards exercised                         | (147)                     |                             | (77)                   |                              |
| Awards cancelled                         | (949)                     |                             | (1,131)                |                              |
| At 31st December 2007                    | 5,731                     |                             | 4,327                  |                              |
| Awards granted                           | 2,834                     | £7.77                       | 1,467                  | \$27.99                      |
| Awards exercised                         | (1,519)                   |                             | (1,516)                |                              |
| Awards cancelled                         | (511)                     |                             | (420)                  |                              |
| At 31st December 2008                    | 6,535                     |                             | 3,858                  |                              |
| Awards granted                           | 3,365                     | £8.80                       | 1,392                  | \$29.45                      |
| Awards exercised                         | (1,270)                   |                             | (21)                   |                              |
| Awards cancelled                         | (1,024)                   |                             | (1,497)                |                              |
| At 31st December 2009                    | 7,606                     |                             | 3,732                  |                              |

## Share Value Plan

The Group operates a Share Value Plan whereby awards are granted, in the form of shares, to certain employees at no cost. The awards vest after three years. There are no performance criteria attached.

|  | Shares<br>Number<br>(000) | Weighted<br>fair value<br>£ | ADS<br>Number<br>(000) | Weighted<br>fair value<br>\$ |
|--|---------------------------|-----------------------------|------------------------|------------------------------|
|--|---------------------------|-----------------------------|------------------------|------------------------------|

|                       |         |        |         |         |
|-----------------------|---------|--------|---------|---------|
| At 1st January 2007   | 8,794   |        | 7,629   |         |
| Awards granted        | 5,155   | £13.22 | 4,231   | \$52.08 |
| Awards exercised      | (3,643) |        | (3,038) |         |
| Awards cancelled      | (672)   |        | (539)   |         |
| At 31st December 2007 | 9,634   |        | 8,283   |         |
| Awards granted        | 5,572   | £9.85  | 4,640   | \$36.46 |
| Awards exercised      | (926)   |        | (931)   |         |
| Awards cancelled      | (592)   |        | (630)   |         |
| At 31st December 2008 | 13,688  |        | 11,362  |         |
| Awards granted        | 5,572   | £9.86  | 4,291   | \$30.53 |
| Awards exercised      | (4,345) |        | (3,783) |         |
| Awards cancelled      | (680)   |        | (561)   |         |
| At 31st December 2009 | 14,235  |        | 11,309  |         |

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Notes to the financial statements

**42 Employee share schemes** continued

**Deferred Investment Award Plan**

The Group operates a Deferred Investment Award Plan whereby awards are granted, in the form of notional shares, to certain senior executives at no cost. Awards typically vest over a three-year period commencing on the fourth anniversary from date of grant with 50% of the award initially vesting and then 25% in each of the subsequent two years. There are no performance criteria attached.

| <b>Number of shares and ADS issuable</b> | <b>Shares<br/>Number<br/>(000)</b> | <b>Weighted<br/>fair value</b> | <b>ADS<br/>Number<br/>(000)</b> | <b>Weighted<br/>fair value</b> |
|--|------------------------------------|--------------------------------|---------------------------------|--------------------------------|
| At 1st January 2007                      | 133                                |                                | 65                              |                                |
| Awards granted                           | 95                                 | £13.20                         | 40                              | \$53.40                        |
| Awards exercised                         |                                    |                                | (9)                             |                                |
| Awards cancelled                         | (4)                                |                                |                                 |                                |
| At 31st December 2007                    | 224                                |                                | 96                              |                                |
| Awards granted                           | 334                                | £11.70                         | 70                              | \$43.80                        |
| Awards exercised                         | (20)                               |                                | (20)                            |                                |
| Awards cancelled                         |                                    |                                | (27)                            |                                |
| At 31st December 2008                    | 538                                |                                | 119                             |                                |
| Awards granted                           | 46                                 | £12.04                         | 132                             | \$31.94                        |
| Awards exercised                         | (15)                               |                                | (32)                            |                                |
| Awards cancelled                         | (20)                               |                                | (10)                            |                                |
| At 31st December 2009                    | 549                                |                                | 209                             |                                |

**Employee Share Ownership Plan Trusts**

The Group sponsors Employee Share Ownership Plan (ESOP) Trusts to acquire and hold shares in GlaxoSmithKline plc to satisfy awards made under employee incentive plans and options granted under employee share option schemes. The trustees of the ESOP Trusts purchase shares on the open market with finance provided by the Group by way of loans or contributions. Costs of running the ESOP Trusts are charged to the income statement. Shares held by the ESOP Trusts are deducted from other reserves and held at the value of proceeds receivable from employees on exercise. If there is deemed to be a permanent diminution in value this is reflected by a transfer to retained earnings. The Trusts also acquire and hold shares to meet notional dividends re-invested on deferred awards under the SmithKline Beecham Mid-Term Incentive Plan. The trustees have waived their rights to dividends on the shares held by the ESOP Trusts.

| <b>Shares held for share award schemes</b> | <b>2009</b>   | <b>2008</b> |
|--|---------------|-------------|
| Number of shares ( 000)                    | <b>57,197</b> | 53,147      |
|  | <b>£m</b>     | £m          |

|                |            |     |
|----------------|------------|-----|
| Nominal value  | <b>14</b>  | 13  |
| Carrying value | <b>217</b> | 234 |
| Market value   | <b>755</b> | 683 |

|   |               |        |
|---|---------------|--------|
| <b>Shares held for share option schemes</b> | <b>2009</b>   | 2008   |
| Number of shares ( 000)                     | <b>60,538</b> | 75,822 |

|                |            |       |
|----------------|------------|-------|
|                | <b>£m</b>  | £m    |
| Nominal value  | <b>15</b>  | 19    |
| Carrying value | <b>921</b> | 1,211 |
| Market value   | <b>799</b> | 974   |

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**43 Principal Group companies**

The following represent the principal subsidiary and associated undertakings of the GlaxoSmithKline Group at 31st December 2009. Details are given of the principal country of operation, the location of the headquarters, the business sector and the business activities. The equity share capital of these undertakings is wholly owned by the Group except where its percentage interest is shown otherwise. All companies are incorporated in their principal country of operation except where stated.

| Europe         | Location                                 | Subsidiary                                     | Sector | Activity    | %  |
|----------------|--|--|--------|-------------|----|
| England        | Brentford                                | +GlaxoSmithKline Holdings Limited              | Ph,CH  | h           |    |
|                | Brentford                                | +GlaxoSmithKline Holdings (One) Limited        | Ph,CH  | h           |    |
|                | Brentford                                | +GlaxoSmithKline Services Unlimited            | Ph,CH  | s           |    |
|                | Brentford                                | +GlaxoSmithKline Mercury Limited               | Ph     | h           |    |
|                | Brentford                                | GlaxoSmithKline Finance plc                    | Ph,CH  | f           |    |
|                | Brentford                                | GlaxoSmithKline Capital plc                    | Ph,CH  | f           |    |
|                | Brentford                                | SmithKline Beecham Limited                     | Ph,CH  | d e h m p r |    |
|                | Brentford                                | Wellcome Limited                               | Ph,CH  | h           |    |
|                | Brentford                                | Glaxo Group Limited                            | Ph     | h           |    |
|                | Brentford                                | Glaxo Operations UK Limited                    | Ph     | p           |    |
|                | Brentford                                | GlaxoSmithKline Export Limited                 | Ph     | e           |    |
|                | Brentford                                | GlaxoSmithKline Research & Development Limited | Ph     | d r         |    |
|                | Brentford                                | GlaxoSmithKline UK Limited                     | Ph     | m p         |    |
|                | Brentford                                | Setfirst Limited                               | Ph,CH  | h           |    |
|                | Brentford                                | The Wellcome Foundation Limited                | Ph     | p           |    |
|                | Cambridge                                | Domantis Limited                               | Ph     | d r         |    |
|                | Brentford                                | SmithKline Beecham Overseas Limited            | Ph     | h           |    |
|                | Brentford                                | SmithKline Beecham Holdings (UK) Limited       | Ph     | h           |    |
|                | Brentford                                | ViiV Healthcare Limited                        | Ph     | h           | 85 |
|                | Brentford                                | ViiV Healthcare UK Limited                     | Ph     | m s         | 85 |
| Brentford      | ViiV Healthcare Trading Services Limited | Ph   | e f    | 85          |    |
| Austria        | Vienna                                   | GlaxoSmithKline Pharma GmbH                    | Ph     | m           |    |
| Belgium        | Genval                                   | GlaxoSmithKline S.A.                           | Ph     | m           |    |
|                | Rixensart                                | GlaxoSmithKline Biologicals S.A.               | Ph     | d e m p r   |    |
| Czech Republic | Prague                                   | GlaxoSmithKline s.r.o.                         | Ph,CH  | m           |    |
| Denmark        | Orestadt                                 | GlaxoSmithKline Consumer Healthcare A/S        | CH     | m           |    |
|                | Brøndby                                  | GlaxoSmithKline Pharma A/S                     | Ph     | m           |    |

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|         |                    |  |       |             |
|---------|--------------------|--|-------|-------------|
| Finland | Espoo              | GlaxoSmithKline Oy                                       | Ph    | m           |
| France  | Marly le Roi       | Groupe GlaxoSmithKline S.A.S.                            | Ph    | h           |
|         | Marly le Roi       | Laboratoire GlaxoSmithKline S.A.S.                       | Ph    | m r d       |
|         | Marly le Roi       | Glaxo Wellcome Production S.A.S.                         | Ph    | p           |
|         | Marly le Roi       | GlaxoSmithKline Sante Grand Public S.A.S.                | CH    | m           |
|         | St. Amand Les Eaux | GlaxoSmithKline Biologicals S.A.S                        | Ph    | p           |
| Germany | Buehl              | GlaxoSmithKline Consumer Healthcare GmbH & Co. KG        | CH    | d h m p r s |
|         | Munich             | GlaxoSmithKline GmbH & Co. KG                            | Ph    | d h m p r s |
| Greece  | Athens             | GlaxoSmithKline A.E.B.E                                  | Ph,CH | m           |
| Hungary | Budapest           | GlaxoSmithKline Medicine and Healthcare Products Limited | Ph,CH | e m         |
| Italy   | Verona             | GlaxoSmithKline S.p.A.                                   | Ph    | d h m r     |
|         | Milan              | GlaxoSmithKline Consumer Healthcare S.p.A.               | CH    | m           |
|         | Verona             | GlaxoSmithKline Manufacturing S.p.A.                     | Ph    | p           |

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## Notes to the financial statements

**43 Principal Group companies** continued

| <b>Europe</b>       | Location        | Subsidiary  | Sector | Activity | %  |
|---------------------|-----------------|---|--------|----------|----|
| Luxembourg          | Mamer           | GlaxoSmithKline International (Luxembourg) S.A.R.L        | Ph,CH  | f h      |    |
| Netherlands         | Zeist           | GlaxoSmithKline B.V.                                      | Ph     | m        |    |
|                     | Utrecht         | GlaxoSmithKline Consumer Healthcare B.V.                  | CH     | m        |    |
| Norway              | Oslo            | GlaxoSmithKline AS  | Ph     | m        |    |
| Poland              | Poznan          | GlaxoSmithKline Pharmaceuticals S.A.                      | Ph     | p        | 97 |
|                     | Poznan          | GSK Services Sp.z o.o.                                    | Ph     | m        |    |
|                     | Warsaw          | GlaxoSmithKline Consumer Healthcare Sp.z o.o.             | CH     | m e      |    |
| Portugal            | Alges           | GlaxoSmithKline-Produtos Farmaceuticos, Limitada          | Ph     | m        |    |
| Republic of Ireland | Carrigaline     | SmithKline Beecham (Cork) Limited (i)                     | Ph     | d p r    |    |
|                     | Cork            | GlaxoSmithKline Trading Services Limited (i)              | Ph     | e        |    |
|                     | Dublin          | GlaxoSmithKline Consumer Healthcare (Ireland) Limited (i) | CH     | m        |    |
|                     | Dublin          | GlaxoSmithKline (Ireland) Limited                         | Ph     | m        |    |
|                     | Dungarvan       | Stafford Miller (Ireland) Limited (i)                     | CH     | p        |    |
|                     | Dungarvan       | GlaxoSmithKline Dungarvan Limited (i)                     | CH     | p        |    |
| Romania             | Brasovi         | Europharm Holding S.A.                                    | Ph,CH  | s        |    |
|                     | Bucharest       | GlaxoSmithKline (GSK) S.R.L.                              | Ph     | m r s    |    |
| Russian Federation  | Moscow          | GlaxoSmithKline Trading ZAO                               | Ph     | m        |    |
|                     | Moscow          | GlaxoSmithKline Healthcare ZAO                            | CH     | m        |    |
| Spain               | Madrid          | GlaxoSmithKline S.A.                                      | Ph     | m        |    |
|                     | Madrid          | GlaxoSmithKline Consumer Healthcare S.A.                  | CH     | m        |    |
|                     | Aranda de Duero | Glaxo Wellcome, S.A.                                      | Ph     | p        |    |
| Sweden              | Solna           | GlaxoSmithKline AB  | Ph     | m        |    |
| Switzerland         | Muenchenbuchsee | GlaxoSmithKline AG  | Ph     | m        |    |

**USA**

|     |                        |   |       |               |    |
|-----|------------------------|---|-------|---------------|----|
| USA | Coral Gables           | Stiefel Laboratories, Inc.                | Ph    | h m p         | 88 |
|     | Hamilton               | Corixa Corporation                        | Ph    | m p           |    |
|     | Philadelphia           | GlaxoSmithKline LLC                       | Ph,CH | d e h m p r s |    |
|     | Pittsburgh             | GlaxoSmithKline Consumer Healthcare, L.P. | CH    | m p           |    |
|     | Pittsburgh             | Block Drug Company, Inc.                  | CH    | h m           |    |
|     | Wilmington             | GlaxoSmithKline Holdings (Americas) Inc.  | Ph,CH | h             |    |
|     | Wilmington             | GlaxoSmithKline Capital Inc.              | Ph    | f             |    |
|     | Cambridge              | Sirtris Pharmaceuticals Inc.              | Ph    | r             |    |
|     | Research Triangle Park | ViiV Healthcare Company                   | Ph    | m             |    |
|     |                        |   |       |               |    |

**Americas**

|             |                    |  |       |         |
|-------------|--------------------|--|-------|---------|
| Bermuda     | Hamilton           | GlaxoSmithKline Insurance Ltd            | Ph,CH | i       |
| Canada      | Mississauga        | GlaxoSmithKline Inc.                     | Ph    | m p r   |
|             | Oakville           | GlaxoSmithKline Consumer Healthcare Inc. | CH    | m       |
|             | Laval              | ID Biomedical Corporation                | Ph    | h       |
|             | Quebec City        | ID Biomedical Corporation of Quebec      | Ph    | d m p r |
| Mexico      | Delegacion Tlalpan | GlaxoSmithKline Mexico S.A. de C.V.      | Ph,CH | e m p s |
| Puerto Rico | Guaynabo           | GlaxoSmithKline Puerto Rico Inc.         | Ph    | m       |

**Asia Pacific**

|           |           |   |       |           |
|-----------|-----------|---|-------|-----------|
| Australia | Boronia   | GlaxoSmithKline Australia Pty Ltd                           | Ph,CH | d e m p r |
| China     | Beijing   | GlaxoSmithKline (China) Investment Co. Ltd                  | Ph,CH | d h m     |
|           | Hong Kong | GlaxoSmithKline Limited                                     | Ph,CH | m         |
|           | Shanghai  | GlaxoSmithKline Biologicals (Shanghai) Ltd                  | Ph    | m p       |
|           | Tianjin   | Sino-American Tianjin Smith Kline & French Laboratories Ltd | CH    | d m p r   |
|           |           |   |       | 55        |

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**43 Principal Group companies continued**

| <b>Asia Pacific</b>  | Location          | Subsidiary  | Sector    | Activity  | %  |
|----------------------|-------------------|---|-----------|-----------|----|
| India                | Mumbai            | GlaxoSmithKline Pharmaceuticals Limited             | Ph        | m p       | 51 |
|                      | Nabha             | GlaxoSmithKline Consumer Healthcare Limited<br>(ii) | CH        | m p       | 43 |
| Malaysia             | Petaling<br>Jaya  | GlaxoSmithKline Pharmaceutical Sdn Bhd              | Ph        | m         |    |
|                      | Selangor          | GlaxoSmithKline Consumer Healthcare Sdn<br>Bhd      | CH        | m         |    |
| New Zealand          | Auckland          | GlaxoSmithKline NZ Limited                          | Ph,CH     | m         |    |
| Pakistan             | Karachi           | GlaxoSmithKline Pakistan Limited                    | Ph,CH     | m p e     | 79 |
| Philippines          | Makati            | GlaxoSmithKline Philippines Inc                     | Ph,CH     | m         |    |
| Singapore            | Singapore         | Glaxochem Pte Ltd                                   | Ph        | h         |    |
|                      | Singapore         | Glaxo Wellcome Manufacturing Pte Ltd                | Ph        | d h p r   |    |
|                      | Singapore         | GlaxoSmithKline Pte Ltd                             | Ph,CH     | m         |    |
| South Korea          | Seoul             | GlaxoSmithKline Korea Limited                       | Ph<br>,CH | m         |    |
| Thailand             | Bangkok           | GlaxoSmithKline (Thailand) Limited                  | Ph,CH     | m         |    |
| <b>Japan</b>         |                   |   |           |           |    |
| Japan                | Tokyo             | GlaxoSmithKline K.K.                                | Ph,CH     | d m p     |    |
| <b>Latin America</b> |                   |   |           |           |    |
| Argentina            | Buenos<br>Aires   | GlaxoSmithKline Argentina S.A.                      | Ph,CH     | d e m p r |    |
| Brazil               | Rio de<br>Janeiro | GlaxoSmithKline Brasil Limitada                     | Ph,CH     | e m p     |    |
| Colombia             | Bogota            | GlaxoSmithKline Colombia S.A.                       | Ph,CH     | m         |    |
| Venezuela            | Caracas           | GlaxoSmithKline Venezuela, C.A.                     | Ph,CH     | m         |    |

**Middle East & Africa**

|              |                 |   |                  |                 |          |
|--------------|-----------------|---|------------------|-----------------|----------|
| Egypt        | Cairo           | GlaxoSmithKline S.A.E                           | Ph               | m p             | 91       |
| South Africa | Bryanston       | GlaxoSmithKline South Africa (Pty) Limited      | Ph,CH            | m p             |          |
| Turkey       | Istanbul        | GlaxoSmithKline Ilaclari Sanayi ve Ticaret A.S. | Ph,CH            | m               |          |
| <b>USA</b>   | <b>Location</b> | <b>Associate</b>                                | <b>Sector</b>    | <b>Activity</b> | <b>%</b> |
| USA          | Madison         | Quest Diagnostics Incorporated (iii)            | Clinical testing |                 | 17       |

**Middle East & Africa**

|              |              |  |       |       |    |
|--------------|--------------|--|-------|-------|----|
| South Africa | Johannesburg | Aspen Pharmacare Holdings Limited<br>(iii) | Ph,CH | m p r | 19 |
|--------------|--------------|--|-------|-------|----|

- (i) Exempt from the provisions of Section 7 of the Companies (Amendment) Act 1986 (Ireland).
- (ii) Consolidated as a subsidiary undertaking in accordance with Section 1162 (4)(a) of the Companies Act 2006 on the grounds of dominant influence.
- (iii) Equity accounted on the grounds of significant influence.

+ Directly held wholly owned subsidiary of GlaxoSmithKline plc.

**Key**

Business sector: Ph Pharmaceuticals, CH Consumer Healthcare  
 Business activity: d development, e exporting, f finance, h holding company, i insurance, m marketing, p production, r research, s service

Full details of all Group subsidiary and associated undertakings will be attached to the company's Annual Return to be filed with the Registrar of Companies. Each of GlaxoSmithKline Capital Inc. and GlaxoSmithKline Capital plc is a wholly-owned finance subsidiary of the company, and the company has fully and unconditionally guaranteed the securities issued by each of GlaxoSmithKline Capital Inc. and GlaxoSmithKline Capital plc.

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Notes to the financial statements

#### **44 Legal proceedings**

The Group is involved in significant legal and administrative proceedings, principally product liability, intellectual property, tax, anti-trust and governmental investigations, as well as related private litigation. The Group makes provision for these proceedings on a regular basis as summarised in Note 2, Accounting principles and policies and Note 29, Other provisions. In respect of a number of legal proceedings in which the Group is involved, it is not possible to make a reasonable estimate of the expected financial effect, if any that will result from ultimate resolution of the proceedings. In these cases, the Group may disclose information with respect to the nature and facts of the cases but no provision is typically made. Intellectual property claims include challenges to the validity and enforceability of the Group's patents on various products or processes as well as assertions of non-infringement of those patents. A loss in any of these cases could result in loss of patent protection for the product at issue. The consequences of any such loss could be a significant decrease in sales of that product and could materially affect future results of operations for the Group.

Legal expenses incurred and provisions related to legal claims are charged to selling, general and administration costs. Provisions are made, after taking appropriate legal and other specialist advice, when a reasonable estimate can be made of the likely outcome of the dispute. The Group has established an actuarially determined provision for product liability claims incurred, but not yet reported as described in Note 29, Other provisions. At 31st December 2009, the Group's aggregate provision for legal and other disputes (not including tax matters described in Note 14, Taxation) was £2.0 billion. The ultimate liability for legal claims may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations. The Group's position could change over time, and there can, therefore, be no assurance that any losses that result from the outcome of any legal proceedings will not exceed the amount of the provisions reported in the Group's financial accounts by a material amount. If this were to happen, it could have a material adverse impact on the results of operation of the Group in the reporting period in which the judgements are incurred or the settlements entered into. The most significant of those matters are described below.

#### **Intellectual property**

##### *Advair/Seretide*

In October 2007, the Group filed a complaint with the Patent Dispute Chamber of the Regional Court in Düsseldorf, Germany against Neolab (UK) for infringement of its German patent claiming compositions containing the combination of salmeterol and fluticasone propionate used in *Seretide* (known as *Viani* in Germany). The complaint was based on Neolab's stated intention by letter to market a salmeterol/fluticasone combination product in Germany in 2008 (which event did not occur). A trial took place in the Patent Dispute Chamber of the Regional Court in Düsseldorf in January 2009 which resulted in a permanent injunction against Neolab. Neolab has appealed and the appeal hearing has been scheduled for 8th July 2010.

In January 2009, Neolab filed an action to invalidate the combination patent in the Federal Court of Germany. Revocation actions against the combination patent in Germany have also been filed by Mylan Dura GmbH (March 2008), Hexal AG (December 2008) and Ivax (October 2009). The four revocation actions were heard together on 23rd February 2010. The court advised the parties that a decision will be issued within a few weeks following the hearing. The basic patent covering the combination product in *Seretide* expires in September 2010 but is subject to a Supplementary Protection Certificate, which extends protection until September 2013.

In July 2009, Sandoz and Hexal initiated a revocation action in the District Court of The Hague against the Group's Dutch combination patent relating to *Seretide*. The hearing, originally scheduled for 19th February 2010, has been rescheduled for 26th November 2010. The basic patent covering the combination product in *Seretide* expires in September 2010 but is subject to a Supplementary Protection Certificate, which extends protection until September 2013.

A revocation action against the basic patent covering the *Seretide* combination in Ireland was filed in the High Court in Dublin on behalf of Ivax in July 2008. The trial took place from 24th March to 12th May 2009. The High Court

handed down a decision on 26th June 2009 finding the patent invalid for obviousness. The decision related solely to the Irish combination patent for *Seretide* and is not binding in any other decision. The Group filed an appeal of this decision in October 2009. No trial date has been set for the appeal.

An action for revocation of the French *Seretide* combination patent was filed by Sandoz with the Tribunal de Grande Instance of Paris on 5th October 2009. No trial date has yet been set. The basic patent covering the combination product in *Seretide* expires in September 2010 but is subject to a Supplementary Protection Certificate, which extends protection until September 2013.

#### Argatroban

In December 2007, Encysive Pharmaceuticals Inc., Mitsubishi Kasei Corporation and the Group filed an action in the US District Court for the Southern District of New York against Barr Laboratories, Inc. for infringement of Mitsubishi's pharmaceutical composition patent covering Argatroban. Pursuant to a license from Mitsubishi, Encysive has developed Argatroban for the treatment of heparin-induced thrombocytopenia and holds the New Drug Application approved by the US FDA. Encysive has licensed the US marketing rights to Argatroban to the Group. The Mitsubishi patent expires in June 2014. Barr had filed an Abbreviated New Drug Application (ANDA) with the FDA with a certification of invalidity, unenforceability and non-infringement of the Mitsubishi patent. A two-week trial in the case was held in January 2010, and the parties are awaiting a decision. FDA approval of that ANDA is stayed until the earlier of May 2010 or resolution of the patent infringement action.

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Notes to the financial statements

**44 Legal proceedings** continued*Arzerra*

In October 2009, the Group filed an action in the US District Court for the Southern District of Florida for a declaration that U.S. Patent 6,331,415 (the so-called Cabilly II patent), which is owned jointly by Genentech, Inc. and City of Hope, is invalid, unenforceable, or not infringed by GSK's product *Arzerra* (ofatumumab). *Arzerra* was approved by the FDA for chronic lymphocytic leukaemia (an orphan indication) in October 2009. In February 2010, the Group voluntarily dismissed the case and filed a new case in the US District Court for the Northern District of California, where the suit is currently pending.

*Avodart*

In January 2008, the Group received notice that Barr Laboratories filed an ANDA with the FDA with an allegation of invalidity of the three patents listed in the Orange Book which cover the active ingredient in *Avodart*, and its use to treat benign prostatic hyperplasia (BPH). In February 2008, the Group filed an action in the US District Court for the District of Delaware against Barr for infringement of these patents. The basic compound patent expires in 2015. The other two patents expire in 2013. FDA approval of Barr's ANDA is stayed until the earlier of July 2010, or resolution of the patent infringement action. The parties have agreed to settle this matter. The terms of the settlement are subject to review by the Federal Trade Commission and must receive final court approval.

