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

þ **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	New York Stock Exchange
4.850% Notes due 2013	New York Stock Exchange
5.650% Notes due 2018	New York Stock Exchange
6.375% Notes due 2038	New York Stock Exchange

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.

þ Yes o 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.

o Yes þ 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.

þ Yes o 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).

o Yes o 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 þ	Accelerated filer o	Non-accelerated filer o

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

U.S. GAAP o	International Financial Reporting Standards as issued by the International Accounting Standards Board þ	Other o

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 o Item 18 o

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).

o Yes þ 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

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.

Business review

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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.

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

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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.

2009 performance overview

Our measures	Our progress in 2009
We use a number of measures to track our progress against the strategic priorities over the medium to long term. These include the following:	We made good progress during the year, with a number of notable successes
Performance of core pharmaceuticals and vaccines businesses	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%.

Expansion of Japanese business	Sales reached £1.6 billion in 2009, up 22%, driven by *Adoair* and *Relenza.* Products launched in the last three years contributed around £260 million sales in 2009.
Build biopharmaceutical portfolio	*Arzerra* was launched in the USA, a positive opinion was received for *Prolia* and positive phase III data was announced for *Benlysta* in 2009. Around 17% of our pipeline now comprises biopharmaceutical assets.
Contribution to sales of new products	New pharmaceutical products launched since 2007 contributed sales of £1.3 billion, or £2.1 billion including H1N1 pandemic vaccine.
Number of reimbursable product approvals and filings	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.
Sustaining late-stage pipeline	We maintained around 30 assets in phase III and registration, with five new programmes entering phase III during 2009.
Enhanced R&D productivity and increased externalisation for Drug Discovery	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&D to around 14%. We have externalised approximately 30% of our discovery research with 47 external partners.

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

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.

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.

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Financial trends

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

Results before major restructuring

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

Research and development total			
Pharmaceuticals	**3,947**	3,557	3,215
Consumer Healthcare	**159**	124	112
Total	**4,106**	3,681	3,327
Net finance cost cover total			
Net finance costs	**713**	530	191
Cover	**12 times**	14 times	40 times
Net finance cost cover is profit before tax plus net finance costs, divided by net finance costs.			
Tax rate total	**28.2%**	29.2%	28.7%
Tax rate before major restructuring	**28.0%**	28.7%	28.5%
Borrowings			
Net debt	**9,444**	10,173	6,039
Gearing	**88%**	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 .

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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
Respiratory					
Seretide/Advair	salmeterol xinafoate/ fluticasone propionate	asthma/COPD	Singulair, Symbicort, Spiriva, Asmanex, Pulmicort, Foster	2010 (combination) 2011-2016 (*Diskus device*)	2013[1] (combination) 2011 (*Diskus device*)
Flixotide/Flovent	fluticasone propionate	asthma/COPD	Qvar, Singulair	2011-2025 (devices)	2011-2017 (devices)
Serevent	salmeterol xinafoate	asthma/COPD	Foradil, Spiriva	2011-2016 (Diskus device)	2011-2019 (devices)
Veramyst	fluticasone furoate	rhinitis	Nasacort	2021	2023
Anti-virals					
Epzicom/Kivexa	lamivudine and abacavir	HIV/AIDS	Truvada, Atripla	2016 (combination)	2016 (combination)
Combivir	lamivudine and zidovudine	HIV/AIDS	Truvada, Atripla	2012 (combination)	2013 (combination)
Trizivir	lamivudine, zidovudine and abacavir	HIV/AIDS	Truvada, Atripla	2016 (combination)	2016 (combination)
Agenerase	amprenavir	HIV/AIDS	Prezista, Kaletra, Reyataz	2013	2014
Lexiva	fosamprenavir	HIV/AIDS	Prezista, Kaletra, Reyataz	2017	2019
Epivir	lamivudine	HIV/AIDS	Truvada, Atripla	2010	2011
Ziagen	abacavir	HIV/AIDS	Truvada, Atripla	2012	2014
Valtrex	valaciclovir	genital herpes, coldsores, shingles	Famvir	expired	expired
Zeffix	lamivudine	chronic hepatitis B	Hepsera	2010	2011
Relenza	zanamivir	influenza	Tamiflu	2013	2014

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

		pulmonary embolism	Innohep		
Vesicare	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

Products, intellectual property and competition

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

	inactivated antigens				
Fluarix	split inactivated influenza virus subtypes A and type B antigens	seasonal influenza	Vaxigrip, Mutagrip, Fluzone, Influvac, Aggripal, Fluad	2022	2022
FluLaval	split inactivated influenza virus subtypes A and type B antigens	seasonal influenza	Vaxigrip, Mutagrip, Fluzone, Influvac, Aggripal, Fluad	none	none
Cervarix	HPV 16 & 18 virus like particles (VLPs), AS04 adjuvant (MPL + aluminium hydroxide)	human papilloma virus type 16 & 18	Gardasil, Silgard	2026	2019
Synflorix	conjugated pneumococcal polysaccharide	invasive pneumococcal disease	Prevenar	NA	2020
Rotarix	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.