*Benlysta*

In February 2010 the UK Court of Appeal upheld an earlier High Court decision revoking the HGS UK patent EP0939804. The claim for revocation was brought by Eli Lilly in 2006 on the patent which claims the cytokine BLyS and any antibody that binds to BLyS, such as *Benlysta* (belimumab). GSK has a licence to this patent but was not a party to these litigation proceedings. The equivalent European patent was upheld in October 2009 on a final appeal from the European Patent Office following an opposition proceeding filed by Eli Lilly. This UK decision does not affect the other European patents arising from this same European Patent. HGS and GSK are considering an appeal of this UK decision to the UK Supreme Court. This decision does not affect GSK or HGS's freedom to market and sell

*Benlysta*.*Boniva*

The Group participated in the marketing of *Boniva* pursuant to a co-promotion agreement with Roche, which expired in January 2010. In September 2007, Roche Laboratories commenced actions in the US District Court for the District of New Jersey against eight generic drug manufacturers. In each case, Roche alleged infringement of Roche patents relating to *Boniva* tablets. Each of the defendants had filed an ANDA with the FDA with a certification of invalidity, unenforceability or non-infringement of at least one of the Roche patents. Two manufacturers have challenged the basic compound patent, which expires in 2012. Final FDA approval of those ANDAs is stayed until the earlier of November 2010 or resolution of the relevant patent infringement action. In August 2008, Roche obtained a new patent on the monthly dosing regimen for *Boniva* and brought suit against all ANDA filers that were challenging its patents. The new patent expires in 2023. The cases are ongoing.

*Combivir*

Patents listed in the Orange Book for *Combivir* include composition of matter (3TC/lamivudine), combination (lamivudine and AZT) and lamivudine crystal form patents that expire in 2010, 2012 and 2016, respectively. In September 2007, the Group received notice that Teva filed an ANDA with the FDA alleging that the combination patent is invalid.

In November 2007, the Group filed an action in the District Court for the District of Delaware against Teva Pharmaceuticals USA Inc. for infringement of the combination patent. FDA approval of Teva's ANDA is stayed until the earlier of March 2010 or resolution of the patent infringement action favourable to Teva. The case is in the discovery phase. In October 2008, Teva filed a certification that the Group's patent covering the crystal form of lamivudine is invalid or not infringed. The Group did not file suit under this patent.

In July 2008, the Group received notice that Lupin Ltd. filed a certification with the FDA alleging that the combination patent is invalid or not infringed by its product. Lupin also filed a certification that the Group's patent covering the crystal form of lamivudine is invalid or not infringed.

In August 2008, the Group filed suit against Lupin in the District Court for the District of Delaware for infringement of its combination patent. The Group did not file suit against Lupin under the crystal form patent. In March, 2009, the action against Lupin was stayed by mutual consent pending resolution of the case against Teva. Neither Teva nor Lupin has challenged the basic compound patent that covers lamivudine, one of the active ingredients in *Combivir*. That patent expires in May 2010.

*Coreg CR*

The Group filed suit in April 2008 in the US District Court for the Eastern District of Pennsylvania under the crystal form patent and a patent covering the use of *Coreg CR* treating congestive heart failure. In October 2008, the Group filed a motion to dismiss the action and gave Mutual a covenant not to sue under the patents. Mutual cannot obtain final approval to market its generic product until 20th April 2010 based upon data exclusivity granted by the FDA for the product. This matter has now concluded.

*Hiberix, Infanrix Hexa and Menitorix*

On 3rd August 2009, Novartis sued the Group in Belgium for patent infringement in relation to *Hiberix*, *Infanrix Hexa*, and *Menitorix* vaccine products and in relation to phase 3 development vaccine projects HibMenCY and MenACWY. Parallel infringement proceedings were also filed by Novartis in the UK for *Infanrix Hexa*, *Menitorix* and *Hiberix*. The European Patent Office granted the Group's request for an accelerated review to reconsider the validity of the patent and in December 2009, all Novartis claims relevant to the Group's products were held invalid. The UK and Belgian infringement trials will be dismissed.

*Levitra*

The Group participates in the marketing of *Levitra* pursuant to a co-promotion agreement with Bayer Healthcare. In July 2009, Bayer brought suit against Teva in the US District Court for the District of Delaware against Teva Pharmaceuticals, Inc. for infringement of its patent relating to *Levitra*. Teva had filed an ANDA with the FDA with a certification that the patent covering the active ingredient in *Levitra*, which expires in 2018, is invalid, unenforceable or not infringed. A stay against FDA approval will be in effect until the earlier of a decision in the case adverse to Bayer or November 2011.



Notes to the financial statements

**44 Legal proceedings** continued

*Lovaza*

In March 2009, the Group received notice that Teva Pharmaceuticals USA, Inc., Par Pharmaceutical, Inc., and Apotex Inc., had filed ANDAs with a certification that two patents covering *Lovaza* are invalid, unenforceable, or not infringed. The patents expire in 2013 and 2017. The Group is the licensee under these patents. Pronova Biopharma Norge AS, the owner of the patents, sued Teva, Par and Apotex in the US District Court for the District of Delaware. FDA approval of the ANDAs will be stayed until the earlier of May 2012 or a decision favourable to one of the generics.

*Malarone*

In August 2009 the Group filed suit in the US District Court for the District of Delaware against Glenmark Generics Inc. USA for infringement of its patents related to *Malarone*. The Group had received notification that Glenmark had filed an ANDA for *Malarone*, with certification alleging that the Group's patents were invalid, unenforceable, or not infringed. These patents, which expire in 2014, cover the combination of atovaquone and proguanil hydrochloride and its use for preventing malaria. FDA approval of Glenmark's ANDA is stayed until the earlier of January 2012 or a judgment adverse to GSK.

*Paxil/Seroxat*

In the USA a number of manufacturers or distributors of generic *Paxil* filed applications with the FDA to market their generic versions prior to the expiration in 2007 of the Group's patent on paroxetine hydrochloride hemihydrate. Of these actions, only one remains pending, namely an action against Apotex in the US District Court for the Eastern District of Pennsylvania on patents with composition of matter and process of manufacture claims. An anti-trust counterclaim has been asserted by Apotex, as discussed under *Anti-trust* on page 175. The case has now been set for trial in April 2010.

In Europe, generic products containing paroxetine hydrochloride are now on the market in most European countries. The Group's Netherlands patent infringement action against Farmaceutisch Analytisch Laboratorium Duiven B.V. (FAL), and FAL's counterclaims for unfair competition, was settled in July 2009.

Following the litigation in Canada with Apotex over several patents related to paroxetine, Apotex launched its generic product in Canada in October 2003. Apotex has now alleged that as a result of that litigation it had been enjoined from launching that product after receipt of regulatory approval. An action by Apotex to recover damages related to the delay occasioned by those injunctions is ongoing.

*Requip XL*

In January 2009, the Group received letters from Impax Laboratories, Inc. and Actavis South Atlantic LLC indicating that their ANDAs for *Requip XL* had been accepted by the FDA. The letters included an allegation that the patent licensed by the Group from SkyePharma covering the extended release formulation was not infringed by their products. Additional ANDAs were filed in 2009 by Torrent Pharmaceuticals and Lupin Ltd. with certifications that the formulation patent was not infringed. The Group did not bring suits against these companies.

*Treximet*

In October 2008, the Group received a letter from Par Pharmaceuticals that the FDA had accepted its ANDA for *Treximet*, which included a certification that patents owned by Pozen, Inc. relating to *Treximet* were invalid, unenforceable and/or not infringed. Pozen's patents are licensed to the Group. In November 2008, Pozen filed suit against Par under three of its patents in the District Court for the Eastern District of Texas. In November 2008, the Group received a letter from Alphapharm and its designated agent, Mylan Pharmaceuticals, that the FDA had accepted its ANDA for *Treximet*, which included a certification that Pozen's patents relating to *Treximet* were invalid, unenforceable and/or not infringed. Pozen filed suit against Alphapharm and Mylan in January 2009 for infringement of its patents in the District Court for the Eastern District of Texas and Delaware. The Delaware case has since been dismissed. In 2009, Pozen also sued Teva Pharmaceuticals USA, Inc. and Dr. Reddy's under the same patents in the same court. *Treximet* has data exclusivity that precludes approval of a generic product until April 2011. The Group is

not a party to any of the lawsuits brought by Pozen.

*Valtrex*

In July 2009, Apotex Inc. filed a complaint for a declaratory judgment in the District Court for the Middle District of North Carolina that Apotex's valacyclovir product did not infringe a formulation patent owned by the Group for *Valtrex*. Apotex filed a para iv certification in 2008 challenging this patent and GSK did not file suit challenging the certificate. GSK filed a response to this declaratory judgment complaint in August 2009 and did not contest the non-infringement allegation. In October 2009, Apotex filed a motion for judgment. The matter is pending a decision on the motion. In November 2009, Ranbaxy launched the first generic product for valacyclovir.

*Vesicare*

The Group markets *Vesicare* under license from Astellas Pharma Inc. In September 2009, Astellas filed suit against Teva Pharmaceuticals USA, Inc. in the Federal District Court for the Southern District of New York for infringement of its patent covering the active ingredient in *Vesicare*. Astellas had received notice that Teva Pharmaceuticals had filed an ANDA with a certification that the basic patent, which expires in 2018, was invalid or unenforceable. FDA approval of Teva's ANDA is stayed until the earlier of February 2012 or a decision in the case favourable to Teva.

**Product liability**

Pre-clinical and clinical trials are conducted during the development of potential products to determine the safety and efficacy of products for use by humans following approval by regulatory bodies. Notwithstanding these efforts, when drugs and vaccines are introduced into the marketplace, unanticipated safety issues may become evident. The Group is currently a defendant in a number of product liability lawsuits related to the Group's pharmaceutical and consumer healthcare products. The most significant of those matters are described on pages 172 and 173.

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Notes to the financial statements

**44 Legal proceedings** continued*Avandia*

The Group has been named in product liability lawsuits on behalf of individuals and purported class action cases asserting consumer fraud and/or personal injury claims on behalf of purchasers and users of *Avandia*. The federal cases are part of a multi-district litigation proceeding pending in the US District Court for the Eastern District of Pennsylvania. Cases have also been filed in state courts. Cases filed in Philadelphia have been coordinated in the Mass Tort Program. These matters are in the discovery phase, with the first trial scheduled for June 2010. Additionally, a purported nationwide class action suit was filed in February 2009 in the US District Court for the Eastern District of Pennsylvania on behalf of all third party payers seeking economic damages under various state unfair trade practices and consumer protection laws. Plaintiffs have indicated that they will be filing an amended complaint in the future. Finally, one purported class action has been filed in Israel, and briefing of whether to certify the class action is underway. Ten class actions are pending in Canada, and are at an early stage.

*Baycol*

The Group and Bayer Corporation, the principal US subsidiary of Bayer AG, have signed an allocation agreement under which Bayer Corporation has agreed to pay 95% of all settlements and compensatory damages judgments, with each party retaining responsibility for its own attorneys' fees and any punitive damages. The federal cases have been consolidated in a multi-district litigation proceeding in the US District Court for the District of Minnesota. The multi-district litigation is in the process of winding down, with less than 10 plaintiffs remaining. To date two statewide class actions have been certified – a medical monitoring case in Pennsylvania and a Consumer Fraud and Deceptive Business Practices Act case in Illinois. The medical monitoring action was dismissed by the court on summary judgment, and the Supreme Court of Illinois likewise dismissed the consumer fraud claim on summary judgment in December 2009. A nationwide class of third-party payers was certified by a Pennsylvania state court. That case settled before trial. Another class action, in which the Group was not named as a defendant, had been certified in Oklahoma. That case has been decertified, and the deadline for appealing the decertification order has passed. More than 3,100 claims for death or serious injury have been settled and thousands of others alleging muscle aches and pains have been voluntarily or involuntarily dismissed.

*Paxil and Paxil CR*

The Group has received numerous lawsuits and claims alleging that use of *Paxil* (paroxetine) has caused a variety of injuries. Many of these lawsuits and claims allege that the use of *Paxil* during pregnancy resulted in the birth of a child with birth defects or health issues. Other lawsuits and claims allege that patients who took *Paxil* committed or attempted to commit suicide and/ or acts of violence. Finally, a third group of lawsuits and claims allege that the use of *Paxil* caused patients to suffer symptoms on discontinuing treatment with *Paxil*.

The cases filed in Philadelphia alleging injury during pregnancy have been coordinated in the Philadelphia Mass Tort Program. In October 2009, the first trial resulted in an adverse jury verdict in the amount of \$2.5 million (*Kilker v. GlaxoSmithKline*). No punitive damages were awarded. Post-trial motions are pending. The Group also has purported class action litigation in Canada concerning use of *Paxil* during pregnancy.

In the claims and lawsuits alleging that treatment with *Paxil* has caused homicidal or suicidal behaviour exhibited by users of the product, class certification was denied in January 2007 in a purported personal injury class action lawsuit. Cases remain pending in federal and state courts. The cases filed in Philadelphia have been coordinated in the Mass Tort Program.

With respect to the lawsuits filed in state and federal courts in the USA and Canada alleging that *Paxil* is addictive and causes dependency and withdrawal reactions, virtually all the US actions have now been resolved. A California court granted plaintiffs' motion to certify a class in a consumer fraud lawsuit seeking only economic damages, focused on discontinuation symptoms. In Canada, the Quebec court denied plaintiffs' motion to certify a class of patients who allegedly experienced discontinuation symptoms. That decision is on appeal. In the UK, public funding has been granted for hundreds of patients to pursue common issues in litigation alleging that paroxetine has caused them to

suffer from withdrawal reactions and dependency. The trial is scheduled to commence in January 2011.

*Poligrip*

A number of product liability lawsuits and claims have been filed against the Group in both state and federal courts in the USA, including purported class actions, alleging that the zinc in *Poligrip* causes copper depletion and permanent neurologic injury. The first lawsuit alleging neurologic injuries from zinc in *Poligrip* was filed in August 2005. The federal cases are part of the Denture Cream Adhesive multi-district litigation in the US District Court for the Southern District of Florida which was established in June 2009. Both the Group and Procter & Gamble are defendants in this litigation. Included in the MDL are purported class actions asserting economic loss claims under state consumer protection laws and claims for medical monitoring. With one exception (a state court case in Arkansas), all of the state court cases have been consolidated in the Mass Tort Program in Philadelphia. A purported class action asserting consumer fraud claims was recently filed in Canada. On 18th February 2010, the Group announced that it was voluntarily withdrawing all zinc-containing formulations of *Poligrip*.

*Thimerosal*

The Group, along with a number of other pharmaceutical companies, has been named as a defendant in numerous individual personal injury lawsuits in state and federal district courts in the USA alleging that thimerosal, a preservative used in the manufacture of vaccines, causes neurodevelopmental disorders and other injuries, including autism.

Two of the cases are purported class actions, although there has been no determination whether any of those cases will be permitted to proceed as a class action. A number of purported class actions in other jurisdictions have been withdrawn or dismissed. Plaintiffs seek remedies including compensatory, punitive and statutory damages as well as the cost of a fund for medical monitoring and research.

As of the date of this report, in the limited number of cases that have approached trial dates, vaccine manufacturers and manufacturers of other thimerosal containing medicinal products have been successful in excluding testimony of plaintiffs' expert witnesses on causation, specifically on grounds that plaintiffs have failed to establish that the hypothesised link between thimerosal and neurodevelopmental disorders is generally accepted as reliable within the relevant scientific community.

Notes to the financial statements

**44 Legal proceedings** continued

Additionally, in February 2009, the Office of Special Masters of the United States Court of Federal Claims rejected the first three of approximately 4,900 autism claims filed under the National Vaccine Injury Compensation Program (NVICP) on the grounds that claimants failed to produce reliable scientific evidence linking their vaccinations to their medical conditions, including autism.

The Group was not a party to these proceedings. The findings from them cannot be used as evidence in the pending lawsuits against the Group. All three decisions were upheld on appeal by the United States Court of Federal Claims. Two of the three NVICP claimants now have appealed the rulings to the US Court of Appeals for the Federal Circuit. The third claimant has elected not to appeal further and has rejected the decision from the NVICP. This claimant now has the option of filing an action either against the Group and/or the physician who administered the vaccine in question. As of this date, no such action has been commenced.

The remaining approximately 4,900 NVICP claimants also will ultimately have the option of pursuing personal injury lawsuits against the vaccine manufacturers, including the Group. It is too early to determine whether the announcement of the NVICP decisions is likely to lead to an increase in the number of civil cases filed against the Group. As of the date of this report, there are no cases scheduled for trial in 2010 in which the Group is a defendant.

**Sales and marketing and regulation**

Marketing and promotion

In February 2004, the Group received a subpoena from the US Attorney's office in Colorado regarding the Group's sales and promotional practices relating to nine of its largest selling products, for the period from January 1997 to 2004. In particular, the government has inquired about alleged promotion of these drugs for off-label uses, as well as Group-sponsored continuing medical education programmes, other speaker events, special issue boards, advisory boards, speaker training programmes, clinical studies and related grants, fees, travel and entertainment. Although the original subpoena was issued from the US Attorney's office in Colorado, the scope of the inquiry is nationwide. The government is also inquiring about the Group's response to an October 2002 letter from the FDA's Division of Drug Marketing, Advertising and Communication requesting information on the Group's alleged promotion of *Wellbutrin SR* for off-label use. The Group is co-operating with the investigation and providing the requested information.

Following a United Nations report alleging that bribes had been paid to Iraqi government officials in connection with the UN Oil for Food Programme, the Group received a subpoena from the SEC in February 2006 in respect of the Group's participation in that programme. The US Department of Justice also initiated an investigation. In December 2007, the UK Serious Fraud Office issued a formal notice to the Group requiring production of documents related to the Group's participation in the programme. The Group is co-operating with the investigations and has provided documents responsive to the subpoena and the notice, and continues to respond to follow up questions and requests.

Average wholesale price

The United States Department of Justice, a number of states and putative classes of private payers have for several years now been investigating and/or bringing civil litigation regarding allegations that numerous pharmaceutical companies, including GSK, have violated federal or state fraud and abuse laws as a result of the way average wholesale price (AWP) and wholesale acquisition cost (WAC) have been determined and reported for various drugs reimbursed under the Medicare, Medicaid and other insurance programmes. In 2005 the Group reached a \$149 million civil settlement with the federal government to resolve allegations relating to the pricing and marketing of *Zofran* and *Kytril*. The Group also amended its existing corporate integrity agreement as a requirement of the settlement. In 2007, the Group received final approval of a \$70 million nationwide private payer class action settlement relating to the Group's price reporting in an MDL proceeding in the US District Court for the District of Massachusetts.

A number of states, through their respective attorneys general, and most of the counties in New York State have filed civil lawsuits in state and federal courts against GSK and many other drug companies claiming damages and

restitution due to AWP and/or WAC price reporting for pharmaceutical products covered by the states' Medicaid programmes. The states seek recovery on behalf of the states as payers and, in some cases, on behalf of in-state patients as consumers.

The Group has separately resolved AWP claims by state Medicaid programmes in more than two-thirds of the states through the DOJ Settlement or separate negotiations. Litigation concerning AWP issues is continuing with eight states, as well as with New York counties. In July 2008, an Alabama state court jury returned an \$81 million verdict against the Group in one such case filed by the State of Alabama. In October 2009 the Alabama Supreme Court reversed the jury verdict and rendered judgment in GSK's favour. The court expressly found that GSK had not defrauded the Alabama Medicaid programme. In January 2010 the Alabama Supreme Court declined Alabama's petition for reconsideration of the reversal.

In November 2009 a Kentucky state court jury returned a \$661,860 compensatory damages only verdict against the Group in another such case filed by the State of Kentucky. The jury found the Group liable for violating the state's consumer protection laws, but not liable under the state's Medicaid fraud and false advertising statutes. In January 2010 the judge in the case awarded the State of Kentucky an additional \$5,828,000 in statutory penalties. The Group is considering whether to appeal.

#### Nominal pricing

The Group responded to two letter requests from the US Senate Committee on Finance, dated April 2004 and February 2005, for documents and information relating to the nominal price exception to the best price reporting requirements under the Medicaid Drug Rebate Programme. In January 2007, the committee released its findings that some pharmaceutical manufacturers inappropriately used the nominal price exception contrary to the committee's interpretation of Congressional intent. In May 2004, the Group was advised by the US Department of Justice that it is investigating certain of the Group's nominal pricing and bundled sales arrangements to determine whether those arrangements qualify under the exception to the best price reporting requirements or violate civil statutes or laws.

Notes to the financial statements

**44 Legal proceedings** continued

In March 2008, the Group received a broad letter request from the US Department of Justice seeking a range of documents relating to all of the Group's nominal pricing arrangements since 1994 and any possible bundled sales. The Group is continuing to co-operate in the investigation and produce documents. The Group has also received subpoenas and requests for documents and information from Delaware and Michigan related to the Group's nominal price arrangements. The Group is cooperating in those investigations and producing responsive documents. In addition to these governmental investigations, allegations concerning the nominal pricing have been made by certain government payers as part of the AWP litigation. The Group has not entered into any nominal price arrangements since December 2003.

**340B Programme**

The Group is defending an action filed in federal court in the US District Court for the Northern District of California by the County of Santa Clara and one other county, which seeks to represent a putative class of hospitals, clinics and other entities in California that are eligible to receive discounted ceiling prices on pharmaceuticals under a federal programme known as the 340B Programme. Plaintiffs allege that the Group and numerous other pharmaceutical manufacturers have been setting ceiling prices higher than allowed by law and, under the contract that governs the programme, and have therefore overcharged the entities in California that are eligible to participate in the 340B Programme. The lawsuit was dismissed in 2006. It was reinstated in August 2008 following an appeal. It is now being actively litigated at the trial court level. Part of plaintiffs' claim is that the defendants miscalculated Average Manufacturer Prices (AMPs) and Best Prices (BPs) under the Medicaid rebate program which, because they form part of the ceiling price formula, resulted in inflated ceiling prices. Defendants have asserted, and continue to assert, that these plaintiffs are not entitled to challenge the calculation of AMPs and BPs as part of this lawsuit.

*Paxil/Seroxat*

Following the Group's 2004 settlement of a lawsuit filed by the New York State Attorney General's office alleging failure to disclose data on the use of *Paxil* in children and adolescents, similar cases, some of which purported to be class actions, were filed by private plaintiffs seeking to recover amounts paid for *Paxil* purchased for use by patients under the age of 18. Following a class settlement with consumers in 2007, the US District Court for the District of Minnesota in 2008 approved a \$40 million class settlement of ensuing lawsuits seeking recovery on behalf of insurance companies and other third-party payers for payments for prescriptions of *Paxil* to children and adolescents. The Group denied liability in both settlements. In 2009, a similar purported class action was filed in US District Court for the District of Minnesota on behalf of all federal, state and local government entities that paid for prescriptions of *Paxil* to minors. There also remains a similar purported class action in Canada seeking economic damages on behalf of individuals, third party payers and governmental entities that purchased *Paxil* for use by patients under the age of 18.

**Cidra, Puerto Rico manufacturing site**

In October 2007 the Group announced plans to cease operations at its manufacturing facilities located in Cidra, Puerto Rico. On 30th July 2009; the Cidra site ceased operations and commenced decommissioning activities. The remaining operational staffs were released on 30th September 2009. On 6th October 2009, the US District Court for the Eastern District of North Carolina entered an order vacating the Consent Decree to which the Group and the FDA agreed regarding the Group's manufacturing operations at the site. The Group has completed decommissioning activities and is currently pursuing opportunities to sell the site to a third party.

In October 2003, the US federal government executed a search warrant at the Cidra facility and seized records relating to the manufacturing operations at the site.

In April 2005, the Group received a subpoena from the US Attorney's Office in Boston requesting production of records regarding manufacturing at the Cidra site, covering information that is similar to that seized by the US government in Puerto Rico in 2003. Subsequently, the Group received additional subpoenas from the government related to the Cidra facility. The Group is co-operating with the US Attorney's Office and producing the records

responsive to the subpoenas. In addition, in July 2007, the Group learned that the US District Court for the District of Massachusetts had unsealed a complaint brought by a former employee under the federal False Claims Act claiming monetary damages as a result of the alleged failure of the Cidra facility to comply with FDA Good Manufacturing Processes (GMPs) in the manufacture of various products.

The Group is also named in two purported consumer fraud class action lawsuits – one filed in California state court and the other in the US District Court for the District of Puerto Rico - alleging that *Paxil* products were not manufactured according to GMP. Plaintiffs sought economic, statutory and punitive damages, along with a request for injunctive relief. In the summer of 2008, the Group reached a tentative agreement to settle these matters. The settlement covers nationwide classes of consumer purchasers and third party payers. It provides a claims procedure for class members to receive payment only for split/defective *Paxil CR* tablets. The settlement received final trial court approval in September 2009. Objectors to the settlement filed appeals, but the appeals were dismissed in February 2010. Accordingly, the settlement has become final and effective in accordance with its terms. Under the settlement agreement, the consumer fraud class action lawsuits will be dismissed with prejudice. The related third party payer suit filed in the Philadelphia Court of Common Pleas was marked as settled, discontinued and ended as of 5th October 2009.



Notes to the financial statements

**44 Legal proceedings** continued

**Anti-trust**

*Paxil/Seroxat*

The trial date for the remaining patent infringement action brought by the Group against Apotex and Apotex's counterclaim remains set for 15th April 2010 in the US District Court for the Eastern District of Pennsylvania. In this matter, the Group seeks substantial damages for Apotex's alleged infringement of one of the Group's patents on paroxetine hydrochloride, and Apotex in turn seeks damages from the Group in an amount substantially larger than the damages sought by the Group, for alleged violations of federal anti-trust laws, as well as those involving advertising and state anti-trust and consumer protection laws. Under the federal anti-trust laws, the damages sought by Apotex would be trebled in the event of an adverse jury verdict against the Group. On 2nd December 2009, the Court ordered that the Group and Apotex engage in mediation to attempt to reach settlement on the patent infringement claim and the counterclaim.

*EU sector inquiry*

In January 2008, the European Commission announced an inquiry into certain aspects of competition in the pharmaceutical sector and initiated inspections at the premises of a number of innovator and generic pharmaceutical companies, including the Group. The Commission published a preliminary report in November 2008 based on information provided to it by innovator and generic pharmaceutical companies. The report suggests that defensive patenting strategies may lead to obstacles to innovation and that innovator companies employ measures to hinder generics coming onto the market. The final report was issued in July 2009. While not contradicting the preliminary report the final report conceded that delays in generic entry was as much the fault of the regulatory environment as innovator companies' defensive strategies. In this report, the Commission stated that it did not attack legitimate patenting practices and identified areas for follow up scrutiny by the Commission and recommended regulatory reform and improvement.

*Wellbutrin SR*

In December 2004, January 2005 and February 2005, lawsuits, several of which purported to be class actions, were filed in the US District Court for the Eastern District of Pennsylvania against the Group on behalf of direct and indirect purchasers of *Wellbutrin SR*. The complaints allege violations of US anti-trust laws through sham litigation and fraud on the patent office by the Group in obtaining and enforcing patents covering *Wellbutrin SR*. The complaints followed the introduction of generic competition to *Wellbutrin SR* in April 2004, after district and appellate court rulings that a generic manufacturer did not infringe the Group's patents. While a class of direct purchasers has been certified, no decision has yet been made by the Court with regard to certification of an indirect purchaser class. Discovery has been substantially completed and the Group's motion for summary judgment remains pending.

**Secondary wholesaler**

In July 2006, RxUSA Wholesale, Inc., a secondary wholesaler, filed suit against the Group and many other pharmaceutical manufacturers and wholesalers in the US District Court for the Eastern District of New York. The complaint alleges that the defendants engaged in a conspiracy to refuse to supply pharmaceutical products to RxUSA in violation of federal and state anti-trust laws. The Group's motion to dismiss the complaint was granted. The plaintiff has filed an appeal.

*Wellbutrin XL*

Actions have been filed against Biovail and GSK by purported classes of direct and indirect purchasers who allege unlawful monopolization and other anti-trust violations related to the enforcement of Biovail's *Wellbutrin XL* patents and the filing, by Biovail, of citizen petitions. The Group's motion to dismiss the amended complaint of the indirect purchasers was granted in respect of some, but not all, of the claims of the class representatives and many of the claims asserted by the indirect purchasers. The case has proceeded to discovery with respect to the remaining claims

as well as the ones brought by the purported class of direct purchasers.

*Flonase*

Purported direct and indirect purchaser class actions have been filed in the US District Court for the Eastern District of Pennsylvania alleging the Group illegally maintained monopoly power in the market for *Flonase* and charged plaintiffs supra-competitive prices. Additionally, a suit has been filed by Roxane Laboratories, Inc., a generic competitor, seeking lost profits from the Group's alleged actions unlawfully delaying Roxane's entry into the market. The predicate for all of these allegations was the filing by the Group of allegedly sham citizen petitions and subsequent litigation. The Group has successfully narrowed the claims of the purported class of indirect purchasers through motions to dismiss their complaint and amended complaints. The Group's motion to dismiss Roxane's complaint was recently denied. Discovery with regard to all parties is scheduled to conclude in Q1 2010.

**Commercial and corporate**

Securities class actions

In November 2007, attorneys purporting to represent a class of purchasers of GlaxoSmithKline shares and ADS filed an amended consolidated complaint against the Group and senior officers in the US District Court for the Southern District of New York. It alleged that the Group and the individual defendants violated US securities laws and artificially inflated the price of GlaxoSmithKline's stock by misleading investors about the safety of *Avandia*. The amended consolidated complaint also alleges that several current and former senior officers and members of the Group engaged in insider trading. A motion to dismiss the complaint has been filed on behalf of the Group and the individual defendants. In May 2008, the District Court entered an order dismissing the case as to all defendants. Plaintiffs filed an appeal with the US Court of Appeals for the Second Circuit. In August 2009, the Court of Appeals affirmed the District Court's dismissal. This matter has now concluded.

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Notes to the financial statements

**44 Legal proceedings** continued

On 6th July 2009, a class action suit brought on behalf of current and former employees of Stiefel Laboratories, Inc., was filed in US District Court for the Southern District of Florida. The complaint alleges that Stiefel and its officers and directors violated US Employee Retirement Income Security Act (ERISA) and federal and state securities laws by inducing Stiefel employees to sell their shares in the employee stock plan back to Stiefel company at a greatly undervalued price and without disclosing to employees that Stiefel was about to be sold. In January, defendants motion to dismiss was granted in part and denied in part. Specifically, while the Court determined that the ERISA claims against the individual Stiefel defendants as well as the federal securities claims against the individual defendants and Stiefel could go forward, the Court dismissed the Florida Securities Act and common law breach of fiduciary duty claims holding that ERISA pre-empts state and common law, as well as a malpractice claim against Stiefel's former accountants.

## Wage and hour claims

In December 2006, two purported class actions were filed against the Group on behalf of the entire Group's US pharmaceutical sales representatives. These actions, which were filed in or transferred to the US District Court for the Central District of California, initially alleged that those representatives are not exempt employees under California law and/or the US Fair Labor Standards Act and are consequently entitled to overtime pay, among other things. Plaintiffs subsequently amended their complaints to assert a class action, limited solely to pharmaceutical sales representatives working in California, and only asserting claims under California's wage and hour laws.

The suits seek a variety of compensatory, punitive and statutory damages. The Group moved for summary judgement dismissing the claims of the putative class representatives on the ground that they were exempt employees. The Court held that there are appeals pending in the United States Court of Appeals for the Ninth Circuit in cases involving other manufacturers with virtually the same factual and legal arguments. It therefore deferred ruling on the summary judgement motion and stayed any further activity in the case until the appellate court rules in at least one of the other companies' pending cases.

A third case, filed in the US District Court for the District of Arizona in November 2008, sought to establish a nationwide collective action on behalf of the entire Group's US pharmaceutical sales representatives on the ground that those representatives were not exempt employees under the US Fair Labor Standards Act. Plaintiffs sought double damages for all overtime allegedly worked by the Group's pharmaceutical sales representatives over a three year period. In November 2009, the Court granted the Group's motion for summary judgment and dismissed the lawsuit on the ground that the sales representatives were exempt employees under the outside sales exemption to the US Fair Labor Standards Act. Plaintiffs asked the Court to reconsider and amend its judgment based on the rationale advanced by the US Department of Labor in a brief the Department had filed in a case involving another company. On 1st February 2010, the Court reaffirmed its dismissal the action. Plaintiffs subsequently filed a notice that they are appealing the decision to the US Court of Appeals for the Ninth Circuit.

## Environmental matters

GSK has been notified of its potential responsibility relating to past operations and its past waste disposal practices at certain sites, primarily in the USA. Some of these matters are the subject of litigation, including proceedings initiated by the US federal or state governments for waste disposal, site remediation costs and tort actions brought by private parties.

GSK has been advised that it may be a responsible party at approximately 29 sites, of which 14 appear on the National Priority List created by the Comprehensive Environmental Response Compensation and Liability Act (Superfund). These proceedings seek to require the operators of hazardous waste facilities, transporters of waste to the sites and generators of hazardous waste disposed of at the sites to clean up the sites or to reimburse the government for cleanup costs. In most instances, GSK is involved as an alleged generator of hazardous waste. Although Superfund provides that the defendants are jointly and severally liable for cleanup costs, these proceedings are frequently resolved on the basis of the nature and quantity of waste disposed of by the generator at the site. GSK's proportionate liability for

cleanup costs has been substantially determined for about 20 of the sites referred to above.

GSK's potential liability varies greatly from site to site. While the cost of investigation, study and remediation at such sites could, over time, be substantial, GSK routinely accrues amounts related to its share of the liability for such matters.

**Shareholder information**

The shareholder information section includes the financial record presenting historical information prepared in accordance with IFRS as adopted by the European Union, and also with IFRS as issued by the IASB, and the full product development pipeline. The section also discusses shareholder return in the form of dividends and share price movements and provides other information for shareholders.

The share price movements and dividends are shown by the graphs below. Details of the price movements and dividends are on pages 193 to 194.

|                                       |            |
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**Analysis of shareholdings at 31st December 2009**

|  | Number<br>of<br>accounts | % of<br>total<br>accounts | % of<br>total<br>shares | Number of<br>shares |
|--|--------------------------|---------------------------|-------------------------|---------------------|
| <b>Holding of shares</b>                   |                          |                           |                         |                     |
| Up to 1,000                                | 118,849                  | 72                        | 1                       | 42,629,294          |
| 1,001 to 5,000                             | 36,802                   | 22                        | 1                       | 78,738,160          |
| 5,001 to 100,000                           | 8,503                    | 5                         | 2                       | 124,902,813         |
| 100,001 to 1,000,000                       | 875                      | 1                         | 6                       | 312,712,630         |
| Over 1,000,000                             | 423                      |                           | 90                      | 5,106,145,822       |
|  | 165,452                  | 100                       | 100                     | 5,665,128,719       |
| <b>Held by</b>                             |                          |                           |                         |                     |
| Nominee companies                          | 27,603                   | 17                        | 74                      | 4,176,525,968       |
| Investment and trust companies             | 44                       |                           |                         | 2,385,639           |
| Insurance companies                        | 9                        |                           |                         | 5,144               |
| Individuals and other corporate bodies     | 137,794                  | 83                        | 5                       | 276,192,537         |
| BNY (Nominees) Limited                     | 1                        |                           | 13                      | 735,825,273         |
| Held as Treasury shares by GlaxoSmithKline | 1                        |                           | 8                       | 474,194,158         |
|  | 165,452                  | 100                       | 100                     | 5,665,128,719       |

The Bank of New York Mellon's holding held through BNY (Nominees) Limited represents the company's ADR programme, whereby each ADS represents two Ordinary Shares of 25p nominal value. At 19th February 2010, BNY (Nominees) Limited held 735,816,825 Ordinary Shares representing 14.17% of the issued share capital excluding Treasury shares at that date.

At 19th February 2010, the number of holders of shares in the USA was 1,088 with holdings of 1,310,916 shares, and the number of registered holders of the ADR was 33,963 with holdings of 367,903,742 ADR. Certain of these shares and ADR were held by brokers or other nominees. As a result the number of holders of record or registered holders in the USA is not representative of the number of beneficial holders or of the residence of beneficial holders.

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## Shareholder information

## Quarterly trend

An unaudited analysis of the Group results and pharmaceutical sales by therapeutic area is provided by quarter in Sterling for the financial year 2009.

| Income statement total                                      | 12 months 2009 |      |    | Q4 2009 |      |     |
|---|----------------|------|----|---------|------|-----|
|   | £m             | CER% | £% | £m      | CER% | £%  |
| Turnover Pharmaceuticals                                    | 23,714         | 2    | 16 | 6,916   | 15   | 19  |
| Consumer Healthcare   | 4,654          | 7    | 17 | 1,178   | 5    | 6   |
| Total turnover  | 28,368         | 3    | 16 | 8,094   | 13   | 17  |
| Cost of sales   | (7,380)        | 6    | 15 | (2,119) | 4    | 8   |
| Selling, general and administrative                         | (9,592)        | 6    | 25 | (2,954) | 13   | 29  |
| Research and development                                    | (4,106)        | 1    | 12 | (1,127) | (9)  | (7) |
| Other operating income                                      | 1,135          |      |    | 553     |      |     |
| Operating profit  | 8,425          | 4    | 18 | 2,447   | 68   | 55  |
| Finance income  | 70             |      |    | 5       |      |     |
| Finance costs   | (783)          |      |    | (213)   |      |     |
| Profit on disposal of interest in associate                 | 115            |      |    |         |      |     |
| Share of after tax profits of associates and joint ventures | 64             |      |    | 11      |      |     |
| Profit before taxation                                      | 7,891          | 4    | 19 | 2,250   | 77   | 61  |
| Taxation  | (2,222)        |      |    | (582)   |      |     |
| Tax rate %  | 28.2%          |      |    | 25.9%   |      |     |
| Profit after taxation for the period                        | 5,669          | 6    | 20 | 1,668   | 79   | 64  |
| Profit attributable to minority interests                   | 138            |      |    | 38      |      |     |
| Profit attributable to shareholders                         | 5,531          |      |    | 1,630   |      |     |
| Basic earnings per share (pence)                            | 109.1p         | 8    | 23 | 32.1p   | 82   | 66  |
| Diluted earnings per share (pence)                          | 108.2p         |      |    | 31.8p   |      |     |

## Income statement results before major restructuring

|                                     |         |     |    |         |     |    |
|-------------------------------------|---------|-----|----|---------|-----|----|
| Total turnover                      | 28,368  | 3   | 16 | 8,094   | 13  | 17 |
| Cost of sales                       | (7,095) | 13  | 23 | (2,098) | 22  | 28 |
| Selling, general and administrative | (9,200) | 6   | 25 | (2,780) | 11  | 26 |
| Research and development            | (3,951) | 2   | 13 | (1,092) | (2) |    |
| Other operating income              | 1,135   |     |    | 553     |     |    |
| Operating profit                    | 9,257   | (1) | 12 | 2,677   | 37  | 27 |

|   |         |     |    |       |    |    |
|---|---------|-----|----|-------|----|----|
| Finance income  | 70      |     |    | 5     |    |    |
| Finance costs   | (780)   |     |    | (213) |    |    |
| Profit on disposal of interest in associate                 | 115     |     |    |       |    |    |
| Share of after tax profits of associates and joint ventures | 64      |     |    | 11    |    |    |
| Profit before taxation                                      | 8,726   | (1) | 12 | 2,480 | 40 | 29 |
| Taxation  | (2,443) |     |    | (646) |    |    |
| Tax rate %  | 28.0%   |     |    | 26.0% |    |    |
| Profit after taxation for the period                        | 6,283   |     | 13 | 1,834 | 42 | 32 |
| Profit attributable to minority interests                   | 138     |     |    | 38    |    |    |
| Profit attributable to shareholders                         | 6,145   |     |    | 1,796 |    |    |
| Adjusted earnings per share (pence)                         | 121.2p  | 2   | 16 | 35.4p | 43 | 33 |
| Diluted earnings per share (pence)                          | 120.3p  |     |    | 35.1p |    |    |

The calculation of results before major restructuring is described in Note 1 to the financial statements, Presentation of the financial statements .

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## Shareholder information

| £m      | Q3 2009 |    | £m      | Q2 2009 |    | £m      | Q1 2009 |      |
|---------|---------|----|---------|---------|----|---------|---------|------|
|         | CER%    | £% |         | CER%    | £% |         | CER%    | £%   |
| 5,593   | 2       | 14 | 5,582   | (4)     | 13 | 5,623   | (6)     | 18   |
| 1,165   | 8       | 17 | 1,165   | 9       | 23 | 1,146   | 4       | 25   |
| 6,758   | 3       | 15 | 6,747   | (2)     | 15 | 6,769   | (5)     | 19   |
| (1,782) | 5       | 12 | (1,692) | 1       | 12 | (1,787) | (17)    | 31   |
| (2,146) | 4       | 18 | (2,292) | 4       | 28 | (2,200) | 1       | 26   |
| (882)   | (5)     | 1  | (973)   | 4       | 19 | (1,124) | 20      | 44   |
| 123     |         |    | 405     |         |    | 54      |         |      |
| 2,071   | 7       | 25 | 2,195   | (5)     | 13 | 1,712   | (40)    | (13) |
| 19      |         |    | 18      |         |    | 28      |         |      |
| (199)   |         |    | (168)   |         |    | (203)   |         |      |
| 22      |         |    | 17      |         |    | 115     |         |      |
| 1,913   | 5       | 23 | 2,062   | (6)     | 12 | 1,666   | (40)    | (11) |
| (542)   |         |    | (601)   |         |    | (497)   |         |      |
| 28.3%   |         |    | 29.1%   |         |    | 29.8%   |         |      |
| 1,371   | 11      | 30 | 1,461   | (7)     | 12 | 1,169   | (41)    | (12) |
| 36      |         |    | 26      |         |    | 38      |         |      |
| 1,335   |         |    | 1,435   |         |    | 1,131   |         |      |
| 26.3p   | 11      | 31 | 28.3p   | (4)     | 15 | 22.3p   | (39)    | (9)  |
| 26.1p   |         |    | 28.1p   |         |    | 22.2p   |         |      |
| 6,758   | 3       | 15 | 6,747   | (2)     | 15 | 6,769   | (5)     | 19   |
| (1,732) | 11      | 19 | (1,621) | 6       | 18 | (1,644) | 13      | 27   |
| (2,064) | 9       | 24 | (2,227) | 3       | 26 | (2,129) | (1)     | 24   |
| (862)   | (4)     | 3  | (923)   |         | 15 | (1,074) | 14      | 38   |
| 123     |         |    | 405     |         |    | 54      |         |      |
| 2,223   | (3)     | 12 | 2,381   | (6)     | 12 | 1,976   | (31)    | (4)  |
| 19      |         |    | 18      |         |    | 28      |         |      |

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|       |     |    |       |     |    |       |      |     |
|-------|-----|----|-------|-----|----|-------|------|-----|
| (199) |     |    | (166) |     |    | (202) |      |     |
|       |     |    |       |     |    | 115   |      |     |
| 22    |     |    | 17    |     |    | 14    |      |     |
| 2,065 | (5) | 10 | 2,250 | (6) | 11 | 1,931 | (31) | (2) |
| (585) |     |    | (652) |     |    | (560) |      |     |
| 28.3% |     |    | 29.0% |     |    | 29.0% |      |     |
| 1,480 | (3) | 12 | 1,598 | (7) | 11 | 1,371 | (31) | (2) |
| 36    |     |    | 26    |     |    | 38    |      |     |
| 1,444 |     |    | 1,572 |     |    | 1,333 |      |     |
| 28.5p | (3) | 13 | 31.0p | (4) | 14 | 26.3p | (28) | 3   |
| 28.3p |     |    | 30.8p |     |    | 26.2p |      |     |

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Shareholder information

Quarterly trend

**Pharmaceutical turnover total Group**

|                                      | Q4 2009      |             |             | Q3 2009      |             |             | Q2 2009      |             |             | Q1 2009      |             |             |
|--------------------------------------|--------------|-------------|-------------|--------------|-------------|-------------|--------------|-------------|-------------|--------------|-------------|-------------|
|                                      | £m           | CER%        | £%          | £m           | CER%        | £%          | £m           | CER%        | £%          | £m           | CER%        | £%          |
| <b>Respiratory</b>                   | <b>1,914</b> | <b>7</b>    | <b>11</b>   | <b>1,594</b> | <b>6</b>    | <b>18</b>   | <b>1,734</b> | <b>6</b>    | <b>25</b>   | <b>1,735</b> | <b>1</b>    | <b>28</b>   |
| <i>Avamys/Veramyst</i>               | 33           | 36          | 32          | 31           | 59          | 82          | 47           | >100        | >100        | 31           | 85          | >100        |
| <i>Flixonase/Flonase</i>             | 35           | (14)        | (17)        | 28           | (21)        | (15)        | 39           | (46)        | (40)        | 69           | 11          | 50          |
| <i>Flixotide/Flovent</i>             | 222          | 3           | 7           | 169          |             | 13          | 189          | 1           | 20          | 195          | (6)         | 20          |
| <i>Seretide/Advair</i>               | 1,366        | 7           | 10          | 1,152        | 5           | 17          | 1,245        | 9           | 29          | 1,214        |             | 27          |
| <i>Serevent</i>                      | 61           | (14)        | (13)        | 54           | (18)        | (10)        | 59           | (21)        | (11)        | 62           | (24)        | (7)         |
| <i>Ventolin</i>                      | 139          | 28          | 34          | 110          | 28          | 41          | 112          | 23          | 40          | 116          | 23          | 51          |
| <i>Zyrtec</i>                        | 22           | 67          | 83          | 18           | >100        | >100        | 17           | 63          | >100        | 18           | 9           | 64          |
| <b>Anti-virals</b>                   | <b>1,033</b> | <b>9</b>    | <b>12</b>   | <b>1,049</b> | <b>15</b>   | <b>32</b>   | <b>952</b>   | <b>5</b>    | <b>27</b>   | <b>1,116</b> | <b>18</b>   | <b>51</b>   |
| <b>HIV</b>                           | 412          | (3)         | (1)         | 392          | (7)         | 4           | 382          | (10)        | 6           | 419          | (8)         | 17          |
| <i>Agenerase, Lexiva</i>             | 44           | (9)         | (6)         | 43           | (3)         | 8           | 43           | (8)         | 13          | 48           | 6           | 37          |
| <i>Combivir</i>                      | 109          | (5)         | (4)         | 102          | (15)        |             | 102          | (17)        | (2)         | 112          | (16)        | 7           |
| <i>Epivir</i>                        | 30           | (17)        | (17)        | 34           | (14)        | (3)         | 31           | (24)        | (9)         | 34           | (21)        |             |
| <i>Epzicom/Kivexa</i>                | 149          | 11          | 16          | 131          | 6           | 19          | 129          | 6           | 24          | 137          | 10          | 38          |
| <i>Trizivir</i>                      | 49           | (19)        | (17)        | 48           | (12)        | (2)         | 48           | (18)        | (4)         | 56           | (20)        | 4           |
| <i>Ziagen</i>                        | 27           | (7)         | (4)         | 26           | (11)        | (4)         | 25           | (19)        | (4)         | 27           | (16)        | 8           |
| <i>Valtrex</i>                       | 222          | (34)        | (39)        | 349          | (1)         | 15          | 379          | 9           | 37          | 344          | 2           | 38          |
| <i>Relenza</i>                       | 256          | >100        | >100        | 182          | >100        | >100        | 60           | >100        | >100        | 222          | >100        | >100        |
| <i>Zeffix</i>                        | 55           |             | 4           | 54           | 14          | 29          | 55           | (4)         | 17          | 53           | (13)        | 15          |
| <b>Central nervous system</b>        | <b>504</b>   | <b>(27)</b> | <b>(24)</b> | <b>418</b>   | <b>(37)</b> | <b>(29)</b> | <b>449</b>   | <b>(53)</b> | <b>(45)</b> | <b>499</b>   | <b>(53)</b> | <b>(40)</b> |
| <i>Imigran/Imitrex</i>               | 81           | (50)        | (50)        | 53           | (74)        | (72)        | 68           | (65)        | (61)        | 64           | (68)        | (61)        |
| <i>Lamictal</i>                      | 132          | (27)        | (25)        | 121          | (21)        | (11)        | 103          | (73)        | (68)        | 144          | (61)        | (50)        |
| <i>Requip</i>                        | 65           | 3           | 12          | 43           | (30)        | (23)        | 51           | (22)        | (12)        | 50           | (56)        | (47)        |
| <i>Requip XL</i>                     | 40           | 85          | 100         | 31           | 87          | >100        | 30           | >100        | >100        | 22           | >100        | >100        |
| <i>Seroxat/Paxil</i>                 | 139          | (16)        | (10)        | 120          | (12)        | 7           | 138          | (13)        | 9           | 126          | (21)        | 4           |
| <i>Treximet</i>                      | 14           | 15          | 8           | 15           | >100        | >100        | 12           | 25          | 50          | 14           |             |             |
| <i>Wellbutrin, Wellbutrin XL</i>     | 22           | (64)        | (67)        | 16           | (70)        | (70)        | 30           | (72)        | (69)        | 64           | (63)        | (49)        |
| <b>Cardiovascular and urogenital</b> | <b>615</b>   | <b>10</b>   | <b>12</b>   | <b>552</b>   | <b>5</b>    | <b>18</b>   | <b>580</b>   | <b>10</b>   | <b>33</b>   | <b>551</b>   | <b>6</b>    | <b>38</b>   |
| <i>Arixtra</i>                       | 74           | 31          | 35          | 60           | 20          | 36          | 61           | 39          | 69          | 59           | 29          | 69          |
| <i>Avodart</i>                       | 143          | 16          | 19          | 131          | 14          | 28          | 134          | 21          | 46          | 122          | 12          | 44          |
| <i>Coreg</i>                         | 31           | (46)        | (49)        | 39           | (30)        | (22)        | 51           | (9)         | 16          | 51           | (23)        | 6           |

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|                            |              |             |             |              |             |            |              |             |           |              |             |             |
|----------------------------|--------------|-------------|-------------|--------------|-------------|------------|--------------|-------------|-----------|--------------|-------------|-------------|
| <i>Fraxiparine</i>         | 60           | 2           | 3           | 56           | (12)        | (5)        | 58           | (9)         |           | 55           | (8)         | 8           |
| <i>Levitra</i>             | 17           | 6           |             | 20           | 6           | 25         | 18           | 8           | 38        | 20           | 7           | 43          |
| <i>Lovaza</i>              | 129          | 29          | 32          | 111          | 27          | 48         | 104          | 22          | 55        | 106          | 54          | >100        |
| <i>Vesicare</i>            | 29           | 26          | 26          | 25           | 17          | 39         | 26           | 31          | 63        | 24           | 21          | 71          |
| <i>Volibris</i>            | 7            | >100        | >100        | 6            | >100        | >100       | 4            |             |           | 2            |             |             |
| <b>Metabolic</b>           | <b>300</b>   | <b>(15)</b> | <b>(13)</b> | <b>284</b>   | <b>(13)</b> | <b>(2)</b> | <b>303</b>   | <b>(12)</b> | <b>6</b>  | <b>294</b>   | <b>(16)</b> | <b>8</b>    |
| <i>Avandia products</i>    | 191          | (17)        | (17)        | 185          | (14)        | (3)        | 198          | (14)        | 2         | 197          | (19)        | 3           |
| <i>Avandia</i>             | 112          | (24)        | (24)        | 108          | (19)        | (8)        | 121          | (19)        | (3)       | 121          | (23)        | (1)         |
| <i>Avandamet</i>           | 69           | (3)         | (1)         | 66           | (6)         | 5          | 67           | (7)         | 10        | 66           | (16)        | 6           |
| <i>Bonviva/Boniva</i>      | 67           | (13)        | (12)        | 60           | (5)         | 7          | 66           | (2)         | 18        | 62           | (4)         | 27          |
| <b>Anti-bacterials</b>     | <b>409</b>   | <b>2</b>    | <b>3</b>    | <b>376</b>   | <b>3</b>    | <b>11</b>  | <b>381</b>   | <b>3</b>    | <b>16</b> | <b>426</b>   | <b>(1)</b>  | <b>17</b>   |
| <i>Augmentin</i>           | 173          | 7           | 9           | 162          | 8           | 14         | 146          | 2           | 12        | 186          |             | 19          |
| <b>Oncology and emesis</b> | <b>170</b>   | <b>17</b>   | <b>23</b>   | <b>149</b>   | <b>4</b>    | <b>16</b>  | <b>166</b>   | <b>19</b>   | <b>42</b> | <b>144</b>   | <b>1</b>    | <b>27</b>   |
| <i>Hycamtin</i>            | 45           | 7           | 10          | 41           | 9           | 21         | 43           | 3           | 23        | 43           | 10          | 43          |
| <i>Promacta</i>            | 5            |             |             | 3            |             |            | 3            |             |           | 2            |             |             |
| <i>Tyverb/Tykerb</i>       | 48           | 29          | 37          | 46           | 54          | 77         | 41           | 64          | 86        | 34           | 42          | 79          |
| <i>Zofran</i>              | 24           | 35          | 41          | 23           | (33)        | (30)       | 30           | (16)        | (3)       | 32           | (7)         | 10          |
| <b>Vaccines</b>            | <b>1,523</b> | <b>78</b>   | <b>91</b>   | <b>802</b>   | <b>(2)</b>  | <b>10</b>  | <b>756</b>   | <b>14</b>   | <b>31</b> | <b>625</b>   | <b>18</b>   | <b>43</b>   |
| <i>Boostrix</i>            | 35           | 100         | >100        | 39           | 55          | 77         | 39           | 78          | >100      | 26           | 62          | 100         |
| <i>Cervarix</i>            | 38           | (33)        | (31)        | 28           | (40)        | (35)       | 73           | >100        | >100      | 48           | >100        | >100        |
| <i>Fluarix, FluLaval</i>   | 42           | (33)        | (36)        | 147          | (14)        | 2          | 14           | >100        | >100      | 6            |             |             |
| Flu pandemic               | 836          | >100        | >100        | 11           |             | 10         | 30           | (26)        | (12)      | 6            | 20          | 20          |
| Hepatitis                  | 151          | (19)        | (18)        | 170          | (12)        | (2)        | 195          | (2)         | 17        | 149          | (12)        | 7           |
| <i>Infanrix, Pediarix</i>  | 153          | (24)        | (21)        | 167          | (10)        | (1)        | 154          | (20)        | (8)       | 175          | (5)         | 14          |
| <i>Rotarix</i>             | 70           | 5           | 6           | 84           | 92          | >100       | 71           | 69          | >100      | 57           | 74          | >100        |
| <i>Synflorix</i>           | 48           |             |             | 13           |             |            | 12           |             |           |              |             |             |
| <b>Other</b>               | <b>311</b>   | <b>17</b>   | <b>20</b>   | <b>258</b>   | <b>15</b>   | <b>24</b>  | <b>261</b>   | <b>(1)</b>  | <b>13</b> | <b>233</b>   | <b>(25)</b> | <b>(11)</b> |
|                            | <b>6,779</b> | <b>13</b>   | <b>17</b>   | <b>5,482</b> |             | <b>12</b>  | <b>5,582</b> | <b>(4)</b>  | <b>13</b> | <b>5,623</b> | <b>(6)</b>  | <b>18</b>   |
| Stiefel products           | 137          |             |             | 111          |             |            |              |             |           |              |             |             |
|                            | <b>6,916</b> | <b>15</b>   | <b>19</b>   | <b>5,593</b> | <b>2</b>    | <b>14</b>  |              |             |           |              |             |             |

Pharmaceutical turnover includes co-promotion income.