Therapeutic	**Compound**
Biopharmaceuticals	*Arzerra* (ofatumumab)
	Arzerra (ofatumumab)
	Arzerra (ofatumumab)
	Benlysta (belimumab)
	ofatumumab
	otelixizumab
	Prolia (denosumab)
	Syncria
Cardiovascular& Metabolic	*Arixtra*
	Avandamet XR
	Avandia + simvastatin
	darapladib
Neurosciences	almorexant
	*Horizant (1838262)**
	retigabine
Oncology	*Avodart*

	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

Research and development

Indication	Phase 3	Filed	Approved
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

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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.

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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 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 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 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.

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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.

World market by geographic region	Value £bn	% of total
USA	**187**	**40**
Europe	**131**	**28**
France	25	5
Germany	24	5
Italy	16	3
UK	12	3
Rest of World	**150**	**32**
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*.

World market top six therapeutic classes	Value £bn	% of 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) 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.

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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.

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Pharmaceutical turnover by therapeutic area 2009

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

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

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

* 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.

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.

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

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

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:

	2009		2008			Growth
	£m	**%**	£m	%	CER%	£%
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

	2009	2008
Finance income	**£m**	£m
Interest and other income	**67**	321
Unwinding of discounts on assets	**2**	1
Fair value adjustments and hedges	**1**	(9)
	70	313
Finance costs		
Interest costs	**(770)**	(829)
Unwinding of discounts on liabilities	**(8)**	(11)
Fair value adjustments and hedges	**(2)**	2
	(780)	(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.

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

	2009 £m	2008 £m
UK corporation tax	**456**	289
Overseas taxation	**1,958**	1,589
Current taxation	**2,414**	1,878
Deferred taxation	**(192)**	69
Taxation on total profits	**2,222**	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

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

Results before major restructuring profit attributable to shareholders				
Adjusted earnings per share (pence)	**121.2p**	104.7p	2	16
Adjusted earnings per ADS (US$)	**$3.78**	$3.87		
Weighted average number of shares (millions)	**5,069**	5,195		
Diluted total earnings per share (pence)	**108.2p**	88.1p		
Diluted total earnings per ADS (US$)	**$3.38**	$3.26		
Diluted weighted average number of shares (millions)	**5,108**	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	**12,504**	**100**	11,602	100	11,826	100
Chargebacks	**(1,193)**	**10**	(892)	8	(917)	8
Managed care, Medicare Part D and GPO rebates	**(917)**	**7**	(764)	6	(727)	6
US government and state programmes	**(663)**	**5**	(554)	5	(481)	4
Cash discounts	**(219)**	**2**	(207)	2	(208)	2
Customer returns	**(179)**	**1**	(126)	1	(131)	1

Prior year adjustments	**30**		38		73	
Other items	**(183)**	**2**	(203)	1	(162)	1
Total deductions	**(3,324)**	**27**	(2,708)	23	(2,553)	22
Net turnover	**9,180**	**73**	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:

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

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

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

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		**6,813**	6,014
Borrowings	repayable within one year	**(1,471)**	(956)
Borrowings	repayable after one year	**(14,786)**	(15,231)
Net debt		**(9,444)**	(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.

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

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

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.

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

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

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Financial position and resources

Movements in net debt

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

	2009	2008
	£m	£m
Bank balances and deposits	**5,206**	3,778
US Treasury and Treasury repo only money market funds	**1,305**	1,852
Corporate debt instruments	**10**	75
Government securities	**292**	309
	6,813	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.

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

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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.

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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.

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.

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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.

World market by geographic region	Value £bn	% of total
USA	**145**	**39**
Europe	**112**	**31**
France	21	6
Germany	20	6
Italy	13	3
UK	12	3
Rest of World	**109**	**30**
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*.

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

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

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

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

* 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).

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.

	2008		2007			Growth
	£m	**%**	£m	%	CER%	£%
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%.