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## Shareholder information

## Quarterly trend

**Pharmaceutical turnover** USA

|                                      | Q4 2009    |             |             | Q3 2009    |             |             | Q2 2009    |             |             | Q1 2009    |             |             |
|--------------------------------------|------------|-------------|-------------|------------|-------------|-------------|------------|-------------|-------------|------------|-------------|-------------|
|                                      | £m         | CER%        | £%          | £m         | CER%        | £%          | £m         | CER%        | £%          | £m         | CER%        | £%          |
| <b>Respiratory</b>                   | <b>910</b> | <b>5</b>    | <b>7</b>    | <b>744</b> | <b>2</b>    | <b>17</b>   | <b>825</b> | <b>5</b>    | <b>34</b>   | <b>844</b> | <b>(1)</b>  | <b>37</b>   |
| <i>Avamys/Veramyst</i>               | 15         | (17)        | (17)        | 15         | 8           | 25          | 18         | 7           | 29          | 20         | 17          | 67          |
| <i>Flixonase/Flonase</i>             | 6          | (25)        | (25)        | 3          | (57)        | (57)        | 8          | (82)        | (76)        | 10         | 100         | >100        |
| <i>Flixotide/Flovent</i>             | 115        | 9           | 12          | 85         | 4           | 20          | 97         | 12          | 43          | 99         | (4)         | 32          |
| <i>Seretide/Advair</i>               | 704        | 3           | 4           | 587        | (1)         | 14          | 648        | 7           | 37          | 653        | (5)         | 31          |
| <i>Serevent</i>                      | 20         | (9)         | (9)         | 16         | (18)        | (6)         | 18         | (13)        | 13          | 19         | (18)        | 12          |
| <i>Ventolin</i>                      | 48         | 100         | >100        | 35         | >100        | >100        | 32         | >100        | >100        | 38         | >100        | >100        |
| <i>Zyrtec</i>                        |            |             |             |            |             |             |            |             |             |            |             |             |
| <b>Anti-virals</b>                   | <b>413</b> | <b>(14)</b> | <b>(17)</b> | <b>500</b> | <b>8</b>    | <b>26</b>   | <b>496</b> | <b>10</b>   | <b>40</b>   | <b>488</b> | <b>2</b>    | <b>41</b>   |
| <b>HIV</b>                           | 189        | (3)         | (2)         | 168        | (5)         | 10          | 164        | (8)         | 15          | 195        | (8)         | 28          |
| <i>Agenerase, Lexiva</i>             | 25         | (4)         | (4)         | 24         |             | 14          | 23         | 6           | 28          | 27         | 6           | 50          |
| <i>Combivir</i>                      | 47         | (9)         | (11)        | 43         | (10)        | 5           | 44         | (15)        | 7           | 53         | (16)        | 18          |
| <i>Epivir</i>                        | 12         | (7)         | (14)        | 12         | (9)         | 9           | 11         | (18)        |             | 13         | (18)        | 18          |
| <i>Epzicom/Kivexa</i>                | 63         | 13          | 15          | 52         | 2           | 18          | 50         |             | 28          | 58         | 5           | 45          |
| <i>Trizivir</i>                      | 26         | (19)        | (19)        | 23         | (13)        | (4)         | 25         | (13)        | 9           | 30         | (22)        | 11          |
| <i>Ziagen</i>                        | 13         | (7)         | (7)         | 13         | 10          | 30          | 11         | (18)        |             | 14         |             | 40          |
| <i>Valtrex</i>                       | 129        | (45)        | (54)        | 265        | 3           | 19          | 291        | 16          | 49          | 257        | 8           | 49          |
| <i>Relenza</i>                       | 62         | >100        | >100        | 45         | >100        | >100        | 19         | >100        | >100        | 11         |             | 38          |
| <i>Zeffix</i>                        | 4          |             |             | 4          |             |             | 5          | (25)        | 25          | 4          |             | 33          |
| <b>Central nervous system</b>        | <b>178</b> | <b>(50)</b> | <b>(50)</b> | <b>115</b> | <b>(67)</b> | <b>(64)</b> | <b>142</b> | <b>(79)</b> | <b>(74)</b> | <b>216</b> | <b>(73)</b> | <b>(64)</b> |
| <i>Imigran/Imitrex</i>               | 43         | (64)        | (65)        | 19         | (89)        | (88)        | 33         | (79)        | (76)        | 28         | (83)        | (79)        |
| <i>Lamictal</i>                      | 72         | (40)        | (39)        | 64         | (35)        | (24)        | 45         | (86)        | (83)        | 86         | (74)        | (64)        |
| <i>Requip</i>                        | 16         | 27          | 45          | (4)        | >(100)      | >(100)      | 6          | (78)        | (67)        | 8          | (90)        | (87)        |
| <i>Requip XL</i>                     | 12         | >100        | >100        | 7          | 75          | 75          | 8          |             |             | 5          |             |             |
| <i>Seroxat/Paxil</i>                 | 10         | (47)        | (47)        | 5          | (54)        | (62)        | 13         | (31)        | (19)        | 14         | (61)        | (55)        |
| <i>Treximet</i>                      | 14         | 8           | 8           | 15         | >100        | >100        | 12         | 25          | 50)         | 14         |             |             |
| <i>Wellbutrin, Wellbutrin XL</i>     | 10         | (79)        | (82)        | 4          | (86)        | (91)        | 20         | (81)        | (78)        | 54         | (68)        | (55)        |
| <b>Cardiovascular and urogenital</b> | <b>375</b> | <b>8</b>    | <b>9</b>    | <b>336</b> | <b>4</b>    | <b>20</b>   | <b>360</b> | <b>12</b>   | <b>43</b>   | <b>344</b> | <b>7</b>    | <b>48</b>   |
| <i>Arixtra</i>                       | 43         | 35          | 39          | 32         | 23          | 45          | 33         | 63          | >100        | 33         | 26          | 74          |
| <i>Avodart</i>                       | 83         | 11          | 11          | 80         | 10          | 27          | 83         | 16          | 51          | 73         | 8           | 49          |
| <i>Coreg</i>                         | 31         | (45)        | (48)        | 39         | (31)        | (20)        | 50         | (7)         | 16          | 51         | (23)        | 6           |
| <i>Fraxiparine</i>                   |            |             |             |            |             |             |            |             |             |            |             |             |
| <i>Levitra</i>                       | 16         |             |             | 18         | 7           | 20          | 17         |             | 31          | 19         | 8           | 46          |

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|                            |              |             |             |              |             |             |              |                |                |              |             |           |
|----------------------------|--------------|-------------|-------------|--------------|-------------|-------------|--------------|----------------|----------------|--------------|-------------|-----------|
| <i>Lovaza</i>              | 128          | 29          | 31          | 111          | 25          | 48          | 104          | 24             | 58             | 105          | 52          | >100      |
| <i>Vesicare</i>            | 29           | 26          | 26          | 25           | 17          | 39          | 26           | 31             | 63             | 24           | 21          | 71        |
| <i>Volibris</i>            |              |             |             |              |             |             |              |                |                |              |             |           |
| <b>Metabolic</b>           | <b>150</b>   | <b>(18)</b> | <b>(18)</b> | <b>132</b>   | <b>(15)</b> | <b>(3)</b>  | <b>149</b>   | <b>(17)</b>    | <b>7</b>       | <b>150</b>   | <b>(18)</b> | <b>13</b> |
| <i>Avandia products</i>    | 109          | (17)        | (17)        | 97           | (14)        | (2)         | 107          | (19)           | 3              | 112          | (18)        | 13        |
| <i>Avandia</i>             | 69           | (22)        | (22)        | 62           | (18)        | (7)         | 71           | (22)           | (1)            | 74           | (25)        | 4         |
| <i>Avandamet</i>           | 33           | (3)         | (3)         | 29           | (8)         | 12          | 29           | (8)            | 16             | 31           | (4)         | 29        |
| <i>Bonviva/Boniva</i>      | 41           | (20)        | (20)        | 35           | (17)        | (3)         | 41           | (11)           | 14             | 38           | (15)        | 15        |
| <b>Anti-bacterials</b>     | <b>41</b>    | <b>(16)</b> | <b>(18)</b> | <b>39</b>    | <b>(15)</b> | <b>(3)</b>  | <b>46</b>    | <b>(8)</b>     | <b>18</b>      | <b>47</b>    | <b>(24)</b> | <b>4</b>  |
| <i>Augmentin</i>           | 9            | (33)        | (40)        | 9            | (22)        |             | 11           | 13             | 38             | 16           | (29)        | (6)       |
| <b>Oncology and emesis</b> | <b>86</b>    | <b>30</b>   | <b>34</b>   | <b>64</b>    | <b>(11)</b> |             | <b>88</b>    | <b>19</b>      | <b>54</b>      | <b>70</b>    | <b>(12)</b> | <b>21</b> |
| <i>Hycamtin</i>            | 26           | 4           | 4           | 24           |             | 20          | 24           | 5              | 26             | 26           | 6           | 53        |
| <i>Promacta</i>            | 5            |             |             | 3            |             |             | 3            |                |                | 2            |             |           |
| <i>Tyverb/Tykerb</i>       | 14           | (7)         |             | 12           | (8)         |             | 17           | 18             | 55             | 11           | (20)        | 10        |
| <i>Zofran</i>              | (1)          | 100         | 90          | (1)          | (100)       | >(100)      | 4            | (25)           |                | 7            | 67          | >100      |
| <b>Vaccines</b>            | <b>294</b>   | <b>55</b>   | <b>65</b>   | <b>206</b>   | <b>(20)</b> | <b>(6)</b>  | <b>196</b>   | <b>22</b>      | <b>58</b>      | <b>119</b>   | <b>(21)</b> | <b>9</b>  |
| <i>Boostrix</i>            | 17           | >100        | >100        | 24           | 54          | 85          | 21           | 78             | >100           | 11           | 60          | >100      |
| <i>Cervarix</i>            | 4            |             |             |              |             |             |              |                |                |              |             |           |
| <i>Fluarix, FluLaval</i>   | 5            | (64)        | (77)        | 63           | (19)        |             | 3            |                |                |              |             |           |
| Flu pandemic               | 162          | >100        | >100        |              |             |             | 25           |                |                |              |             |           |
| Hepatitis                  | 51           | (27)        | (31)        | 67           | (29)        | (18)        | 87           | 2              | 32             | 52           | (28)        | (2)       |
| <i>Infanrix, Pediarix</i>  | 27           | (50)        | (52)        | 30           | (52)        | (46)        | 38           | (43)           | (22)           | 39           | (41)        | (24)      |
| <i>Rotarix</i>             | 17           |             |             | 22           | >100        | >100        | 22           |                |                | 15           |             |           |
| <i>Synflorix</i>           |              |             |             |              |             |             |              |                |                |              |             |           |
| <b>Other</b>               | <b>3</b>     | <b>67</b>   |             | <b>7</b>     | <b>(75)</b> | <b>(13)</b> | <b>2</b>     | <b>&gt;100</b> | <b>&gt;100</b> | <b>5</b>     |             | <b>25</b> |
|                            | <b>2,450</b> | <b>(4)</b>  | <b>(3)</b>  | <b>2,143</b> | <b>(12)</b> | <b>2</b>    | <b>2,304</b> | <b>(15)</b>    | <b>8</b>       | <b>2,283</b> | <b>(22)</b> | <b>7</b>  |

Pharmaceutical turnover includes co-promotion income.

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Shareholder information

Quarterly trend

**Pharmaceutical turnover Europe**

|                                      | Q4 2009    |            |            | Q3 2009    |            |            | Q2 2009    |            |           | Q1 2009    |            |           |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|-----------|------------|------------|-----------|
|                                      | £m         | CER%       | £%         | £m         | CER%       | £%         | £m         | CER%       | £%        | £m         | CER%       | £%        |
| <b>Respiratory</b>                   | <b>594</b> | <b>4</b>   | <b>8</b>   | <b>511</b> | <b>7</b>   | <b>14</b>  | <b>550</b> | <b>2</b>   | <b>11</b> | <b>546</b> | <b>(1)</b> | <b>12</b> |
| <i>Avamys/Veramyst</i>               | 11         | 83         | 83         | 9          | >100       | >100       | 16         | >100       | >100      | 9          | >100       | >100      |
| <i>Flixonase/Flonase</i>             | 10         | (17)       | (17)       | 9          | (18)       | (18)       | 12         | (25)       | (25)      | 12         | (23)       | (8)       |
| <i>Flixotide/Flovent</i>             | 49         | (4)        | (2)        | 38         | (5)        |            | 43         | (5)        |           | 48         | (2)        | 9         |
| <i>Seretide/Advair</i>               | 436        | 7          | 11         | 378        | 9          | 17         | 401        | 3          | 13        | 394        |            | 14        |
| <i>Serevent</i>                      | 29         | (15)       | (12)       | 27         | (16)       | (16)       | 29         | (18)       | (15)      | 31         | (22)       | (16)      |
| <i>Ventolin</i>                      | 42         |            | 5          | 35         | 3          | 13         | 36         | 3          | 9         | 37         | (3)        | 12        |
| <i>Zyrtec</i>                        |            |            |            |            |            |            |            |            |           |            |            |           |
| <b>Anti-virals</b>                   | <b>251</b> | <b>7</b>   | <b>12</b>  | <b>247</b> | <b>13</b>  | <b>24</b>  | <b>236</b> | <b>(2)</b> | <b>8</b>  | <b>340</b> | <b>45</b>  | <b>63</b> |
| <b>HIV</b>                           | 155        | (10)       | (6)        | 155        | (6)        | 3          | 156        | (14)       | (5)       | 169        | (9)        | 8         |
| <i>Agenerase, Lexiva</i>             | 14         | (7)        | (7)        | 15         | (7)        |            | 16         | (13)       |           | 17         | (7)        | 13        |
| <i>Combivir</i>                      | 37         | (14)       | (12)       | 36         | (13)       | (5)        | 37         | (25)       | (16)      | 41         | (17)       | (2)       |
| <i>Epivir</i>                        | 11         | (27)       | (27)       | 12         | (15)       | (8)        | 12         | (33)       | (20)      | 14         | (20)       | (7)       |
| <i>Epzicom/Kivexa</i>                | 63         | 5          | 11         | 60         | 10         | 20         | 59         |            | 9         | 62         | 10         | 29        |
| <i>Trizivir</i>                      | 19         | (18)       | (14)       | 19         | (23)       | (14)       | 20         | (25)       | (17)      | 24         | (17)       |           |
| <i>Ziagen</i>                        | 9          | (11)       |            | 8          | (13)       |            | 9          | (20)       | (10)      | 9          | (11)       |           |
| <i>Valtrex</i>                       | 41         | 5          | 8          | 38         | (3)        | 9          | 39         | (3)        | 8         | 42         |            | 20        |
| <i>Relenza</i>                       | 39         | >100       | >100       | 38         |            |            | 25         | >100       | >100      | 110        |            |           |
| <i>Zeffix</i>                        | 7          | (14)       |            | 7          |            |            | 8          | 17         | 33        | 7          | (14)       |           |
| <b>Central nervous system</b>        | <b>146</b> | <b>(7)</b> | <b>(3)</b> | <b>139</b> | <b>(9)</b> | <b>(2)</b> | <b>144</b> | <b>(8)</b> | <b>1</b>  | <b>145</b> | <b>(2)</b> | <b>12</b> |
| <i>Imigran/Imitrex</i>               | 25         | (8)        |            | 23         | (8)        | (4)        | 23         | (13)       | (4)       | 25         | (4)        | 9         |
| <i>Lamictal</i>                      | 39         | (5)        |            | 38         | (5)        | 3          | 38         | (8)        |           | 39         | 3          | 18        |
| <i>Requip</i>                        | 37         | (8)        | (3)        | 34         | (9)        | (3)        | 35         | 3          | 13        | 32         | (3)        | 10        |
| <i>Requip XL</i>                     | 27         | 67         | 80         | 23         | 100        | >100       | 22         | >100       | >100      | 17         | >100       | >100      |
| <i>Seroxat/Paxil</i>                 | 22         | (24)       | (24)       | 22         | (26)       | (19)       | 27         | (19)       | (13)      | 28         | (14)       |           |
| <i>Treximet</i>                      |            |            |            |            |            |            |            |            |           |            |            |           |
| <i>Wellbutrin, Wellbutrin XL</i>     | 9          | 33         | 50         | 8          | 33         | 33         | 7          | 100        | >100      | 6          | 67         | 100       |
| <b>Cardiovascular and urogenital</b> | <b>155</b> | <b>8</b>   | <b>13</b>  | <b>142</b> | <b>2</b>   | <b>10</b>  | <b>145</b> | <b>2</b>   | <b>12</b> | <b>141</b> | <b>2</b>   | <b>22</b> |
| <i>Arixtra</i>                       | 26         | 14         | 24         | 24         | 11         | 26         | 23         | 24         | 35        | 22         | 29         | 57        |
| <i>Avodart</i>                       | 39         | 12         | 18         | 36         | 10         | 24         | 37         | 21         | 32        | 36         | 7          | 29        |
| <i>Coreg</i>                         |            |            |            |            |            |            |            |            |           |            |            |           |
| <i>Fraxiparine</i>                   | 45         |            | 2          | 42         | (15)       | (11)       | 43         | (15)       | (7)       | 43         | (10)       | 5         |
| <i>Levitra</i>                       | 1          |            |            | 1          |            |            | 1          |            |           | 1          |            |           |

|                            |              |                |                |              |             |            |              |             |            |              |             |            |
|----------------------------|--------------|----------------|----------------|--------------|-------------|------------|--------------|-------------|------------|--------------|-------------|------------|
| <i>Lovaza</i>              |              |                |                |              |             |            |              |             |            |              |             |            |
| <i>Vesicare</i>            |              |                |                |              |             |            |              |             |            |              |             |            |
| <i>Volibris</i>            | 7            | >100           | >100           | 5            | >100        | >100       | 4            |             |            | 2            |             |            |
| <b>Metabolic</b>           | <b>69</b>    | <b>(13)</b>    | <b>(9)</b>     | <b>67</b>    | <b>(14)</b> | <b>(7)</b> | <b>71</b>    | <b>(11)</b> | <b>(3)</b> | <b>68</b>    | <b>(21)</b> | <b>(7)</b> |
| <i>Avandia products</i>    | 40           | (17)           | (15)           | 42           | (19)        | (13)       | 46           | (18)        | (6)        | 43           | (30)        | (20)       |
| <i>Avandia</i>             | 15           | (25)           | (25)           | 16           | (25)        | (20)       | 18           | (20)        | (10)       | 18           | (27)        | (18)       |
| <i>Avandamet</i>           | 24           | (12)           | (8)            | 25           | (12)        | (4)        | 26           | (18)        | (7)        | 24           | (32)        | (23)       |
| <i>Bonviva/Boniva</i>      | 23           | (4)            |                | 22           | 11          | 22         | 23           | 6           | 28         | 21           | 20          | 40         |
| <b>Anti-bacterials</b>     | <b>181</b>   | <b>(3)</b>     | <b>1</b>       | <b>146</b>   | <b>(4)</b>  | <b>4</b>   | <b>146</b>   | <b>(4)</b>  | <b>4</b>   | <b>189</b>   | <b>(7)</b>  | <b>8</b>   |
| <i>Augmentin</i>           | 82           | 7              | 11             | 68           | 2           | 10         | 61           |             | 7          | 84           | (9)         | 6          |
| <b>Oncology and emesis</b> | <b>52</b>    |                | <b>4</b>       | <b>51</b>    | <b>15</b>   | <b>24</b>  | <b>50</b>    | <b>12</b>   | <b>22</b>  | <b>51</b>    | <b>16</b>   | <b>38</b>  |
| <i>Hycamtin</i>            | 15           | 7              | 7              | 14           | 8           | 17         | 15           | 17          | 25         | 15           | 9           | 36         |
| <i>Promacta</i>            |              |                |                |              |             |            |              |             |            |              |             |            |
| <i>Tyverb/Tykerb</i>       | 21           | 12             | 24             | 19           | 90          | 90         | 18           | 88          | >100       | 17           | >100        | >100       |
| <i>Zofran</i>              | 12           | (25)           | (25)           | 12           | (20)        | (20)       | 14           | (25)        | (13)       | 14           | (25)        | (13)       |
| <b>Vaccines</b>            | <b>794</b>   | <b>&gt;100</b> | <b>&gt;100</b> | <b>344</b>   | <b>(3)</b>  | <b>7</b>   | <b>320</b>   | <b>7</b>    | <b>16</b>  | <b>286</b>   | <b>23</b>   | <b>43</b>  |
| <i>Boostrix</i>            | 11           | 57             | 57             | 11           | 43          | 57         | 10           | 14          | 43         | 8            | 40          | 60         |
| <i>Cervarix</i>            | 19           | (58)           | (58)           | 17           | (61)        | (55)       | 63           | >100        | >100       | 39           | >100        | >100       |
| <i>Fluarix, FluLaval</i>   | 11           | (43)           | (48)           | 60           | (10)        | 3          |              |             |            |              |             |            |
| <i>Flu pandemic</i>        | 511          | >100           | >100           | 4            | (60)        | (60)       | 5            | (86)        | (86)       | 5            | 25          | 25         |
| <i>Hepatitis</i>           | 64           | (16)           | (14)           | 65           |             | 7          | 72           | (8)         |            | 61           | (5)         | 9          |
| <i>Infanrix, Pediarix</i>  | 101          | (14)           | (11)           | 105          | 8           | 18         | 91           | (13)        | (3)        | 109          | 14          | 35         |
| <i>Rotarix</i>             | 14           | 8              | 8              | 14           | 9           | 27         | 12           | 20          | 20         | 13           | 22          | 44         |
| <i>Synflorix</i>           | 11           |                |                | 11           |             |            | 10           |             |            |              |             |            |
| <b>Other</b>               | <b>119</b>   | <b>12</b>      | <b>16</b>      | <b>87</b>    | <b>25</b>   | <b>30</b>  | <b>84</b>    |             | <b>5</b>   | <b>74</b>    | <b>(7)</b>  | <b>4</b>   |
|                            | <b>2,361</b> | <b>23</b>      | <b>29</b>      | <b>1,734</b> | <b>3</b>    | <b>11</b>  | <b>1,746</b> | <b>1</b>    | <b>9</b>   | <b>1,840</b> | <b>7</b>    | <b>23</b>  |

Pharmaceutical turnover includes co-promotion income.

GSK Annual Report 2009



## Shareholder information

## Quarterly trend

**Pharmaceutical turnover Rest of World**

|                                      | Q4 2009    |           |           | Q3 2009    |           |           | Q2 2009    |           |           | Q1 2009    |            |           |
|--------------------------------------|------------|-----------|-----------|------------|-----------|-----------|------------|-----------|-----------|------------|------------|-----------|
|                                      | £m         | CER%      | £%        | £m         | CER%      | £%        | £m         | CER%      | £%        | £m         | CER%       | £%        |
| <b>Respiratory</b>                   | <b>410</b> | <b>17</b> | <b>25</b> | <b>339</b> | <b>14</b> | <b>28</b> | <b>359</b> | <b>16</b> | <b>33</b> | <b>345</b> | <b>9</b>   | <b>36</b> |
| <i>Avamys/Veramyst</i>               | 7          | >100      | >100      | 7          | >100      | >100      | 13         | >100      | >100      | 2          |            |           |
| <i>Flixonase/Flonase</i>             | 19         | (9)       | (14)      | 16         | (7)       | 7         | 19         | 6         | 19        | 47         | 14         | 62        |
| <i>Flixotide/Flovent</i>             | 58         | (2)       | 5         | 46         | (3)       | 15        | 49         | (11)      | 4         | 48         | (12)       | 12        |
| <i>Seretide/Advair</i>               | 226        | 23        | 32        | 187        | 15        | 30        | 196        | 27        | 45        | 167        | 26         | 52        |
| <i>Serevent</i>                      | 12         | (20)      | (20)      | 11         | (27)      |           | 12         | (38)      | (25)      | 12         | (38)       | (8)       |
| <i>Ventolin</i>                      | 49         | 15        | 20        | 40         |           | 5         | 44         | (3)       | 10        | 41         | (5)        | 11        |
| <i>Zyrtec</i>                        | 22         | 67        | 83        | 18         | >100      | >100      | 17         | 63        | >100      | 18         | 9          | 64        |
| <b>Anti-virals</b>                   | <b>369</b> | <b>71</b> | <b>85</b> | <b>302</b> | <b>32</b> | <b>54</b> | <b>220</b> | <b>5</b>  | <b>24</b> | <b>288</b> | <b>16</b>  | <b>57</b> |
| <b>HIV</b>                           | 68         | 12        | 15        | 69         | (11)      | (7)       | 62         | (5)       | 13        | 55         | (6)        | 12        |
| <i>Agenerase, Lexiva</i>             | 5          | (33)      | (17)      | 4          |           |           | 4          | (50)      |           | 4          | 100        | 100       |
| <i>Combivir</i>                      | 25         | 26        | 32        | 23         | (23)      | (26)      | 21         | (5)       | 11        | 18         | (17)       |           |
| <i>Epivir</i>                        | 7          | (14)      |           | 10         | (18)      | (9)       | 8          | (13)      |           | 7          | (25)       | (13)      |
| <i>Epzicom/Kivexa</i>                | 23         | 24        | 35        | 19         | 6         | 19        | 20         | 55        | 82        | 17         | 27         | 55        |
| <i>Trizivir</i>                      | 4          | (20)      | (20)      | 6          | 67        | 100       | 3          |           |           | 2          | (33)       | (33)      |
| <i>Ziagen</i>                        | 5          |           |           | 5          | (33)      | (44)      | 5          | (20)      |           | 4          | (50)       | (33)      |
| <i>Valtrex</i>                       | 52         | (4)       | 6         | 46         | (16)      | 2         | 49         | (15)      | 7         | 45         | (17)       | 10        |
| <i>Relenza</i>                       | 155        | >100      | >100      | 99         | >100      | >100      | 16         |           |           | 101        | >100       | >100      |
| <i>Zeffix</i>                        | 44         | 2         | 5         | 43         | 19        | 39        | 42         | (5)       | 14        | 42         | (14)       | 17        |
| <b>Central nervous system</b>        | <b>180</b> | <b>4</b>  | <b>12</b> | <b>164</b> | <b>11</b> | <b>34</b> | <b>163</b> | <b>4</b>  | <b>27</b> | <b>138</b> | <b>(3)</b> | <b>30</b> |
| <i>Imigran/Imitrex</i>               | 13         |           |           | 11         | (10)      | 10        | 12         |           | 20        | 11         |            | 38        |
| <i>Lamictal</i>                      | 21         | 11        | 11        | 19         | 20        | 27        | 20         | (6)       | 18        | 19         |            | 12        |
| <i>Requip</i>                        | 12         | 22        | 33        | 13         | 13        | 63        | 10         |           | 11        | 10         | 40         | 100       |
| <i>Requip XL</i>                     | 1          |           |           | 1          |           |           |            |           |           |            |            |           |
| <i>Seroxat/Paxil</i>                 | 107        | (8)       | 1         | 93         | 1         | 29        | 98         | (8)       | 23        | 84         | (3)        | 35        |
| <i>Treximet</i>                      |            |           |           |            |           |           |            |           |           |            |            |           |
| <i>Wellbutrin, Wellbutrin XL</i>     | 3          |           | (25)      | 4          | (33)      | 33        | 3          | (20)      | (40)      | 4          | 50         | 100       |
| <b>Cardiovascular and urogenital</b> | <b>85</b>  | <b>25</b> | <b>27</b> | <b>74</b>  | <b>14</b> | <b>30</b> | <b>75</b>  | <b>19</b> | <b>39</b> | <b>66</b>  | <b>10</b>  | <b>32</b> |
| <i>Arixtra</i>                       | 5          | 100       | 67        | 4          | 67        | 33        | 5          |           | 67        | 4          | 50         | 100       |
| <i>Avodart</i>                       | 21         | 58        | 75        | 15         | 50        | 50        | 14         | 44        | 56        | 13         | 50         | 63        |
| <i>Coreg</i>                         |            |           |           |            |           |           | 1          | (100)     |           |            |            |           |
| <i>Fraxiparine</i>                   | 15         | 7         | 7         | 14         |           | 17        | 15         | 17        | 25        | 12         |            | 20        |
| <i>Levitra</i>                       |            |           |           | 1          |           |           |            |           |           |            |            |           |

|                            |              |            |            |              |             |           |              |            |           |              |             |             |
|----------------------------|--------------|------------|------------|--------------|-------------|-----------|--------------|------------|-----------|--------------|-------------|-------------|
| <i>Lovaza</i>              | 1            |            |            |              |             |           |              |            |           | 1            |             |             |
| <i>Vesicare</i>            |              |            |            |              |             |           |              |            |           |              |             |             |
| <i>Volibris</i>            |              |            |            | 1            |             |           |              |            |           |              |             |             |
| <b>Metabolic</b>           | <b>81</b>    | <b>(9)</b> | <b>(7)</b> | <b>85</b>    | <b>(10)</b> | <b>5</b>  | <b>83</b>    | <b>(4)</b> | <b>14</b> | <b>76</b>    | <b>(8)</b>  | <b>15</b>   |
| <i>Avandia products</i>    | 42           | (18)       | (16)       | 46           | (9)         | 5         | 45           | 2          | 10        | 42           | (8)         | 11          |
| <i>Avandia</i>             | 28           | (29)       | (26)       | 30           | (16)        | (3)       | 32           | (12)       | (3)       | 29           | (14)        |             |
| <i>Avandamet</i>           | 12           | 20         | 20         | 12           | 9           | 9         | 12           | 38         | 50        | 11           | 14          | 57          |
| <i>Bonviva/Boniva</i>      | 3            | 50         | 50         | 3            | 50          | 50        | 2            | 100        |           | 3            |             | >100        |
| <b>Anti-bacterials</b>     | <b>187</b>   | <b>11</b>  | <b>11</b>  | <b>191</b>   | <b>14</b>   | <b>20</b> | <b>189</b>   | <b>12</b>  | <b>26</b> | <b>190</b>   | <b>13</b>   | <b>33</b>   |
| <i>Augmentin</i>           | 82           | 16         | 17         | 85           | 17          | 20        | 74           | 3          | 14        | 86           | 20          | 43          |
| <b>Oncology and emesis</b> | <b>32</b>    | <b>21</b>  | <b>33</b>  | <b>34</b>    | <b>26</b>   | <b>48</b> | <b>28</b>    | <b>32</b>  | <b>47</b> | <b>23</b>    | <b>11</b>   | <b>28</b>   |
| <i>Hycamtin</i>            | 4            | 50         | 100        | 3            | 100         | 50        | 4            | (50)       |           | 2            | 50          |             |
| <i>Promacta</i>            |              |            |            |              |             |           |              |            |           |              |             |             |
| <i>Tyverb/Tykerb</i>       | 13           | >100       | >100       | 15           | >100        | >100      | 6            | >100       | 100       | 6            | 100         | >100        |
| <i>Zofran</i>              | 13           |            | 18         | 12           | (17)        |           | 12           |            | 9         | 11           |             | 10          |
| <b>Vaccines</b>            | <b>435</b>   | <b>56</b>  | <b>66</b>  | <b>252</b>   | <b>20</b>   | <b>33</b> | <b>240</b>   | <b>20</b>  | <b>36</b> | <b>220</b>   | <b>46</b>   | <b>73</b>   |
| <i>Boostrix</i>            | 7            | >100       | >100       | 4            | 100         | 100       | 8            | >100       | >100      | 7            | 100         | >100        |
| <i>Cervarix</i>            | 15           | 50         | 50         | 11           | >100        | >100      | 10           | 100        | >100      | 9            | >100        | >100        |
| <i>Fluarix, FluLaval</i>   | 26           | 4          | 13         | 24           | (9)         | 4         | 11           | 83         | 83        | 6            |             |             |
| <i>Flu pandemic</i>        | 163          | >100       | >100       | 7            |             |           |              |            |           | 1            |             |             |
| <i>Hepatitis</i>           | 36           | (8)        | (3)        | 38           | 10          | 23        | 36           | 7          | 24        | 36           | 3           | 20          |
| <i>Infanrix, Pediarix</i>  | 25           | (8)        |            | 32           | 22          | 39        | 25           | (4)        | 4         | 27           | 14          | 29          |
| <i>Rotarix</i>             | 39           | 6          | 8          | 48           | 83          | 100       | 37           | 20         | 48        | 29           | 39          | 61          |
| <i>Synflorix</i>           | 37           |            |            | 2            |             |           | 2            |            |           |              |             |             |
| <b>Other</b>               | <b>189</b>   | <b>20</b>  | <b>24</b>  | <b>164</b>   | <b>16</b>   | <b>23</b> | <b>175</b>   | <b>(4)</b> | <b>17</b> | <b>154</b>   | <b>(32)</b> | <b>(18)</b> |
|                            | <b>1,968</b> | <b>28</b>  | <b>36</b>  | <b>1,605</b> | <b>16</b>   | <b>31</b> | <b>1,532</b> | <b>10</b>  | <b>28</b> | <b>1,500</b> | <b>6</b>    | <b>32</b>   |

Pharmaceutical turnover includes co-promotion income.

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Shareholder information

Quarterly trend

**Consumer Healthcare turnover total Group**

|                                   | Q4 2009      |           |           | Q3 2009      |           |           | Q2 2009      |           |           | Q1 2009      |          |           |
|-----------------------------------|--------------|-----------|-----------|--------------|-----------|-----------|--------------|-----------|-----------|--------------|----------|-----------|
|                                   | £m           | CER%      | £%        | £m           | CER%      | £%        | £m           | CER%      | £%        | £m           | CER%     | £%        |
| <b>Over-the-counter medicines</b> | <b>612</b>   | <b>4</b>  | <b>6</b>  | <b>567</b>   | <b>9</b>  | <b>19</b> | <b>573</b>   | <b>13</b> | <b>29</b> | <b>567</b>   | <b>5</b> | <b>30</b> |
| <i>alli</i>                       | <b>40</b>    | <b>33</b> | <b>33</b> | 49           | >100      | >100      | 82           | >100      | >100      | 32           | >100     | >100      |
| <i>Breathe Right</i>              | 22           | (19)      | (19)      | 23           | 5         | 21        | 20           | (6)       | 11        | 27           | 24       | 59        |
| Cold sore franchise               | 25           | (11)      | (11)      | 28           | 14        | 27        | 20           | (11)      | 5         | 23           | (5)      | 15        |
| Nicotene replacement              | 90           | (5)       | (3)       | 79           | (16)      | (5)       | 88           | 12        | 35        | 82           | 12       | 41        |
| <i>Panadol</i>                    | 104          | 19        | 24        | 96           | 7         | 17        | 94           | 8         | 21        | 99           | 6        | 24        |
| <i>Tums</i>                       | 26           | (4)       | (4)       | 25           |           | 19        | 25           | (5)       | 14        | 30           | 5        | 43        |
| <b>Oral healthcare</b>            | <b>375</b>   | <b>6</b>  | <b>9</b>  | <b>375</b>   | <b>10</b> | <b>21</b> | <b>366</b>   | <b>7</b>  | <b>23</b> | <b>368</b>   | <b>5</b> | <b>27</b> |
| <i>Aquafresh</i> franchise        | 121          | (2)       | (1)       | 126          | (2)       | 9         | 121          | (1)       | 13        | 128          |          | 20        |
| <i>Biotene</i>                    | 7            | >100      | >100      | 7            |           |           | 6            |           |           | 6            |          |           |
| Denture care                      | 87           | 9         | 13        | 85           | 10        | 25        | 84           | 9         | 27        | 80           | 5        | 33        |
| <i>Sensodyne</i> franchise        | 114          | 11        | 14        | 118          | 20        | 31        | 113          | 14        | 30        | 112          | 7        | 30        |
| <b>Nutritional healthcare</b>     | <b>191</b>   | <b>4</b>  | <b>3</b>  | <b>223</b>   | <b>4</b>  | <b>7</b>  | <b>226</b>   | <b>2</b>  | <b>8</b>  | <b>211</b>   | <b>1</b> | <b>9</b>  |
| <i>Horlicks</i>                   | 55           | 19        | 17        | 64           | 13        | 21        | 61           | 17        | 27        | 75           | 20       | 34        |
| <i>Lucozade</i>                   | 86           | (2)       | (3)       | 104          | 4         | 4         | 106          | (4)       | (1)       | 80           | (12)     | (7)       |
| <i>Ribena</i>                     | 38           |           | 3         | 40           | (9)       | (9)       | 44           | (2)       | 2         | 38           | (5)      | 3         |
|                                   | <b>1,178</b> | <b>5</b>  | <b>6</b>  | <b>1,165</b> | <b>8</b>  | <b>17</b> | <b>1,165</b> | <b>9</b>  | <b>23</b> | <b>1,146</b> | <b>4</b> | <b>25</b> |

**Consumer Healthcare turnover USA**

|                                   | Q4 2009    |             |             | Q3 2009    |            |           | Q2 2009    |          |           | Q1 2009    |          |           |
|-----------------------------------|------------|-------------|-------------|------------|------------|-----------|------------|----------|-----------|------------|----------|-----------|
|                                   | £m         | CER%        | £%          | £m         | CER%       | £%        | £m         | CER%     | £%        | £m         | CER%     | £%        |
| <b>Over-the-counter medicines</b> | <b>185</b> | <b>(11)</b> | <b>(11)</b> | <b>174</b> | <b>(3)</b> | <b>12</b> | <b>183</b> | <b>1</b> | <b>28</b> | <b>180</b> | <b>4</b> | <b>44</b> |
| <i>alli</i>                       | 22         | (18)        | (21)        | 20         |            | 11        | 25         | 12       | 47        | 29         | >100     | >100      |

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|                               |            |            |            |            |           |           |            |           |           |            |           |           |
|-------------------------------|------------|------------|------------|------------|-----------|-----------|------------|-----------|-----------|------------|-----------|-----------|
| <i>Breathe Right</i>          | 11         | (31)       | (31)       | 15         |           | 15        | 10         | (20)      |           | 14         | 11        | 56        |
| Cold sore franchise           | 11         | (27)       | (27)       | 17         | 40        | 70        | 9          | (22)      |           | 9          |           | 29        |
| Nicotene replacement          | 63         | (7)        | (7)        | 58         | (17)      | (3)       | 68         | 13        | 45        | 58         | 11        | 53        |
| <i>Panadol</i>                |            |            |            |            |           |           |            |           |           |            |           |           |
| <i>Tums</i>                   | 23         |            |            | 20         |           | 11        | 22         | (5)       | 16        | 27         | 6         | 50        |
| <b>Oral healthcare</b>        | <b>75</b>  | <b>10</b>  | <b>10</b>  | <b>75</b>  | <b>20</b> | <b>39</b> | <b>71</b>  | <b>10</b> | <b>42</b> | <b>78</b>  | <b>14</b> | <b>56</b> |
| <i>Aquafresh</i> franchise    | 22         | (12)       | (15)       | 23         |           | 15        | 21         | (6)       | 17        | 27         | (5)       | 35        |
| <i>Biotene</i>                | 5          | >100       | >100       | 4          |           |           | 5          |           |           | 5          |           |           |
| Denture care                  | 19         |            |            | 19         | 13        | 27        | 20         |           | 33        | 19         |           | 36        |
| <i>Sensodyne</i> franchise    | 27         | 29         | 29         | 28         | 41        | 65        | 23         | 20        | 53        | 26         | 27        | 73        |
| <b>Nutritional healthcare</b> |            |            |            |            |           |           |            |           |           |            |           |           |
| <i>Horlicks</i>               |            |            |            |            |           |           |            |           |           |            |           |           |
| <i>Lucozade</i>               |            |            |            |            |           |           |            |           |           |            |           |           |
| <i>Ribena</i>                 |            |            |            |            |           |           |            |           |           |            |           |           |
|                               | <b>260</b> | <b>(5)</b> | <b>(5)</b> | <b>249</b> | <b>3</b>  | <b>19</b> | <b>254</b> | <b>3</b>  | <b>32</b> | <b>258</b> | <b>7</b>  | <b>47</b> |

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## Shareholder information

## Quarterly trend

**Consumer Healthcare turnover Europe**

|                                   | Q4 2009    |            |            | Q3 2009    |            |            | Q2 2009    |            |            | Q1 2009    |             |             |
|-----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|
|                                   | £m         | CER%       | £%         | £m         | CER%       | £%         | £m         | CER%       | £%         | £m         | CER%        | £%          |
| <b>Over-the-counter medicines</b> | <b>221</b> | <b>17</b>  | <b>18</b>  | <b>186</b> | <b>27</b>  | <b>31</b>  | <b>185</b> | <b>31</b>  | <b>38</b>  | <b>156</b> | <b>(2)</b>  | <b>8</b>    |
| <i>alli</i>                       | 17         |            |            | 29         |            |            | 56         |            |            | 3          |             |             |
| <i>Breathe Right</i>              | 5          | (17)       | (17)       | 5          |            | 25         | 5          |            |            | 7          | 20          | 40          |
| Cold sore franchise               | 10         | (9)        | (9)        | 9          |            | 13         | 8          |            | (11)       | 11         | (10)        | 10          |
| Nicotine replacement              | 19         | 6          | 6          | 13         |            |            | 15         | 8          | 15         | 17         | 6           | 6           |
| <i>Panadol</i>                    | 33         | 35         | 43         | 26         | 32         | 37         | 20         | 11         | 11         | 20         | (11)        | 5           |
| <i>Tums</i>                       |            |            |            | 1          |            |            |            |            |            |            |             |             |
| <b>Oral healthcare</b>            | <b>196</b> | <b>1</b>   | <b>4</b>   | <b>190</b> | <b>3</b>   | <b>9</b>   | <b>190</b> | <b>4</b>   | <b>12</b>  | <b>184</b> | <b>1</b>    | <b>16</b>   |
| <i>Aquafresh</i> franchise        | 72         | (3)        | (1)        | 75         | (3)        | 4          | 71         | (2)        | 8          | 73         | (2)         | 14          |
| <i>Biotene</i>                    | 1          |            |            | 1          |            |            | 1          |            |            |            |             |             |
| Denture care                      | 33         |            | 3          | 32         | 15         | 19         | 32         | 7          | 19         | 28         |             | 17          |
| <i>Sensodyne</i> franchise        | 50         |            | 4          | 48         | 7          | 12         | 50         | 7          | 16         | 47         | 2           | 15          |
| <b>Nutritional healthcare</b>     | <b>107</b> | <b>(3)</b> | <b>(3)</b> | <b>125</b> | <b>(2)</b> | <b>(2)</b> | <b>130</b> | <b>(5)</b> | <b>(3)</b> | <b>95</b>  | <b>(15)</b> | <b>(14)</b> |
| <i>Horlicks</i>                   | 6          |            |            | 4          | (20)       | (20)       | 4          | (20)       | (20)       | 5          | (17)        | (17)        |
| <i>Lucozade</i>                   | 74         | (3)        | (3)        | 92         | 2          | 3          | 92         | (5)        | (3)        | 65         | (16)        | (14)        |
| <i>Ribena</i>                     | 26         | (4)        | (4)        | 29         | (12)       | (12)       | 33         | (6)        | (3)        | 25         | (7)         | (7)         |
|                                   | <b>524</b> | <b>6</b>   | <b>8</b>   | <b>501</b> | <b>9</b>   | <b>13</b>  | <b>505</b> | <b>10</b>  | <b>16</b>  | <b>435</b> | <b>(4)</b>  | <b>5</b>    |

**Consumer Healthcare turnover Rest of World**

|                                   | Q4 2009    |          |           | Q3 2009    |          |           | Q2 2009    |          |           | Q1 2009    |           |           |
|-----------------------------------|------------|----------|-----------|------------|----------|-----------|------------|----------|-----------|------------|-----------|-----------|
|                                   | £m         | CER%     | £%        | £m         | CER%     | £%        | £m         | CER%     | £%        | £m         | CER%      | £%        |
| <b>Over-the-counter medicines</b> | <b>206</b> | <b>8</b> | <b>11</b> | <b>207</b> | <b>6</b> | <b>16</b> | <b>205</b> | <b>8</b> | <b>23</b> | <b>231</b> | <b>13</b> | <b>38</b> |
| <i>alli</i>                       | 1          | (50)     | (50)      |            |          |           | 1          |          |           |            |           |           |
| <i>Breathe Right</i>              | 6          | 20       | 20        | 3          | 50       | 50        | 5          | 33       | 67        | 6          | 67        | 100       |
| Cold sore franchise               | 4          | 100      | 100       | 2          | (25)     | (50)      | 3          |          | >100      | 3          |           |           |
| Nicotine replacement              | 8          | (14)     | 14        | 8          | (30)     | (20)      | 5          | 20       |           | 7          | 50        | 75        |
| <i>Panadol</i>                    | 71         | 13       | 16        | 70         |          | 11        | 74         | 7        | 23        | 79         | 11        | 30        |
| <i>Tums</i>                       | 3          |          |           | 4          | (33)     | 33        | 3          |          |           | 3          |           |           |

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|                               |            |           |           |            |           |           |            |           |           |            |           |           |
|-------------------------------|------------|-----------|-----------|------------|-----------|-----------|------------|-----------|-----------|------------|-----------|-----------|
| <b>Oral healthcare</b>        | <b>104</b> | <b>15</b> | <b>21</b> | <b>110</b> | <b>18</b> | <b>34</b> | <b>105</b> | <b>13</b> | <b>33</b> | <b>106</b> | <b>8</b>  | <b>33</b> |
| <i>Aquafresh</i> franchise    | 27         | 9         | 17        | 28         |           | 17        | 29         | (4)       | 26        | 28         | 9         | 22        |
| <i>Biotene</i>                | 1          |           |           | 2          |           |           |            |           |           | 1          |           |           |
| Denture care                  | 35         | 27        | 35        | 34         | 4         | 31        | 32         | 17        | 33        | 33         | 14        | 50        |
| <i>Sensodyne</i> franchise    | 37         | 16        | 19        | 42         | 27        | 40        | 40         | 21        | 38        | 39         | 3         | 30        |
| <b>Nutritional healthcare</b> | <b>84</b>  | <b>15</b> | <b>12</b> | <b>98</b>  | <b>15</b> | <b>21</b> | <b>96</b>  | <b>14</b> | <b>26</b> | <b>116</b> | <b>22</b> | <b>40</b> |
| <i>Horlicks</i>               | 49         | 22        | 20        | 60         | 17        | 25        | 57         | 21        | 33        | 70         | 24        | 40        |
| <i>Lucozade</i>               | 12         |           | (8)       | 12         | 18        | 9         | 14         | 8         | 17        | 15         | 20        | 50        |
| <i>Ribena</i>                 | 12         | 10        | 20        | 11         |           |           | 11         | 11        | 22        | 13         |           | 30        |
|                               | <b>394</b> | <b>11</b> | <b>14</b> | <b>415</b> | <b>11</b> | <b>21</b> | <b>406</b> | <b>11</b> | <b>26</b> | <b>453</b> | <b>14</b> | <b>37</b> |

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## Shareholder information

**Five year record**

A record of financial performance is provided, analysed in accordance with current reporting practice. The information included in the Five year record is prepared in accordance with IFRS as adopted by the European Union and also with IFRS as issued by the International Accounting Standards Board.

|  | <b>2009</b>   | 2008   | 2007   | 2006   | 2005   |
|--|---------------|--------|--------|--------|--------|
| <b>Pharmaceutical turnover by therapeutic area</b> | <b>£m</b>     | £m     | £m     | £m     | £m     |
| Respiratory  | <b>6,977</b>  | 5,817  | 5,032  | 4,991  | 5,050  |
| Anti-virals  | <b>4,150</b>  | 3,206  | 3,027  | 2,826  | 2,598  |
| Central nervous system                             | <b>1,870</b>  | 2,897  | 3,348  | 3,642  | 3,219  |
| Cardiovascular and urogenital                      | <b>2,298</b>  | 1,847  | 1,554  | 1,636  | 1,331  |
| Metabolic  | <b>1,181</b>  | 1,191  | 1,508  | 1,870  | 1,488  |
| Anti-bacterials                                    | <b>1,592</b>  | 1,429  | 1,323  | 1,363  | 1,513  |
| Oncology and emesis                                | <b>629</b>    | 496    | 477    | 1,069  | 1,016  |
| Vaccines   | <b>3,706</b>  | 2,539  | 1,993  | 1,692  | 1,389  |
| Other  | <b>1,311</b>  | 959    | 901    | 924    | 979    |
|  | <b>23,714</b> | 20,381 | 19,163 | 20,013 | 18,583 |

|   | <b>2009</b>   | 2008   | 2007   | 2006   | 2005   |
|---|---------------|--------|--------|--------|--------|
| <b>Pharmaceutical turnover by geographic area</b> | <b>£m</b>     | £m     | £m     | £m     | £m     |
| USA   | <b>9,180</b>  | 8,894  | 9,273  | 10,353 | 9,106  |
| Europe  | <b>7,681</b>  | 6,483  | 5,560  | 5,437  | 5,458  |
| Rest of World:                                    |               |        |        |        |        |
| Emerging markets                                  | <b>2,973</b>  | 2,290  | 1,895  | 1,783  | 1,671  |
| Japan   | <b>1,649</b>  | 1,027  | 867    | 860    | 854    |
| Asia Pacific                                      | <b>1,051</b>  | 891    | 834    | 806    | 763    |
| Canada  | <b>635</b>    | 503    | 477    | 483    | 443    |
| Other   | <b>545</b>    | 293    | 257    | 291    | 288    |
| Rest of World                                     | <b>6,853</b>  | 5,004  | 4,330  | 4,223  | 4,019  |
|   | <b>23,714</b> | 20,381 | 19,163 | 20,013 | 18,583 |