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

	2008	2007
Finance income	**£m**	£m
Interest and other finance income	**322**	255
Fair value adjustments and hedges	**(9)**	7
	313	262
Finance costs		
Interest costs	**(829)**	(434)
Unwinding of discount on liabilities	**(16)**	(27)
Fair value adjustments and hedges	**2**	8
	(843)	(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:

	2008		2007		Growth
	£m	**%**	£m	%	CER%	£%
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 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.

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

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

	2008	2007
	£m	£m
UK corporation tax	**289**	452
Overseas taxation	**1,589**	1,962

Current taxation	**1,878**	2,414
Deferred taxation	**69**	(272)
Taxation on total profits	**1,947**	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

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

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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.

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.

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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.

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 Stéphenne

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 America Bar Association s Section of Administrative Law, and was previously adjunct scholar at the American Enterprise Institute in Washington, DC.

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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 meetings held whilst a Board member	Number of meetings 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.

Corporate governance

Corporate governance framework

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

	Audit & Risk	Remuneration	Nominations	Corporate 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

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.

Committee	Role and Terms of Reference	Membership comprises	No of meetings per year	Committee Report on page
Audit & Risk	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 Non-Executive Directors	³ 4	67 69
Remuneration	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 Non-Executive Directors and the Chairman	³ 4	73 90
Nominations	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 Non-Executive Directors and the Chairman	³ 2	70
Corporate Responsibility	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 Non-Executive Directors and the Chairman	³ 3	71

	reputation. The Committee is also responsible for oversight of GSK s worldwide donations and community support.		
Finance	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
Corporate Administration & Transactions	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 openess 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. 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 shares	Percentage of issued 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 Depositary 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 Depositary, are registered in the name of BNY (Nominees) Limited. Details of the number of Ordinary Shares held by the Depositary 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.

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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
Political donations to:	**£**	£
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.

Corporate governance

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 (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.

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:

External auditors	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
CFO	reported on the financial performance of the company and on technical financial and accounting matters
General Counsel	reported on material litigation
Company Secretary & Corporate Compliance Officer	reported on corporate governance and on the activities undertaken by the ROCC
Heads of audit and assurance and the Group s compliance and audit groups	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
Company Secretary, as Chairman of the Disclosure Committee	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.

Sir Christopher Gent
Nominations Committee Chairman

Members	Committee member since	Attendance at full meetings during 2009
Sir Christopher Gent (Chairman from 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* (Committee Chairman 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 (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

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.

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 (Chairman from 20th May 2009)	1st July 2003	6	6
Sir Robert Wilson (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		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) Individual performance against pre-determined personal objectives is also taken into account in determining individual bonus payments There are R&D specific key performance indicators for R&D employees Achievement of additional operational efficiency goals will also be taken into account in determining the annual bonuses in respect of 2009 and 2010 No individual, including the CEO, will have a maximum bonus opportunity of more than 200% of salary 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
Deferred Annual Bonus Plan		Individuals may elect to defer up to 50% of any bonus earned In respect of 2009, only the CEO and CFO were eligible to participate From 2010, all Executives may participate 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)
Performance Share Plan (PSP)	60%	Vesting based on relative TSR using a comparator group currently comprising 10 other pharmaceutical companies Half of TSR component is measured over three years and half over four years 30% vesting at median, with 100% vesting for upper quartile performance Twelve-month averaging period for TSR
	40%	Vesting based on adjusted free cash flow measured over three years 25% vesting at threshold, rising to 100% for stretching performance exceeding the set threshold by a specified margin
		The operating maximum face value of annual performance share awards is as follows: 500% of salary for the CEO and Chairman, Research & Development and 400% for the CFO
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

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

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	Global pharmaceutical comparator group*	
AngloAmerican	France	Sanofi-Aventis
AstraZeneca	Switzerland	Novartis
Barclays		Roche Holdings
BG Group	UK	AstraZeneca
BHP Billiton	USA	Abbott Laboratories
BP		Amgen**
British American Tobacco		Bristol-Myers Squibb
Diageo		Eli Lilly
HSBC		Johnson & Johnson
Reckitt Benckiser		Merck
Royal Dutch Shell		Pfizer
Rio Tinto		
Standard Chartered		
Tesco		
Unilever		
Vodafone		

* 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

		2009 salary		2010 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

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.

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 SOR purposes (as at 31/12/08)	Holding for SOR purposes (as at 24/02/10)	% increase in shareholding
Mr Witty	73,753 Ordinary shares	144,879 Ordinary shares	96
Mr Heslop	47,750 Ordinary shares	74,250 Ordinary shares	55
Dr Slaoui	49,799 Ordinary shares	95,836 Ordinary shares	92

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.

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 1 x annual on-target bonus* 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