Pharmaceutical turnover includes co-promotion income.

|                                     | <b>2009</b>  | 2008  | 2007  | 2006  | 2005  |
|-------------------------------------|--------------|-------|-------|-------|-------|
| <b>Consumer Healthcare turnover</b> | <b>£m</b>    | £m    | £m    | £m    | £m    |
| OTC medicines                       | <b>2,319</b> | 1,935 | 1,788 | 1,561 | 1,515 |
| Oral healthcare                     | <b>1,484</b> | 1,240 | 1,049 | 993   | 943   |
| Nutritional healthcare              | <b>851</b>   | 796   | 716   | 658   | 619   |
|                                     | <b>4,654</b> | 3,971 | 3,553 | 3,212 | 3,077 |





## Shareholder information

|   | 2009            | 2008     | 2007     | 2006     | 2005     |
|---|-----------------|----------|----------|----------|----------|
| <b>Financial results total</b>                      | <b>£m</b>       | £m       | £m       | £m       | £m       |
| Turnover  | <b>28,368</b>   | 24,352   | 22,716   | 23,225   | 21,660   |
| Operating profit                                    | <b>8,425</b>    | 7,141    | 7,593    | 7,808    | 6,874    |
| Profit before taxation                              | <b>7,891</b>    | 6,659    | 7,452    | 7,799    | 6,732    |
| Profit after taxation                               | <b>5,669</b>    | 4,712    | 5,310    | 5,498    | 4,816    |
|   | <b>pence</b>    | pence    | pence    | pence    | pence    |
| Basic earnings per share                            | <b>109.1</b>    | 88.6     | 94.4     | 95.5     | 82.6     |
| Diluted earnings per share                          | <b>108.2</b>    | 88.1     | 93.7     | 94.5     | 82.0     |
|   | <b>2009</b>     | 2008     | 2007     |          |          |
| <b>Financial results before major restructuring</b> | <b>£m</b>       | £m       | £m       |          |          |
| Turnover  | <b>28,368</b>   | 24,352   | 22,716   |          |          |
| Operating profit                                    | <b>9,257</b>    | 8,259    | 7,931    |          |          |
| Profit before taxation                              | <b>8,726</b>    | 7,782    | 7,790    |          |          |
| Profit after taxation                               | <b>6,283</b>    | 5,551    | 5,571    |          |          |
|   | <b>pence</b>    | pence    |          |          |          |
| Adjusted earnings per share                         | <b>121.2</b>    | 104.7    |          |          |          |
| Adjusted diluted earnings per share                 | <b>120.3</b>    | 104.1    |          |          |          |
|   | <b>2009</b>     | 2008     | 2007     | 2006     | 2005     |
|   | <b>millions</b> | millions | millions | millions | millions |
| Weighted average number of shares in issue:         |                 |          |          |          |          |
| Basic   | <b>5,069</b>    | 5,195    | 5,524    | 5,643    | 5,674    |
| Diluted   | <b>5,108</b>    | 5,226    | 5,567    | 5,700    | 5,720    |
|   | <b>%</b>        | %        | %        | %        | %        |
| Return on capital employed                          | <b>82.8</b>     | 73.1     | 76.2     | 90.6     | 99.7     |

Return on capital employed is calculated as total profit before taxation as a percentage of average net assets over the year.

| <b>Balance sheet</b>    | <b>2009</b>     | 2008     | 2007     | 2006     | 2005     |
|-------------------------|-----------------|----------|----------|----------|----------|
|                         | <b>£m</b>       | £m       | £m       | £m       | £m       |
| Non-current assets      | <b>25,292</b>   | 22,124   | 17,377   | 14,561   | 14,021   |
| Current assets          | <b>17,570</b>   | 17,269   | 13,626   | 10,992   | 13,177   |
| Total assets            | <b>42,862</b>   | 39,393   | 31,003   | 25,553   | 27,198   |
| Current liabilities     | <b>(12,118)</b> | (10,017) | (10,345) | (7,265)  | (9,511)  |
| Non-current liabilities | <b>(20,002)</b> | (21,058) | (10,748) | (8,640)  | (10,117) |
| Total liabilities       | <b>(32,120)</b> | (31,075) | (21,093) | (15,905) | (19,628) |
| Net assets              | <b>10,742</b>   | 8,318    | 9,910    | 9,648    | 7,570    |
| Shareholders equity     | <b>10,005</b>   | 7,931    | 9,603    | 9,386    | 7,311    |
| Minority interests      | <b>737</b>      | 387      | 307      | 262      | 259      |
| Total equity            | <b>10,742</b>   | 8,318    | 9,910    | 9,648    | 7,570    |

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## Shareholder information

**Number of employees**

|                               | <b>2009</b>   | 2008   | 2007    | 2006    | 2005    |
|-------------------------------|---------------|--------|---------|---------|---------|
| USA                           | <b>22,594</b> | 21,176 | 24,838  | 24,726  | 23,822  |
| Europe                        | <b>42,048</b> | 44,677 | 46,869  | 45,758  | 43,999  |
| Rest of World:                |               |        |         |         |         |
| Asia Pacific, including China | <b>21,011</b> | 18,983 | 17,525  | 17,570  | 15,991  |
| Japan                         | <b>3,264</b>  | 3,174  | 3,284   | 3,195   | 3,098   |
| Middle East, Africa           | <b>3,619</b>  | 3,403  | 3,156   | 3,204   | 5,682   |
| Latin America                 | <b>5,169</b>  | 5,228  | 5,249   | 5,856   | 5,664   |
| Canada                        | <b>2,208</b>  | 2,362  | 2,562   | 2,386   | 2,472   |
| Rest of World                 | <b>35,271</b> | 33,150 | 31,776  | 32,211  | 32,907  |
|                               | <b>99,913</b> | 99,003 | 103,483 | 102,695 | 100,728 |
| Manufacturing                 | <b>31,162</b> | 32,622 | 33,995  | 33,235  | 31,615  |
| Selling                       | <b>44,621</b> | 42,430 | 44,499  | 44,484  | 44,393  |
| Administration                | <b>9,405</b>  | 8,787  | 8,960   | 9,024   | 9,225   |
| Research and development      | <b>14,725</b> | 15,164 | 16,029  | 15,952  | 15,495  |
|                               | <b>99,913</b> | 99,003 | 103,483 | 102,695 | 100,728 |

The geographic distribution of employees in the table above is based on the location of GSK's subsidiary companies. The number of employees is the number of permanent employed staff at the end of the financial period. It excludes those employees who are employed and managed by GSK on a contract basis.

**Exchange rates**

As a guide to holders of ADS, the following tables set out, for the periods indicated, information on the exchange rate of US dollars for Sterling as reported by the Federal Reserve Bank of New York (noon buying rate).

|         | <b>2009</b> | 2008 | 2007 | 2006 | 2005 |
|---------|-------------|------|------|------|------|
| Average | <b>1.56</b> | 1.85 | 2.00 | 1.85 | 1.81 |

The average rate for the year is calculated as the average of the noon buying rates for each day of the year.

|      | <b>Feb<br/>2010</b> | Jan<br>2010 | Dec<br>2009 | Nov<br>2009 | Oct<br>2009 | Sept<br>2009 |
|------|---------------------|-------------|-------------|-------------|-------------|--------------|
| High | <b>1.60</b>         | 1.64        | 1.67        | 1.68        | 1.66        | 1.67         |
| Low  | <b>1.54</b>         | 1.59        | 1.59        | 1.64        | 1.58        | 1.59         |

As at 31st December 2008, the Federal Reserve Bank of New York ceased publishing noon buying rates. The Bank of England 4pm buying rates have been used for subsequent calculations.

The 4pm buying rate on 19th February 2010 was £1 = US\$1.54.



**Product development pipeline**

|            |  |
|------------|--|
| <b>Key</b> |  |
|            | In-license or other alliance relationship with third party   |
| S          | Month of first submission  |
| A          | Month of first regulatory approval (for MAA, this is the first EU approval letter)   |
| AL/CR      | Month Approvable or Complete Response Letter received indicates that ultimately approval can be given subject to resolution of outstanding queries |
| PO         | Month of EU Positive Opinion   |
| TA         | FDA Tentative Approval   |
| BLA        | Biological License Application   |
| MAA        | Marketing Authorisation Application (Europe)   |
| NDA        | New Drug Application (USA)   |
| Phase I    | Evaluation of clinical pharmacology, usually conducted in volunteers   |
| Phase II   | Determination of dose and initial evaluation of efficacy, conducted in a small number of patients  |
| Phase III  | Large comparative study (compound versus placebo and/or established treatment) in patients to establish clinical benefit and safety                |

MAA and NDA/BLA Regulatory milestones shown in the table below are those that have been achieved. Future submission dates are not included in this list.

| Type  | Indication                              | Phase | Achieved I review m MAA |
|---|---|-------|-------------------------|
| <b>Pharmaceuticals</b>                                    |   |       |                         |
| monoclonal antibody                                       | Alzheimer's disease                     | I     |                         |
| monoclonal antibody                                       | metabolic disease                       | I     |                         |
| monoclonal antibody                                       | amyotrophic lateral sclerosis           | I     |                         |
| domain antibody targeted                                  | malignant melanoma                      | I     |                         |
| multi-component vaccine                                   |   |       |                         |
| recombinant human angiotensin converting enzyme 2         | acute respiratory distress syndrome     | I     |                         |
| (+ IL18 immunomodulator (+ topoisomerase II inhibitor)    | ovarian cancer                          | I     |                         |
| (+ IL18 immunomodulator (+ anti-CD20 monoclonal antibody) | follicular lymphoma                     | I     |                         |
| ab) anti-CD3 monoclonal antibody (s.c.)                   | type 1 diabetes                         | I     |                         |
| monoclonal antibody                                       | stroke                                  | II    |                         |
| monoclonal antibody                                       | rheumatoid arthritis                    | II    |                         |
| monoclonal antibody                                       | severe asthma                           | II    |                         |
| anti-CD20 human monoclonal antibody                       | follicular lymphoma (relapsed patients) | II    |                         |
| ab)   |   |       |                         |
| anti-B lymphocyte stimulator monoclonal antibody (s.c.)   | systemic lupus erythematosus            | II    |                         |
| b)  |   |       |                         |

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|     |   |  |                    |  |
|-----|---|--|--------------------|--|
| ab  | anti-IL5 monoclonal antibody  | severe asthma & nasal polyposis  | II                 |  |
| b   | anti-CD20 human monoclonal antibody   | multiple sclerosis   | II                 |  |
|     | anti-CD20 human monoclonal antibody   | chronic lymphocytic leukaemia, first line therapy & use in relapsed patients | III                |  |
| ab) | anti-CD20 human monoclonal antibody   | diffuse large B cell lymphoma (relapsed patients)                            | III                |  |
| ab) | anti-CD20 human monoclonal antibody   | follicular lymphoma (refractory patients)                                    | III                |  |
| ab) | anti-B lymphocyte stimulator monoclonal antibody (i.v.)                           | systemic lupus erythematosus   | III                |  |
| b)  | anti-receptor activator for nuclear kappa (RANK) ligand human monoclonal antibody | bone metastatic disease  | III                |  |
|     | anti-RANK ligand human monoclonal antibody  | hormone ablative/chemotherapy bone loss in cancer patients                   | III                |  |
| b   | anti-CD20 human monoclonal antibody   | rheumatoid arthritis   | III                |  |
| ab  | anti-CD3 monoclonal antibody (i.v.)   | type 1 diabetes  | III                |  |
|     | glucagon-like peptide 1 agonist   | type 2 diabetes  | III                |  |
|     | anti-RANK ligand human monoclonal antibody  | post-menopausal osteoporosis   | Submitted PO:Dec09 |  |
| b)  | anti-CD20 human monoclonal antibody   | chronic lymphocytic leukaemia (refractory patients)                          | Approved PO:Jan10  |  |
| ab) |   |  |                    |  |

**cular & Metabolic**

|    |   |   |                  |     |
|----|---|---|------------------|-----|
|    | prolyl hydroxylase inhibitor                          | anaemia   | I                |     |
|    | mu-opioid receptor inverse agonist                    | obesity   | I                |     |
|    | sodium dependent glucose transport (SGLT1) inhibitor  | type 2 diabetes                                       | I                |     |
|    | SIRT1 activator                                       | sarcopaenia (also COPD & psoriasis)                   | I                |     |
|    | SIRT1 activator                                       | type 2 diabetes (also haematologic cancers)           | II               |     |
|    | high affinity nicotinic acid receptor (HM74A) agonist | dyslipidaemia   | II               |     |
|    | oxytocin antagonist                                   | premature ejaculation                                 | II               |     |
|    | gastrin-releasing peptide (GPR119) receptor agonist   | type 2 diabetes                                       | II               |     |
|    | glycogen phosphorylase inhibitor                      | type 2 diabetes                                       | II               |     |
|    | SIRT1 activator                                       | type 2 diabetes (also COPD & haematologic cancers)    | II               |     |
| d  | p38 kinase inhibitor                                  | cardiovascular disease (also COPD, pain & depression) | II               |     |
|    | oxytocin antagonist                                   | threatened pre-term labour                            | II               |     |
|    | Lp-PLA2 inhibitor                                     | atherosclerosis                                       | II               |     |
| XR | PPAR gamma agonist + metformin                        | type 2 diabetes extended release                      | III              | N/A |
|    | PPAR gamma agonist + statin                           | type 2 diabetes                                       | III              | N/A |
|    | Lp-PLA2 inhibitor                                     | atherosclerosis                                       | III              |     |
|    | synthetic factor Xa inhibitor                         | treatment of acute coronary syndrome                  | Approved A:Aug07 |     |
|    | PPAR gamma agonist                                    | prevention of disease progression                     | Approved A:Apr09 |     |



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## Product development pipeline

| Type  | Indication   | Phase     | Achieved<br>review<br>MA |
|---|--|-----------|--------------------------|
| plasmodium electron transport chain inhibitor | malaria  | I         |                          |
| topoisomerase II inhibitor                    | treatment of bacterial infections                              | I         |                          |
| novel class antibacterial agent               | treatment of bacterial infections                              | I         |                          |
| neuraminidase inhibitor (i.v.)                | treatment of influenza   | II        |                          |
| 8-aminoquinoline                              | treatment of visceral leishmaniasis                            | II        |                          |
| 8-aminoquinoline                              | Plasmodium vivax malaria                                       | II        |                          |
| CRF1 antagonist                               | depression & anxiety   | I         |                          |
| dopamine D3 antagonist                        | drug dependency  | I         |                          |
| sodium channel blocker                        | bipolar disorder   | I         |                          |
| muscarinic acetylcholine agonist              | dementia   | I         |                          |
| NK1/NK3 antagonist                            | schizophrenia  | I         |                          |
| 5HT1 antagonist                               | depression & anxiety   | II        |                          |
| histamine H3 antagonist                       | dementia & schizophrenia                                       | II        |                          |
| CRF1 antagonist                               | depression & anxiety   | II        |                          |
| orexin antagonist                             | sleep disorders  | II        |                          |
| 5HT6 antagonist                               | dementia   | II        |                          |
| 51) antisense oligonucleotide                 | Duchenne muscular dystrophy                                    | II        |                          |
| dual alpha4 integrin antagonist (VLA4)        | multiple sclerosis   | II        |                          |
| 62) voltage-gated calcium channel modulator   | migraine prophylaxis   | II        |                          |
| 62) voltage-gated calcium channel modulator   | neuropathic pain   | II        |                          |
| p38 kinase inhibitor                          | pain (also cardiovascular disease, COPD & depression)          | II        |                          |
| p38 kinase inhibitor                          | depression (also cardiovascular disease, COPD & pain)          | II        |                          |
| NK1 antagonist                                | depression & anxiety   | II        |                          |
| orexin antagonist                             | insomnia   | III       |                          |
| voltage-gated calcium channel modulator       | restless legs syndrome   | Submitted |                          |
| neuronal potassium channel opener             | epilepsy partial seizures                                      | Submitted | S:Oct0                   |
| sodium channel inhibitor                      | epilepsy partial generalised tonic-clonic seizures, once-daily | Approved  | N/A                      |
| sodium channel inhibitor                      | epilepsy partial seizures, once-daily                          | Approved  | N/A                      |
| AKT protein kinase inhibitor                  | cancer   | I         |                          |
| BRaf protein kinase inhibitor                 | cancer   | I         |                          |
| Pi3 kinase inhibitor                          | cancer   | I         |                          |
| AKT protein kinase inhibitor                  | cancer   | I         |                          |



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|      |   |  |                  |
|------|---|--|------------------|
|      | SIRT1 activator   | haematologic cancers (also type 2 diabetes)                | II               |
|      | mitogen-activated protein kinase inhibitor (MEK1/2)               | cancer   | II               |
|      | thrombopoietin receptor agonist                                   | thrombocytopenia   | II               |
| 89)  | mesenchymal-epithelial transition factor (C-met) kinase inhibitor | papillary renal cell carcinoma and other cancers           | II               |
| acta | thrombopoietin receptor agonist                                   | oncology-related thrombocytopenia                          | II               |
|      | Her2 and EGFR dual kinase inhibitor                               | head & neck squamous cell carcinoma (unresectable disease) | II               |
|      | multi-kinase angiogenesis inhibitor                               | breast cancer, adjuvant therapy                            | II               |
|      | multi-kinase angiogenesis inhibitor                               | non-small cell lung cancer, first line & adjuvant therapy  | II               |
|      | multi-kinase angiogenesis inhibitor                               | ovarian cancer, maintenance therapy                        | III              |
| acta | thrombopoietin receptor agonist                                   | chronic liver disease induced thrombocytopenia             | III              |
| acta | thrombopoietin receptor agonist                                   | hepatitis C induced thrombocytopenia                       | III              |
|      | Her2 and EGFR dual kinase inhibitor                               | breast cancer, adjuvant therapy                            | III              |
|      | Her2 and EGFR dual kinase inhibitor                               | gastric cancer   | III              |
|      | Her2 and EGFR dual kinase inhibitor                               | head & neck squamous cell carcinoma (resectable disease)   | III              |
|      | multi-kinase angiogenesis inhibitor                               | sarcoma  | III              |
|      | multi-kinase angiogenesis inhibitor +                             | inflammatory breast cancer                                 | III              |
|      | Her2 and EGFR dual kinase inhibitor                               |  |                  |
|      | 5-alpha reductase inhibitor                                       | reduction in the risk of prostate cancer                   | Submitted S:Sep0 |
| rt + | 5-alpha reductase inhibitor + alpha blocker                       | benign prostatic hyperplasia fixed dose combination        | Submitted S:Dec0 |
| acta | thrombopoietin receptor agonist                                   | idiopathic thrombocytopenic purpura                        | Approved PO:De   |
|      | Her2 and EGFR dual kinase inhibitor                               | breast cancer, first line therapy                          | Approved PO:Fe   |
|      | multi-kinase angiogenesis inhibitor                               | renal cell cancer  | Approved PO:Fe   |
|      | multi-kinase angiogenesis inhibitor (oral)                        | age-related macular degeneration (also cancer indications) | I                |
|      | multi-kinase angiogenesis inhibitor (eye drops)                   | age-related macular degeneration                           | II               |

\* See Note 40 to the financial statements, Post balance sheet events .

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## Product development pipeline

| Compound                                     | Type   | Indication  | Phase | Achieved Regulatory review milestones |         |
|--|--|---|-------|---------------------------------------|---------|
|  |  |   |       | MAA                                   | NDA/BLA |
| <b>Respiratory &amp; Immuno-inflammation</b> |  |   |       |                                       |         |
| 610677                                       | p38 kinase inhibitor (inhaled)   | COPD  | I     |                                       |         |
| 681323                                       | p38 kinase inhibitor (i.v.)  | acute lung injury & acute respiratory distress syndrome | I     |                                       |         |
| 1325756                                      | chemokine receptor (CXCR2) antagonist                                  | COPD  | I     |                                       |         |
| 2245840                                      | SIRT1 activator  | COPD & psoriasis (also type 2 diabetes & sarcopaenia)   | I     |                                       |         |
| CCX025                                       | CCR9 antagonist  | Crohn s disease   | I     |                                       |         |
| 256066                                       | PDE4 inhibitor (inhaled)   | COPD  | II    |                                       |         |
| 573719                                       | muscarinic acetylcholine antagonist                                    | COPD  | II    |                                       |         |
| 573719 + 642444                              | muscarinic acetylcholine antagonist + long-acting beta2 agonist        | COPD  | II    |                                       |         |
| 656933                                       | chemokine receptor (CXCR2) antagonist                                  | cystic fibrosis   | II    |                                       |         |
| 685698                                       | glucocorticoid agonist   | asthma  | II    |                                       |         |
| 705498                                       | transient receptor potential vanilloid (TRPV1) antagonist (intranasal) | non-allergic rhinitis                                   | II    |                                       |         |
| 870086                                       | novel glucocorticoid agonist (inhaled)                                 | asthma  | II    |                                       |         |
| 961081                                       | muscarinic antagonist, beta2 agonist                                   | COPD  | II    |                                       |         |
| 962040                                       | motilin receptor agonist   | delayed gastric emptying                                | II    |                                       |         |
| 1399686                                      | anti-inflammatory macrolide conjugate (oral)                           | inflammatory bowel disease                              | II    |                                       |         |
| 1605786 (CCX282)                             | CCR9 antagonist  | Crohn s disease   | II    |                                       |         |
| 2190915                                      | 5-lipoxygenase-activating protein (FLAP) inhibitor                     | asthma  | II    |                                       |         |
| losmapimod                                   | p38 kinase inhibitor (oral)  | COPD (also cardiovascular disease, pain & depression)   | II    |                                       |         |
| <i>Relovair</i> (642444 + 685698)            | long-acting beta2 agonist + glucocorticoid agonist                     | asthma  | II    |                                       |         |
| <i>Relovair</i> (642444 + 685698)            | long-acting beta2 agonist + glucocorticoid agonist                     | COPD  | III   |                                       |         |
| 642444                                       | long-acting beta2 agonist  | COPD  | III   |                                       |         |

**Paediatric Vaccines**

|  |             |            |  |           |         |         |
|--|-------------|------------|--|-----------|---------|---------|
| Hexavalent combination vaccine           | conjugated  |            | Neisseria meningitis C, Haemophilus influenzae type b, diphtheria, tetanus, pertussis and poliomyelitis disease prophylaxis              | I         |         |         |
| Heptavalent combination vaccine          | conjugated  |            | Neisseria meningitis C, Haemophilus influenzae type b, diphtheria, Hepatitis B, tetanus, pertussis and poliomyelitis disease prophylaxis | II        |         |         |
| S. pneumoniae paediatric next generation | recombinant | conjugated | Streptococcus pneumoniae disease prophylaxis   | II        |         |         |
| <i>Mosquirix</i>                         | recombinant |            | malaria prophylaxis (Plasmodium falciparum)  | III       |         | N/A     |
| <i>Nimenrix</i> (MenACWY-TT)             | conjugated  |            | Neisseria meningitis groups A, C, W & Y disease prophylaxis  | III       |         |         |
| <i>MenHibrix</i> (Hib-MenCY-TT)          | conjugated  |            | Neisseria meningitis groups C & Y & Haemophilus influenzae type b disease prophylaxis  | Submitted |         | S:Aug09 |
| <i>Hiberix</i>                           | conjugated  |            | paediatric booster for Haemophilus influenzae type b   | Approved  | A:Nov07 | A:Aug09 |
| <i>Synflorix</i>                         | conjugated  |            | Streptococcus pneumoniae disease prophylaxis in infants & children   | Approved  | A:Mar09 | N/A     |

**Other Vaccines**

|                            |                        |           |   |     |  |  |
|----------------------------|------------------------|-----------|---|-----|--|--|
| Alzheimer's disease        | conjugated             |           | treatment of Alzheimer's disease  | I   |  |  |
| Cytomegalovirus            | recombinant            |           | cytomegalovirus infection prophylaxis   | I   |  |  |
| HIV                        | recombinant            |           | HIV disease prophylaxis/immunotherapy   | I   |  |  |
| NTHi-Pneumo                | recombinant            |           | Streptococcus pneumoniae and Haemophilus influenzae disease prophylaxis in adults | I   |  |  |
| Dengue fever               | attenuated tetravalent |           | dengue fever prophylaxis  | II  |  |  |
| Tuberculosis               | recombinant            |           | tuberculosis prophylaxis  | II  |  |  |
| Zoster                     | recombinant            |           | Herpes Zoster prevention  | II  |  |  |
| New generation flu vaccine | inactivated split      | trivalent | seasonal influenza prophylaxis for the elderly                                    | III |  |  |
| <i>Simplirix</i>           | recombinant            |           | genital herpes prophylaxis  | III |  |  |

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|   |  |   |                   |                     |
|---|--|---|-------------------|---------------------|
| Flu pandemic & pre-pandemic<br><i>Arepanrix</i><br>(Flu pandemic) | H5N1 inactivated split monovalent (Quebec)             | pandemic influenza prophylaxis                                | Submitted S:Jul09 | S:Jun09<br>(Canada) |
|   | H1N1 inactivated split adjuvanted monovalent (Quebec)  | pandemic influenza prophylaxis (emergency use)                | Approved PO:Jan10 | A:Oct09<br>(Canada) |
| <i>Cervarix</i>   | recombinant  | cervical dysplasia and cancer prophylaxis caused by HPV 16/18 | Approved A:Sep07  | A:Oct09             |
| Influenza A (H1N1) 2009 monovalent vaccine<br>(Flu pandemic)      | H1N1 inactivated split monovalent (Quebec)             | pandemic influenza A (H1N1) 2009 prophylaxis (emergency use)  | Approved          | A:Nov09             |
| <i>Pandemrix</i><br>(Flu pandemic)                                | H1N1 inactivated split adjuvanted monovalent (Dresden) | pandemic influenza prophylaxis                                | Approved A: Sep09 |                     |

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## Product development pipeline

| Compound  | Type   | Indication                                     | Phase     | Achieved Regulatory review milestones |         |
|---|--|--|-----------|---------------------------------------|---------|
|   |  |  |           | MAA                                   | NDA/BLA |
| <b>Antigen Specific Cancer Immunotherapeutic (ASCI)</b> |  |  |           |                                       |         |
| WT1   | recombinant                                    | treatment of acute myelogenous leukaemia       | II        |                                       |         |
| MAGE-A3   | recombinant                                    | treatment of melanoma                          | III       |                                       |         |
| MAGE-A3   | recombinant                                    | treatment of non-small cell lung cancer        | III       |                                       |         |
| <b>Dermatology (Stiefel), late stage assets only</b>    |  |  |           |                                       |         |
| <i>Duac</i> low dose                                    | clindamycin/benzoyl peroxide gel               | acne vulgaris                                  | III       |                                       |         |
| tazarotene foam   | retinoid foam                                  | acne vulgaris                                  | III       |                                       |         |
| calcipotriene   | vitamin D3 analog                              | mild to moderate plaque psoriasis              | Submitted |                                       | S:Dec09 |
| itraconazole tablets                                    | oral anti-fungal                               | onychomycosis                                  | Submitted |                                       | S:Mar09 |
| <i>Veltin</i>   | antibiotic/retinoid gel                        | acne vulgaris                                  | Submitted |                                       | S:Oct09 |
| <b>HIV (ViiV Healthcare)</b>                            |  |  |           |                                       |         |
| 1265744   | HIV integrase inhibitor                        | HIV infections                                 | II        |                                       |         |
| 1349572   | HIV integrase inhibitor                        | HIV infections                                 | II        |                                       |         |
| 2248761 (IDX899)  | non-nucleotide reverse transcriptase inhibitor | HIV infections                                 | II        |                                       |         |
| PF-232798   | CCR5 antagonist                                | HIV infections                                 | II        |                                       |         |
| UK-453061   | non-nucleotide reverse transcriptase inhibitor | HIV infections                                 | II        |                                       |         |
| <i>Selzentry/Celsentri</i>                              | CCR5 antagonist                                | HIV infection, use in treatment naive patients | Approved  |                                       | A:Nov09 |

## Option-based alliances with third parties that include assets in Phase I and Phase II development

| Company                 | Disease Area             | Phase  |
|-------------------------|--------------------------|--------|
| Anacor Pharmaceuticals  | anti-bacterial           | I      |
| ChemoCentryx            | inflammatory disease*    | I & II |
| Concert Pharmaceuticals | HIV (protease inhibitor) | I      |

|                         |                               |   |
|-------------------------|-------------------------------|---|
| Galapagos               | autoimmune disease            | I |
| NeuroSearch             | neuroscience (anxiety & pain) | I |
| OncoMed Pharmaceuticals | oncology                      | I |
| Prosensa Therapeutics   | neuroscience                  | I |
| Ranbaxy Laboratories    | respiratory                   | I |
| Theravance              | gastrointestinal              | I |

\* Two assets

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**Shareholder information**

The Ordinary Shares of the company are listed on the London Stock Exchange and on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADS). For details of listed debt and where it is listed refer to Note 32, Net debt .

**Share price**

|                      | 2009  | 2008  | 2007  |
|----------------------|-------|-------|-------|
|                      | £     | £     | £     |
| At 1st January       | 12.85 | 12.79 | 13.44 |
| High during the year | 13.34 | 13.85 | 14.93 |
| Low during the year  | 9.87  | 9.95  | 11.60 |
| At 31st December     | 13.20 | 12.85 | 12.79 |
| Increase/(decrease)  | 2.7%  | 0.5%  | (5)%  |

The table above sets out the middle market closing prices. The company's share price increased by 2.7% in 2009. This compares with an increase in the FTSE 100 index by 22% during the year. The share price on 19th February 2010 was £12.35.

**Market capitalisation**

The market capitalisation, based on shares in issue excluding Treasury shares, of GlaxoSmithKline at 31st December 2009 was £69 billion. At that date GSK was the fifth largest company by market capitalisation on the FTSE index.

**SmithKline Beecham plc Floating Rate****Unsecured Loan Stock 1990/2010**

The Loan Stock is not listed on any exchange but will be redeemed in its entirety at par, i.e. £1 for every £1 of loan stock held, on 1st June 2010.

Loan Stock holders will not be required to surrender their certificate(s) for this compulsory redemption, which will be made automatically at the due time, and a cheque in respect of the redemption value will be posted on 28th May 2010.

**Taxation**

General information concerning the UK and US tax effects of share ownership is set out on page 202 Taxation information for shareholders .

**Dividends**

GlaxoSmithKline pays dividends quarterly. It continues to increase cash returns to shareholders through its dividend policy. Dividends remain an essential component of total shareholder return and GSK is committed to increasing its dividend over the long-term. Details of the dividends declared, the amount and the payment dates are given in Note 16 to the financial statements, Dividends .

**Dividends per share**

The table below sets out the dividends per share in the last five years.

| Year | pence |
|------|-------|
| 2009 | 61    |
| 2008 | 57    |
| 2007 | 53    |
| 2006 | 48    |
| 2005 | 44    |

**Dividends per ADS**

The table below sets out the dividends per ADS in US dollars in the last five years, translated into US dollars at applicable exchange rates.

| Year | US\$ |
|------|------|
| 2009 | 1.93 |
| 2008 | 2.01 |
| 2007 | 2.14 |
| 2006 | 1.80 |
| 2005 | 1.57 |

### Dividend calendar

| Quarter | Ex-dividend date   | Record date        | Payment date     |
|---------|--------------------|--------------------|------------------|
| Q4 2009 | 10th February 2010 | 12th February 2010 | 8th April 2010   |
| Q1 2010 | 5th May 2010       | 7th May 2010       | 8th July 2010    |
| Q2 2010 | 28th July 2010     | 30th July 2010     | 7th October 2010 |
| Q3 2010 | 27th October 2010  | 29th October 2010  | 6th January 2011 |

### Financial reporting calendar

| Publication           | Date                |
|-----------------------|---------------------|
| Results announcements |                     |
| Quarter 1             | April 2010          |
| Quarter 2             | July 2010           |
| Quarter 3             | October 2010        |
| Preliminary/Quarter 4 | February 2011       |
| Annual Report/Summary | February/March 2011 |

### Results announcements

Results announcements are issued to the London Stock Exchange and are available on its news service. Shortly afterwards, they are issued to the media, and sent to the US Securities and Exchange Commission and the NYSE.

### Financial reports

GSK publishes an Annual Report and for the shareholder not needing the full detail of the Report, a Summary document. The Summary is sent to all shareholders. Shareholders may elect to receive the Annual Report by writing to the registrars. Alternatively shareholders may elect to receive notification by email of the publication of financial reports by registering on [www.shareview.co.uk](http://www.shareview.co.uk).

Copies of previous financial reports are available from the registrars in the UK and from the GSK Response Center in the USA.

### Corporate responsibility report

In late March 2010, GSK will publish its Corporate Responsibility Report covering performance in areas including community investment, ethics and integrity, access to medicines, R&D and environment, health and safety.



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## Shareholder information

**Nature of trading market**

The following tables set out, for the periods indicated, the high and low middle market closing quotations in pence for the shares on the London Stock Exchange, and the high and low last reported sales prices in US dollars for the ADS on the NYSE.

|                                   | Pence per share |      |
|-----------------------------------|-----------------|------|
|                                   | High            | Low  |
| Quarter ended 31st March 2010*    | 1340            | 1196 |
| February 2010*                    | 1245            | 1196 |
| January 2010                      | 1340            | 1217 |
| December 2009                     | 1334            | 1280 |
| November 2009                     | 1290            | 1219 |
| October 2009                      | 1281            | 1219 |
| September 2009                    | 1252            | 1176 |
| Quarter ended 31st December 2009  | 1334            | 1219 |
| Quarter ended 30th September 2009 | 1252            | 1063 |
| Quarter ended 30th June 2009      | 1117            | 987  |
| Quarter ended 31st March 2009     | 1305            | 1003 |
| Quarter ended 31st December 2008  | 1285            | 995  |
| Quarter ended 30th September 2008 | 1327            | 1103 |
| Quarter ended 30th June 2008      | 1153            | 1053 |
| Quarter ended 31st March 2008     | 1385            | 1001 |
| Year ended 31st December 2007     | 1493            | 1160 |
| Year ended 31st December 2006     | 1577            | 1326 |
| Year ended 31st December 2005     | 1544            | 1175 |

|                                   | US dollars per ADS |       |
|-----------------------------------|--------------------|-------|
|                                   | High               | Low   |
| Quarter ended 31st March 2010*    | 42.97              | 37.52 |
| February 2010*                    | 39.49              | 37.52 |
| January 2010                      | 42.97              | 39.01 |
| December 2009                     | 42.91              | 41.59 |
| November 2009                     | 42.88              | 40.30 |
| October 2009                      | 41.91              | 38.72 |
| September 2009                    | 39.67              | 38.60 |
| Quarter ended 31st December 2009  | 42.91              | 38.72 |
| Quarter ended 30th September 2009 | 40.03              | 34.36 |
| Quarter ended 30th June 2009      | 36.56              | 29.11 |
| Quarter ended 31st March 2009     | 39.24              | 27.27 |
| Quarter ended 31st December 2008  | 43.39              | 32.02 |
| Quarter ended 30th September 2008 | 49.03              | 42.08 |
| Quarter ended 30th June 2008      | 45.36              | 41.39 |
| Quarter ended 31st March 2008     | 54.36              | 40.85 |

|                               |       |       |
|-------------------------------|-------|-------|
| Year ended 31st December 2007 | 59.35 | 47.87 |
| Year ended 31st December 2006 | 58.38 | 50.15 |
| Year ended 31st December 2005 | 53.53 | 44.48 |

\* to 19th February 2010

### **Annual General Meeting 2010**

The Queen Elizabeth II Conference Centre, 6th May 2010  
Broad Sanctuary, Westminster,  
London SW1P 3EE

The AGM is the company's principal forum for communication with private shareholders. In addition to the formal business there will be a presentation by the Chief Executive Officer on the performance of the Group and its future development. There will be opportunity for questions to the Board, and the Chairmen of the Board's Committees will take questions on matters relating to those committees.

Investors holding shares through a nominee service should arrange with that nominee service to be appointed as a corporate representative or proxy in respect of their shareholding in order to attend and vote at the meeting.

ADR holders wishing to attend the meeting must obtain a proxy from The Bank of New York Mellon which will enable them to attend and vote on the business to be transacted. ADR holders may instruct The Bank of New York Mellon as to the way in which the shares represented by their ADR should be voted by completing and returning the voting card provided by the bank in accordance with the instructions given.

#### **Documents on display**

The Memorandum and Articles of Association of the company and other documents referred to in this Annual Report are available for inspection at the Registered Office of the company.

#### **Exchange controls and other limitations affecting security holders**

There are currently no UK laws, decrees or regulations restricting the import or export of capital or affecting the remittance of dividends or other payments to holders of the company's shares who are non-residents of the UK. There are no limitations relating only to non-residents of the UK under English law or the company's Memorandum and Articles of Association on the right to be a holder of, and to vote in respect of, the company's shares.

Shareholder information

**Duplicate publications**

Queries relating to receipt of duplicate copies of GSK's publications should be addressed to the registrars.

**Investor relations**

Investor Relations may be contacted as follows:

**UK**

980 Great West Road, Brentford, Middlesex TW8 9GS

Tel: +44 (0)20 8047 5000

**USA**

One Franklin Plaza, PO Box 7929, Philadelphia PA 19101

Tel: 1 888 825 5249 (US toll free)

Tel: +1 215 751 4000 (outside USA)

**Registrar**

The company's registrars are:

Equiniti Limited

Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA

[www.shareview.co.uk](http://www.shareview.co.uk)

Tel: 0871 384 2991 inside the UK

Tel: +44 (0)121 415 7067 outside the UK

Equiniti also provides the following services:

Nominee dealing account and Individual Savings Account (ISA)

GlaxoSmithKline Corporate Sponsored Nominee

Shareview service

Share dealing service

Dividend Reinvestment Plan

**Share dealing service**

Shareholders may trade shares, either held in certificates or in the Corporate Sponsored Nominee by internet or telephone through Shareview Dealing, a share dealing service provided by Equiniti Financial Services Limited. For internet deals log on to [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing). For telephone deals call 08456 037 037 (inside the UK only). For the nominee and ISA service, either [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing) or call 0845 300 0430. Telephone services are available between 8.00 and 18.00, Monday to Friday (market trading hours 8.00 – 16.30).

**Glaxo Wellcome and SmithKline Beecham**

**Corporate PEPs**

The Share Centre Limited

Oxford House, Oxford Road, Aylesbury, Bucks HP21 8SZ

Tel: +44 (0)1296 414141

**ADR programme administrator**

The ADR programme is administered by:

BNY Mellon Shareowner Services

PO Box 358516

Pittsburgh, PA 15252-8516

[www.bnymellon.com/shareowner](http://www.bnymellon.com/shareowner)

Tel: 1 877 353 1154 (US toll free)

Tel: +1 201 680 6825 (outside USA)

email: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)

The administrators also provide Global BuyDIRECT, a direct ADS purchase/sale and dividend reinvestment plan for ADR holders.

**GSK Response Center**

Tel: 1 888 825 5249 (US toll free)

The provision of the details above is not intended to be an invitation or inducement to engage in an investment activity. Advice on share dealing should be obtained from a stockbroker or independent financial adviser.

**Taxation information for shareholders**

A summary of certain UK tax and US federal income tax consequences for certain holders of shares and ADR who are citizens of the UK or the USA is set out below. It is not a complete analysis of all the possible tax consequences of the purchase or ownership of these securities. It is intended only as a general guide. Holders are advised to consult their advisers with respect to the tax consequences of the purchase and ownership of their shares or ADR, and the consequences under state and local tax laws in the USA and the implications of the current UK/US Income Tax convention.

US holders of ADR generally will be treated as the owners of the underlying shares for the purposes of the current USA/UK double taxation conventions relating to income and gains (Income Tax Convention), estate and gift taxes (Estate and Gift Tax Convention) and for the purposes of the US Internal Revenue Code of 1986, as amended (the Code).

**UK shareholders**

This summary only applies to a UK resident shareholder that holds shares as capital assets.

**Taxation of dividends**

UK resident individual shareholders will generally be subject to UK income tax on the full amount of dividends paid, grossed up for the amount of a one ninth dividend tax credit. The tax credit may be set against the individual's income tax liability in respect of the gross dividend, but is not repayable to shareholders with a tax liability of less than the associated tax credit. For the tax year 2010-11 and subsequent tax years, an additional rate of income tax on dividends will be imposed for taxpayers whose income is above £150,000. UK resident shareholders that are corporation taxpayers should note that dividends paid after 1st July 2009 are generally entitled to exemption from corporation tax under new rules. If shareholders are in any doubt as to their position, they should consult their own professional advisers.

**Taxation of capital gains**

UK shareholders may be liable for UK tax on gains on the disposal of shares or ADR. For disposals by individuals, a capital gain will be taxed at a flat rate of 18%, subject to the availability of any exemption or relief such as the annual exempt amount. Corporation taxpayers may be entitled to an indexation allowance which applies to reduce capital gains to the extent that such gains arise due to inflation. Indexation allowance may reduce a chargeable gain but will not create an allowable loss.

**Inheritance tax**

Individual shareholders may be liable to inheritance tax on the transfer of shares or ADR. Tax may be charged on the amount by which the value of the shareholder's estate is reduced as a result of any transfer by way of gift or other disposal at less than full market value.

If such a gift or other disposal were subject to both UK inheritance tax and US estate or gift tax, the Estate and Gift Tax Convention would generally provide for tax paid in the USA to be credited against tax payable in the UK.

**Stamp duty**

UK stamp duty or stamp duty reserve tax (SDRT) will, subject to certain exemptions, be payable on the purchase of shares at a rate of 0.5% of the purchase price.

**US shareholders**

This summary only applies to a shareholder (a citizen or resident of the USA or a domestic corporation or a person that is otherwise subject to US federal income tax on a net income basis in respect of the shares or ADR) that holds shares or ADR as capital assets, is not resident in the UK for UK tax purposes and does not hold shares for the purposes of a trade, profession or vocation that is carried on in the UK through a branch or agency. The summary also does not address the tax treatment of holders that are subject to special tax rules, such as banks, tax-exempt entities, insurance companies, dealers in securities or currencies, persons that hold shares or ADR as part of an integrated investment (including a straddle) comprised of a share or ADR and one or more other positions, and persons that own (directly or indirectly) 10% or more of the voting stock of GSK.

### **Taxation of dividends**

The gross amount of dividends received is treated as foreign source dividend income for US tax purposes. It is not eligible for the dividend received deduction allowed to US corporations. Dividends on ADR are payable in US dollars; dividends on shares are payable in Sterling. Dividends paid in pounds Sterling will be included in income in the US dollar amount calculated by reference to the exchange rate on the day the dividends are received by the holder. Subject to certain exceptions for short-term or hedged positions, an individual eligible US holder will be subject to US taxation at a maximum rate of 15% in respect of qualified dividends received before 2011.

### **Taxation of capital gains**

Generally, US holders will not be subject to UK capital gains tax, but will be subject to US tax on capital gains realised on the sale or other disposal of shares or ADR. Such gains will be long-term capital gains (subject to reduced rates of taxation for individual holders) if the shares or ADR were held for more than one year.

### **Information reporting and backup withholding**

Dividends and payments of the proceeds on a sale of shares or ADR, paid within the USA or through certain US-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the US holder is a corporation or other exempt recipient or provides a taxpayer identification number and certifies that no loss of exemption has occurred. Non-US holders generally are not subject to information reporting or backup withholding, but may be required to provide a certification of their non-US status in connection with payments received. Any amounts withheld will be allowed as a refund or credit against a holder's US federal income tax liability provided the required information is furnished to the IRS.

### **Estate and gift taxes**

Under the Estate and Gift Tax Convention, a US shareholder is not generally subject to UK inheritance tax.

### **Stamp duty**

UK stamp duty or SDRT will, subject to certain exemptions, be payable on any issue or transfer of shares to the ADR custodian or depository at a rate of 1.5% of their price (if issued), the amount of any consideration provided (if transferred on sale), or their value (if transferred for no consideration).

No SDRT would be payable on the transfer of an ADR. No UK stamp duty should be payable on the transfer of an ADR provided that any instrument of transfer is executed and remains at all times outside the UK. Any stamp duty on the transfer of an ADR would be payable at a rate of 0.5% of the consideration for the transfer. Any sale of the underlying shares would, subject to certain exceptions, result in liability to UK stamp duty or, as the case may be, SDRT at a rate of 0.5%.

**Glossary of terms**

| <b>Terms used in the Annual Report</b> | <b>US equivalent or brief description</b>  |
|--|--|
| Accelerated capital allowances         | Tax allowance in excess of depreciation arising from the purchase of fixed assets that delay the charging and payment of tax. The US equivalent of tax depreciation. |
| American Depositary Receipt (ADR)      | Receipt evidencing title to an ADS. Each GlaxoSmithKline ADR represents two Ordinary Shares.   |
| American Depositary Shares (ADS)       | Listed on the New York Stock Exchange; represents two Ordinary Shares.   |
| Basic earnings per share               | Basic income per share.  |
| Called-up share capital                | Ordinary Shares, issued and fully paid.  |
| CER growth                             | Growth at constant exchange rates.   |
| Combined Code                          | Guidelines required by the Listing Rules of the Financial Services Authority to address the principal aspects of Corporate Governance.                               |
| The company                            | GlaxoSmithKline plc.   |
| Currency swap                          | An exchange of two currencies, coupled with a subsequent re-exchange of those currencies, at agreed exchange rates and dates.  |
| Defined benefit plan                   | Pension plan with specific employee benefits, often called final salary scheme .   |
| Defined contribution plan              | Pension plan with specific contributions and a level of pension dependent upon the growth of the pension fund.   |
| Derivative financial instrument        | A financial instrument that derives its value from the price or rate of some underlying item.  |
| Diluted earnings per share             | Diluted income per share.  |
| Employee Share Ownership Plan Trusts   | Trusts established by the Group to satisfy share-based employee incentive plans.   |
| Finance lease                          | Capital lease.   |
| Freehold                               | Ownership with absolute rights in perpetuity.  |
| Gearing ratio                          | Net debt as a percentage of total equity.  |
| The Group                              | GlaxoSmithKline plc and its subsidiary undertakings.   |

|                                     |  |
|-------------------------------------|--|
| Hedging                             | The reduction of risk, normally in relation to foreign currency or interest rate movements, by making off-setting commitments.                         |
| Intangible fixed assets             | Assets without physical substance, such as computer software, brands, licences, patents, know-how and marketing rights purchased from outside parties. |
| Non-equity minority interest        | Preference shares issued by a subsidiary to outside parties.   |
| Preference shares                   | Shares issued at varying dividend rates that are treated as outside interests.   |
| Profit                              | Income.  |
| Profit attributable to shareholders | Net income.  |
| Share capital                       | Ordinary Shares, capital stock or common stock issued and fully paid.  |
| Shareholders funds                  | Shareholders equity.   |
| Share option                        | Stock option.  |
| Share premium account               | Additional paid-up capital or paid-in surplus (not distributable).   |
| Shares in issue                     | The number of shares outstanding.  |
| Subsidiary                          | An entity in which GlaxoSmithKline holds a majority shareholding and/or exercises control.   |
| Treasury share                      | Treasury stock.  |
| Turnover                            | Revenue.   |



### **Memorandum and Articles of Association of GlaxoSmithKline**

The following is a summary of the principal provisions of the company's Memorandum of Association (the Memorandum) and Articles of Association (the Articles). Shareholders should not rely on this summary, but should instead refer to the current Memorandum and Articles which are filed with the Registrar of Companies in the UK and can be viewed on the company's website. The Memorandum contains the fundamental provisions of the company's constitution. The Articles contain the rules for the internal management and control of the company.

#### **Memorandum of Association**

The Memorandum provides that the company's principal objects are, among other things, to be the holding company of Glaxo Wellcome plc and SmithKline Beecham plc, to carry on business as a general commercial company and to carry on any trade or business or activity of any nature which may seem to the Directors to be capable of being conveniently or advantageously carried on.

#### **Articles of Association**

##### **(a) Voting**

All resolutions put to the vote at general meetings will be decided by poll. On a poll, every shareholder who is present in person or by proxy shall have one vote for every Ordinary Share of which he or she is the holder. Unless the Directors otherwise decide, the right to attend a general meeting and voting rights may not be exercised by a shareholder who has not paid to the company all calls and other sums then payable by him or her in respect of his or her Ordinary Shares. The right to attend a general meeting and voting rights may not be exercised by a shareholder who is subject to an order under Section 794 of the Companies Act 2006 because he or she has failed to provide the company with information concerning his or her interests in Ordinary Shares within the prescribed period, as required by Section 793 of the Companies Act 2006.

##### **(b) Transfer of Ordinary Shares**

Any shareholder may transfer his or her Ordinary Shares which are in certificated form by an instrument of transfer in any usual form or in any other form which the Directors may approve. Such instrument must be properly signed, stamped or certified and lodged with the company together with the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. Every transfer of Ordinary Shares which are in uncertificated form must be carried out by means of a relevant system such as CREST. The Directors may, in their absolute discretion and without giving any reason, decline to register any transfer of any Ordinary Share which is not fully paid.

The Articles contain no other restrictions on the transfer of fully paid Ordinary Shares provided: (i) the transfer is in favour of not more than four transferees; (ii) the transfer is in respect of only one class of shares; and (iii) the holder of the Ordinary Shares is not subject to an order under Section 794 of the Companies Act 2006. Notice of refusal to register a transfer must be sent to the transferee within two months of the instrument of transfer being lodged. The Directors may decline to register a transfer of Ordinary Shares by a person holding 0.25 per cent. or more of the existing Ordinary Shares if such person is subject to an order under Section 794 Companies Act 2006, after failure to provide the company with information concerning interests in those Ordinary Shares required to be provided under Section 793 of the Companies Act 2006, unless the transfer is carried out pursuant to an arm's length sale.

Provisions in the Articles will not apply to uncertificated Ordinary Shares to the extent that they are inconsistent with:

- (i) the holding of shares in uncertificated form;
- (ii) the transfer of title to Ordinary Shares by means of a system such as CREST; and
- (iii) any provisions of the relevant regulations.

##### **(c) Dividends and distribution of assets on liquidation**

The profits of the company which are available for distribution and permitted by law to be distributed and which the company may from time to time determine, upon the recommendation of the Directors, to distribute by way of dividend, in respect of any accounting reference period shall be distributed by way of dividend among holders of Ordinary Shares. If in their opinion the company's financial position justifies such payments, the Directors may, as far as any applicable legislation allows, pay interim dividends on shares of any class of such amounts and in respect of

such periods as they think fit. Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends will be declared, apportioned and paid pro rata according to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid. As the company has only one class of Ordinary Shares, the holders of such Ordinary Shares will under general law be entitled to participate in any surplus assets in a winding-up in proportion to their shareholdings.

Memorandum and Articles of Association of GlaxoSmithKline

**(d) Variation of rights and changes in capital**

Subject to the provisions of the Companies Act 2006 and to the terms of issue of the shares concerned, the rights attached to any class of shares may be varied with the written consent of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of shares of that class. At every such separate meeting, the provisions of the Articles relating to general meetings shall apply, except the necessary quorum shall be at least two persons holding or representing as proxy at least one-third in nominal value of the issued shares of the relevant class (but provided that at any adjourned meeting any holder of shares of the relevant class present in person or by proxy shall be a quorum).

The company may by ordinary resolution increase its share capital, consolidate, or consolidate then sub-divide all, or any of its shares into shares of a larger nominal amount, cancel any shares not taken or agreed to be taken by any person and, subject to the provisions of the Companies Act 2006, sub-divide its shares into shares of a smaller nominal amount. The company may, subject to the provisions of the Companies Act 2006, by special resolution reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve. The company may also, subject to the provisions of the Companies Act 2006 and the rights of any of the holders of any class of shares, purchase its own shares.

**(e) Unclaimed dividends**

Unless the Directors decide otherwise, any dividend unclaimed after a period of 12 years from the date when a resolution was passed for payment will be forfeited and revert to the company. The company may stop sending dividend cheques or warrants by post, or employ such other means of payment in respect of any Ordinary Shares, if at least two consecutive payments have remained uncashed or are returned undelivered or if one payment has remained uncashed or is returned undelivered and the company cannot establish a new address for the holder after making reasonable enquiries; however, in either case, the company must resume sending cheques or warrants or employ such other means of payment if the holder or any person entitled to the Ordinary Shares by transmission requests the resumption.

**(f) Untraced shareholders**

The company may sell any Ordinary Shares in the company after advertising its intention and waiting for three months if the Ordinary Shares have been in issue for at least ten years and during that period at least three dividends have become payable on them and have not been claimed and, so far as any Director is aware, the company has not received any communication from the holder of the Ordinary Shares or any person entitled to them by transmission. Upon any such sale, the company will become indebted to the former holder of the Ordinary Shares or the person entitled to them by transmission for an amount equal to the net proceeds of sale.

**(g) Limitations on rights of non-resident or foreign shareholders**

There are no limitations imposed by the Articles on the rights of non-resident or foreign shareholders except that there is no requirement for the company to serve notices on shareholders outside the United Kingdom and the United States.

**(h) General meetings of shareholders**

The company is required by the Companies Act 2006 to hold an annual general meeting each year. General meetings of shareholders may be called as necessary by the Directors and must be called promptly upon receipt of a requisition from shareholders. A general meeting other than an annual general meeting may be called on not less than 14 clear days notice provided a special resolution reducing the notice period to 14 clear days has been passed at the immediately preceding annual general meeting or a general meeting held since that annual general meeting.

**(i) Conflicts of interest**

The Directors may authorise any matter which would otherwise involve a Director breaching his or her duty under the Companies Act 2006 to avoid conflicts of interest (each a Conflict). A Director seeking authorisation in respect of a Conflict shall declare to the other Directors the nature and extent of his or her Conflict as soon as is reasonably practicable. The relevant Director and any other Director with a similar interest shall not count towards the quorum nor vote on any resolution giving such authority, and, if the other Directors so decide, shall be excluded from any

meeting of the Directors while the Conflict is under consideration.

**(j) Other Conflicts of Interest**

Subject to the provisions of the Companies Act 2006, and provided the nature of a Director's interest has been declared to the Directors, a Director is not disqualified by that Office from contracting with the company in any manner, nor is any contract in which he or she is interested liable to be avoided, and any Director who is so interested is not liable to account to the company or its shareholders for any benefit realised by the contract by reason of the Director holding that Office or of the fiduciary relationship thereby established. However, no Director may vote on any resolution relating specifically to his or her own appointment (including remuneration) or the terms of his or her termination or relating to any contract in which he or she has an interest (subject to certain exceptions).

A Director may (or any firm of which he or she is a partner, employee or shareholder may) act in a professional capacity for the company (other than as auditor) and be remunerated for so doing. A Director may also hold any other Office with the company (other than auditor) or be or become director or other Officer of, or be otherwise interested in, any holding company or subsidiary of the company or in which the company may be interested and will not be liable to account to the company or its shareholders for any benefit received by him or her.

Memorandum and Articles of Association of GlaxoSmithKline

**(k) Directors remuneration**

Each of the Directors will be paid a fee at such rate as may from time to time be determined by the Directors. Such fees may be satisfied in cash or in shares or any other non-cash form. Any Director who is appointed to any executive Office, acts as Chairman, serves on any committee of the Directors or performs any other services which the Directors consider to extend beyond the ordinary services of a Director shall be entitled to receive such remuneration (whether by way of salary, commission or otherwise) as the Directors may decide. Each Director may be paid reasonable travelling, hotel and other expenses he or she incurs in attending and returning from meetings of the Directors or committees of the Directors, or general meetings of the company, or otherwise incurred in connection with the performance of his or her duties for the company.

**(l) Pensions and gratuities for Directors**

The Directors or any committee authorised by the Directors may provide benefits by the payment of gratuities, pensions or insurance or other allowances or benefits for any Director or former Director or their relations, connected persons or dependants.

**(m) Borrowing powers**

Subject to the provisions of the Companies Act 2006, the Directors may exercise all the company's powers to borrow money; to mortgage or charge all or any of the company's undertaking, property (present and future), and uncalled capital; to issue debentures and other securities; and to give security either outright or as collateral security for any debt, liability or obligation of the company or of any third party.

**(n) Retirement and removal of Directors**

A Director is subject to re-election at every annual general meeting of the company if he or she: (i) held Office at the time of the two previous annual general meetings and did not retire by rotation at either of them; (ii) has held Office for a continuous period of nine years or more; or (iii) he or she has been appointed by the Directors since the last annual general meeting.

The company may by special resolution remove any Director before the expiration of his or her period of Office. No Director is required to retire by reason of his or her age, nor do any special formalities apply to the appointment or re-election of any Director who is over any age limit. No shareholding qualification for Directors shall be required.

### **Comparison of New York Stock Exchange Corporate Governance Standards and GlaxoSmithKline plc's corporate governance practice**

On 4th November 2003, the New York Stock Exchange (the NYSE) adopted new corporate governance standards. The application of the NYSE's standards is restricted for foreign companies, recognising that they have to comply with domestic requirements. As a foreign private issuer, GlaxoSmithKline plc (GlaxoSmithKline or the Company) must comply with the following NYSE standards:

1. the Company must satisfy the audit committee requirements of the Securities and Exchange Commission (the SEC);
2. the Chief Executive Officer (the CEO) must promptly notify the NYSE in writing after any executive Officer of the Company becomes aware of any non-compliance with any applicable provisions of the NYSE's corporate governance standards;
3. the Company must submit an annual affirmation to the NYSE affirming GlaxoSmithKline's compliance with applicable NYSE corporate governance standards, and submit interim affirmations to the NYSE notifying it of specified changes to the audit committee or a change to the status of the Company as a foreign private issuer; and
4. the Company must provide a brief description of any significant differences between its corporate governance practices and those followed by US companies under the NYSE listing standards.

As a company listed on the London Stock Exchange, GlaxoSmithKline is required to comply with the UK Listing Authority Listing Rules and to report non-compliance with the UK Combined Code on Corporate Governance (the Combined Code).

The table below discloses differences between GlaxoSmithKline's domestic corporate governance practices and the NYSE corporate governance standards applicable to US companies.

#### **NYSE**

#### **Corporate Governance Standards**

#### **Description of differences between GlaxoSmithKline's governance practice and the NYSE Corporate Governance Standards**

#### **Director Independence**

1. Listed companies must have a majority of independent directors.

GlaxoSmithKline complies with the equivalent domestic requirements contained in the Combined Code. The last update to the Combined Code for reporting years beginning on or after 29th June 2008 was issued in June 2008. A report on a review of the Combined Code was issued by the UK Financial Reporting Council (FRC) in December 2009, but its effects will only come into force for reporting years commencing on or after 29th June 2010. The Combined Code requires that the board of directors of GlaxoSmithKline (the Board) should include a balance of Executive and Non-Executive Directors (and, in particular, independent Non-Executive Directors) such that no individual or small group of individuals can dominate the Board's decision taking. At least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent. The roles of Chairman and Chief Executive should not be exercised by the same individual. The division of responsibilities between the Chairman and Chief Executive should be clearly established, set down in writing and agreed by the Board.

The Board considers that Professor Sir Roy Anderson, Dr Burns, Mr Culp, Sir Crispin Davis, Sir Deryck Maughan, Mr James Murdoch, Dr Podolsky, Mr de Swaan and Sir Robert Wilson are independent under the Combined Code. Sir Ian Prosser and Dr Ronaldo Schmitz, both of whom were considered to be independent, retired from the Board with effect from 20th May 2009. Mr James Murdoch joined the Board with effect from 20th May 2009 as an independent Non-Executive Director.

A majority of the Board members are independent Non-Executive Directors and the Board has appointed one of the independent Non-Executive Directors as senior independent director, in accordance with the recommendations of the

Combined Code.

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Comparison of New York Stock Exchange Corporate Governance Standards and GlaxoSmithKline plc's corporate governance practice

NYSE

**Corporate Governance Standards**

**Description of differences between GlaxoSmithKline's governance practice and the NYSE Corporate Governance Standards**

2. In order to tighten the definition of independent director for purposes of these standards:

- (a) No director qualifies as independent unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or Officer of an organization that has a relationship with the company).
- (b) In addition, a director is not independent if:
  - (i) The director is, or has been within the last three years, an employee of the listed company, or an immediate family member is, or has been within the last three years, an executive Officer, of the listed company.
  - (ii) The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).
  - (iii) (A) The director is a current partner or employee of a firm that is the listed company's internal or external auditor; (B) the director has an immediate family member who is a current partner of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and who personally works on the listed company's audit; or (D) the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the listed company's audit within that time.
  - (iv) The director or an immediate family member is, or has been within the last three years, employed as an executive Officer of another company where any of the listed company's present executive officers at the same time serves or served on that company's compensation committee.
  - (v) The director is a current employee, or an immediate family member is a current executive Officer, of a company that has made payments to, or received payments from, the listed company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

(For the purposes of these standards executive Officer is defined to have the meaning specified for the term Officer in Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended (the Exchange Act)).

GlaxoSmithKline complies with the corresponding domestic requirements contained in the Combined Code, which sets out the principles for the Company to determine whether a director is independent.

The Board is required to determine and state its reasons for the determination of whether directors are independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could affect, the directors' judgment. In undertaking this process, the Board is required, amongst other factors, to consider if the director:

- has been an employee of GlaxoSmithKline within the last five years;
- has, or has had within the last three years, a material business relationship with the Company either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Company;
- has received or receives additional remuneration from the Company apart from a director's fee, participates in the Company's share option or a performance-related pay scheme, or is a member of the Company's pension scheme;
- has close family ties with any of the Company's advisers, directors or senior employees;



holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;

represents a significant shareholder; or

has served on the Board for more than nine years from the date of his or her first election.

The Board considers all its Non-Executive Directors to be independent in character and judgment and has concluded that all its Non-Executive Directors are independent in accordance with the Combined Code.

Comparison of New York Stock Exchange Corporate Governance Standards and GlaxoSmithKline plc's corporate governance practice

**NYSE**

**Corporate Governance Standards**

**Description of differences between GlaxoSmithKline's governance practice and the NYSE Corporate Governance Standards**

3. To empower non-management directors to serve as a more effective check on management, the non-management directors of each listed company must meet at regularly scheduled executive sessions without management. GlaxoSmithKline complies with the equivalent domestic requirements set out in the Combined Code, which requires that the Chairman of GlaxoSmithKline should hold meetings with the Non-Executive Directors without executives present. The Non-Executive Directors, led by the senior independent director, also meet without the Chairman present to appraise the Chairman's performance.

**Nominating/corporate governance committee**

4.

- (a) Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.
- (b) The nominating/corporate governance committee must have a written charter that addresses:
  - (i) the committee's purpose and responsibilities which, at minimum, must be to: identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders; develop and recommend to the board a set of corporate governance guidelines applicable to the corporation; and oversee the evaluation of the board and management; and
  - (ii) an annual performance evaluation of the committee.

GlaxoSmithKline complies with the corresponding domestic requirements set out in the Combined Code, which require that GlaxoSmithKline should have a Nominations Committee that is comprised of a majority of independent Non-Executive Directors.

GlaxoSmithKline's Nominations Committee has written terms of reference in accordance with the Combined Code. The terms of reference are available on the Company's website and explain the Nominations Committee's role and the authority delegated to it by the Board. The Nominations Committee reviews the structure, size and composition of the Board and appointment of members to the Board and the Corporate Executive Team (the 'CET'), and makes recommendations to the Board as appropriate. The Committee also monitors the planning of succession for the Board and Senior Management.

The Board is responsible for regularly reviewing its corporate governance standards and practices. The Company Secretary is also the Group's Corporate Compliance Officer and oversees corporate governance matters for the Group. The Company Secretary is responsible for advising the Board through the Chairman on all corporate governance matters. Domestic requirements do not mandate that GlaxoSmithKline establish a corporate governance committee.

**Management resources and compensation committee**

5.

- (a) Listed companies must have a compensation committee composed entirely of independent directors.

- (b) The compensation committee must have a written charter that addresses:
- (i) the committee's purpose and responsibilities which, at minimum, must be to have direct responsibility to:
    - (A) review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and, either as a committee or together with the other independent directors (as directed by the board), determine and approve the CEO's compensation level based on this evaluation;
    - (B) make recommendations to the board with respect to non-CEO executive Officer compensation, and incentive-compensation and equity-based plans that are subject to board approval; and

GlaxoSmithKline complies with the equivalent domestic requirements set out in the Combined Code, which requires that GlaxoSmithKline have a Remuneration Committee that is comprised entirely of independent Non-Executive Directors (which may include the Company Chairman).

GlaxoSmithKline's Remuneration Committee has written terms of reference in accordance with the Combined Code. The terms of reference are available on the Company's website. The Remuneration Committee determines the terms of service and remuneration of the Executive Directors and members of the CET and, with the assistance of external independent advisers, it evaluates and makes recommendations to the Board on overall executive remuneration policy (the Chairman and the CEO are responsible for evaluating and making recommendations to the Board on the remuneration of Non-Executive Directors).

The Combined Code provides that the Remuneration Committee:

- (a) should consult with the Chairman and/or CEO about their proposals relating to the remuneration of Executive Directors and should delegate responsibility for setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments;

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Comparison of New York Stock Exchange Corporate Governance Standards and GlaxoSmithKline plc's corporate governance practice

NYSE

**Corporate Governance Standards**

**Description of differences between GlaxoSmithKline's governance practice and the NYSE Corporate Governance Standards**

- (C) prepare the disclosure required by item 407(c) (5) of Regulation S-K under the Exchange Act;
- (ii) an annual performance evaluation of the compensation committee.
- (b) should recommend and monitor the level and structure of remuneration for senior management; and
- (c) should consider what compensation commitments (including pension contributions and all other elements) the directors' terms of appointment would entail in the event of early termination.
- (d) shareholders should be invited specifically to approve all new long-term incentive schemes and significant changes to existing schemes.

At the annual general meeting on 20th May 2009 the shareholders of GlaxoSmithKline approved proposed changes to the remuneration arrangements of the senior executives following a review by the Remuneration Committee to align performance measures to strategy, reflecting the long-term nature of the pharmaceutical industry.

**Audit & Risk committee**

6. Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.

GlaxoSmithKline complies with equivalent domestic requirements set out in the Combined Code, which require that GlaxoSmithKline have an Audit Committee that is comprised entirely of independent Non-Executive Directors. The Board of Directors approved and adopted new terms of reference and accepted proposals to change the name of the Committee to the Audit & Risk Committee with effect from 10th December 2009.

GlaxoSmithKline's Audit & Risk Committee meets the requirements of the Sarbanes-Oxley Act of 2002 in that:

- each member of the Audit & Risk Committee is deemed to be independent in accordance with the Securities Exchange Act of 1934, as amended, and applicable NYSE and UK requirements;
- the Audit & Risk Committee, amongst other things, is responsible for recommending the appointment, compensation, maintenance of independence and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and each such accounting firm must report directly to the Audit & Risk Committee;
- the Audit & Risk Committee has established a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- the Audit & Risk Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties; and

GlaxoSmithKline must provide appropriate funding for the Audit & Risk Committee.

The Board has determined that Mr de Swaan has the appropriate qualifications and background to be an Audit Committee Financial Expert as defined in rules promulgated by the SEC under the Sarbanes-Oxley Act of 2002.

Comparison of New York Stock Exchange Corporate Governance Standards and GlaxoSmithKline plc's corporate governance practice

NYSE

### Corporate Governance Standards

#### Description of differences between GlaxoSmithKline's governance practice and the NYSE Corporate Governance Standards

7.

- (a) The audit committee must have a minimum of three members. All audit committee members must satisfy the requirements for independence set out in Section 303A.02 and, in the absence of an applicable exemption, Rule 10A-3(b)(1) under the Exchange Act.
- (b) The audit committee must have a written charter that addresses:
  - (i) the committee's purpose which, at minimum, must be to:
    - (A) assist board oversight of (1) the integrity of the listed company's financial statements, (2) the listed company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the listed company's internal audit function and independent auditors; and
    - (B) prepare the disclosure required by Item 407(d)(3)(i) of Regulation S-K under the Exchange Act;
  - (ii) an annual performance evaluation of the audit committee; and
  - (iii) the duties and responsibilities of the audit committee which, at a minimum, must include those set out in Rule 10A-3(b)(2), (3), (4) and (5) of the Exchange Act as well as to:
    - (A) at least annually, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the listed company;
    - (B) meet to review and discuss the listed company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing the listed company's specific disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations ;

GlaxoSmithKline complies with the equivalent domestic requirements set out in the Combined Code, which require that the Audit Committee should be comprised of a minimum of three independent Non-Executive Directors. GlaxoSmithKline's Audit & Risk Committee has written terms of reference in accordance with the Combined Code. The terms of reference are available on the Company's website. The Committee's main responsibilities include reviewing the financial reporting process, the system of internal control and overseeing the identification and management of risks, the Company's external and internal process for monitoring compliance with laws, regulations and ethical codes of practice, including review throughout the year of integrated assurance reports comprising business unit and associated consolidated internal audit reports.

The Combined Code requires that a separate section in the Company's Annual Report describe the work of the Committee in discharging its duties.

The Combined Code requires that the main role and responsibilities of the Audit Committee should include: monitoring the integrity of the financial statements and management discussion and analysis (MD&A) of the Company and any formal announcements relating to the Company's financial performance, and reviewing significant financial reporting judgments contained in them;

developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration the relevant UK professional and regulatory requirements;

making recommendations to the Board for it to put submissions to the Company's shareholders for their approval at the general meeting in relation to the appointment, re-appointment and removal of the external auditor;

approving the remuneration and terms of engagement of the external auditor;

monitoring and reviewing the effectiveness of the Company's internal audit function; and

reviewing the Company's internal financial controls and the system of internal controls.

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Comparison of New York Stock Exchange Corporate Governance Standards and GlaxoSmithKline plc's corporate governance practice

NYSE

**Corporate Governance Standards**

**Description of differences between GlaxoSmithKline's governance practice and the NYSE Corporate Governance Standards**

- (C) discuss the listed company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
  - (D) discuss policies with respect to risk assessment and risk management;
  - (E) meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors;
  - (F) review with the independent auditor any audit problems or difficulties and management's response;
  - (G) set clear hiring policies for employees or former employees of the independent auditors; and
  - (H) report regularly to the board of directors.
- (d) Each listed company must have an internal audit function.

8. Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, except for employment inducement awards, certain grants, plans and amendments in the context of mergers and acquisitions, and certain specific types of plans.

GlaxoSmithKline complies with corresponding domestic requirements in the Listing Rules of the UK Listing Authority, which mandate that the Company must seek shareholder approval for employee share schemes. Please see section 5(d) above.

**Corporate governance guidelines**

9. Listed companies must adopt and disclose corporate governance guidelines.

GlaxoSmithKline complies with corresponding domestic requirements in the Listing Rules of the UK Listing Authority and the Combined Code, which require that GlaxoSmithKline include an explanation in its Annual Report of how it complies with the principles of the Combined Code and that it confirm that it complies with the Code's provisions or, where it does not, provide an explanation of why it does not comply. In addition, for accounting periods beginning on or after 29th June 2008, issuers are required to make certain mandatory corporate governance statements in the Directors' Report in accordance with new UK Disclosure and Transparency Rules, DTR 7, which was issued by the UK Financial Services Authority to implement the eighth Company Law Directive. GlaxoSmithKline complies with these requirements in its 2009 Annual Report.

GSK Annual Report 2009

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Comparison of New York Stock Exchange Corporate Governance Standards and GlaxoSmithKline plc's corporate governance practice

NYSE

**Corporate Governance Standards**

**Description of differences between GlaxoSmithKline's governance practice and the NYSE Corporate Governance Standards**

**10.** Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

GlaxoSmithKline's Code of Conduct for employees is available on the Company's website, as is the Code of Ethics for the CEO and CFO and other senior financial officers.

**Description of significant differences**

**11.** Listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those followed by domestic companies under NYSE listing standards.

Listed foreign private issuers are required to provide this disclosure in the English language and in their annual reports filed on Form 20-F.

GlaxoSmithKline fulfills this requirement by publishing this document.

GlaxoSmithKline fulfills this requirement by including this disclosure in its annual report on Form 20-F.



**American Depositary Shares****Fees and charges payable by ADR holders**

The Bank of New York Mellon serves as the depositary (the Depositary) for GlaxoSmithKline plc's American Depositary Receipt (ADR) programme. Pursuant to the deposit agreement between GSK, the Depositary and owners and holders of ADR (the Deposit Agreement), ADR holders may be required to pay various fees to the Depositary, and the Depositary may refuse to provide any service for which a fee is assessed until the applicable fee has been paid. In particular, the Depositary, under the terms of the Deposit Agreement, shall charge a fee of \$0.05 or less per ADR (or portion thereof) for (i) the issuance, execution and delivery of ADRs or (ii) the withdrawal of shares underlying the ADRs. In addition, ADR holders may be required under the Deposit Agreement to pay the Depositary (i) any tax, duty, governmental charge or fee or stock transfer or registration fee arising in connection with the foregoing transactions or otherwise, (ii) any expense resulting from the conversion of a foreign currency into U.S. dollars and (iii) the expense of certain communications made, at the request of the ADR holder, by cable, telex or facsimile. The Depositary may (i) withhold dividends or other distributions or sell any or all of the shares underlying the ADRs in order to satisfy any tax or governmental charge and (ii) deduct from any cash distribution any tax payable thereon or the cost of any currency conversion.

**Direct and indirect payments by the Depositary**

The Depositary reimburses GSK for certain expenses it incurs in connection with the ADR programme, subject to a ceiling agreed between GSK and the Depositary from time to time. The Depositary has also agreed to waive certain standard fees associated with the administration of the programme.

The table below sets forth the amount of such payments received and claimed but not yet received in respect of the year ended 31st December 2009 as well as such payments received during 2009 in respect of the year ended 31st December 2008. GSK was also reimbursed £35,100 in 2009 for legal fees claimed with respect to 2007.

|   | Received in<br>respect | Received in<br>respect | Claimed in<br>respect of<br>2009<br>but not yet<br>received |
|---|------------------------|------------------------|---|
| <b>Direct and indirect payments by the Depositary</b>                       | of 2008                | of 2009                |   |
| Reimbursement of NYSE listing fees  |                        | \$387,787              |   |
| Reimbursement of legal fees claimed in US dollars                           | \$162,284              |                        | \$333,735   |
| Reimbursement of legal fees claimed in Sterling                             | £30,661                | £34,173                | £9,782  |
| Reimbursement of PCAOB fees   |                        | \$161,700              |   |
| Reimbursement of Annual Report production costs <sup>1</sup>                |                        | £10,000                | £290,347  |
| Reimbursement of Investor Relations expenses <sup>2</sup>                   | \$232,118              | \$321,108              | \$108,078   |
| Distribution of annual general meeting materials                            |                        | \$409,114              |   |
| Tabulation of voting instructions cards                                     |                        | \$40,202               |   |
| Reimbursement of other programme-related expenditures claimed in US dollars |                        |                        | \$16,050  |
| Reimbursement of other programme-related expenditures claimed in Sterling   |                        | £22,500                | £9,780  |

1 Annual report production costs include SEC filing fees.

2 Investor relations expenses include travel expenses, fees of investor relations consultants, expenses involved in arranging investor relations meetings and telephone expenses.



**Item 19 Exhibits****Exhibit Index**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 1.1                | Memorandum and Articles of Association of the Registrant as in effect on the date hereof.   |
| 2.1                | Deposit Agreement among the Registrant and The Bank of New York, as Depositary, and the holders from time to time of the American Depositary Receipts issued thereunder, including the form of American Depositary Receipt, is incorporated by reference to the Registration Statement on Form F-6 (No. 333-148017) filed with the Commission on December 12, 2007. |
| 4.1                | UK Service Agreement between GlaxoSmithKline Services Unlimited and Julian Heslop is incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 20-F filed with the Commission on March 3, 2006.  |
| 4.2                | Service Agreement between SmithKline Beecham Corporation and Moncef Slaoui is incorporated by reference to Exhibit 4.4 to the Registrant's Annual Report on Form 20-F filed with the Commission on February 29, 2008.   |
| 4.3                | UK Service Agreement between GlaxoSmithKline Services Unlimited and Andrew Witty is incorporated by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 20-F filed with the Commission on February 29, 2008.   |
| 4.4                | Amendment to UK Service Agreement between GlaxoSmithKline Services Unlimited and Andrew Witty dated June 18, 2008 is incorporated by reference to Exhibit 4.4 to the Registrant's Annual Report on Form 20-F filed with the Commission on March 4, 2009.  |
| 4.5                | Amendment to UK Service Agreement between GlaxoSmithKline Services Unlimited and Andrew Witty dated February 4, 2010.   |

- 8.1** A list of the Registrant's principal subsidiaries is incorporated by reference to pages 166 to 168 of this Annual Report on Form 20-F.
- 12.1** Certification Required by Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934  
Andrew Witty.
- 12.2** Certification Required by Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934  
Julian Heslop.
- 13.1** Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).
- 15.1** Consent of PricewaterhouseCoopers LLP.

**Cross reference to Form 20-F**

This table has been provided as a cross reference from the information included in this Annual Report to the requirements of Form 20-F.

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Footnote (i) - see the company s Form 20-F filing with the Securities and Exchange Commission





**Signature**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

**GlaxoSmithKline plc**

March 1, 2010

By: /s/ Julian Heslop  
Julian Heslop  
Chief Financial Officer