

GLAXOSMITHKLINE PLC

Form 20-F

March 04, 2009

Table of Contents

**As filed with the Securities and Exchange Commission on March 4, 2009
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, 2008

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

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

New York Stock Exchange

Ordinary Shares, Par value 25 pence

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

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

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 5,187,122,079

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

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or

15(d) of the Securities Exchange Act of 1934.

Yes No

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

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17 Item 18

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

Yes No

Table of Contents

Table of Contents

Find out more about GSK online...

www.gsk.com

Website

GlaxoSmithKline's website www.gsk.com gives additional information on the Group. Information made available on the website does not constitute part of this Annual Report.

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 12 to 98. 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 12 to 98 inclusive consist of a 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.

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. A shareholder 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 50 to 53 of this Annual Report.

Grow

a diversified global business

Deliver

more products of value

Simplify

the operating model

In 2008 we set out three new strategic priorities that aim to improve our long-term financial performance.

We believe these priorities will enable us to navigate the coming years successfully and retain our leading-edge as a company able to meet patients and payers needs into the future.

Find out more about our priorities on the following pages.

Contents

<u>Chairman and CEO summary</u>	3
<u>Strategy</u>	4
Report of the Directors	
<u>Business review</u>	12
<u>Corporate governance</u>	60
<u>Remuneration Report</u>	78
Financial statements	
<u>Directors' statement of responsibilities</u>	100
<u>Independent Auditors' report</u>	101
<u>Consolidated income statement</u>	102
<u>Consolidated balance sheet</u>	103
<u>Consolidated cash flow statement</u>	104
<u>Consolidated statement of recognised income and expense</u>	105
<u>Notes to the financial statements</u>	106
Shareholder information	
<u>Financial record</u>	182
<u>Product development pipeline</u>	193
<u>Shareholder information</u>	197
<u>Taxation information for shareholders</u>	200
<u>Glossary of terms</u>	201

Table of Contents

2 GSK Annual Report 2008

Our mission

We have a challenging and inspiring mission to improve the quality of human life by enabling people to do more, feel better and live longer.

By focusing our business around our strategic priorities, we're confident that we can fulfil this promise.

Table of ContentsGSK Annual Report 2008 **3****Chairman and CEO summary**

2008 marked a turning point for GSK and we are now in a pivotal period of change as we redefine our business model to increase sales growth, reduce risk and deliver long-term sustainable financial performance to shareholders.

Financial performance*

We are pleased with the response of the business to what we always knew would be a challenging 12 months, due to the adverse impact of significant US patent expiries and further decline in *Avandia* sales. As anticipated, these factors led to a decline in earnings per share (EPS) for the year, which was compounded by an unexpected legal charge in the fourth quarter.

Total sales for the year were £24.4 billion, down 3% in constant exchange rate (CER) terms, and EPS excluding major restructuring was 104.7p, a decrease of 9% over 2007 in CER terms. Cash generation remains strong, with net cash inflow from operating activities of £7.2 billion, up 17% in sterling terms.

The Board declared a dividend for the year of 57p, up from 53p for 2007. During the year we completed share repurchases of £3.7 billion. We do not expect to make any significant repurchases in 2009. Our financial strategy remains to maintain an efficient balance sheet, while using cash resources to invest in our strategic priorities and increase returns to shareholders through our progressive dividend policy.

The performance of our core pharmaceuticals business and the increasing diversification of its sales base are important indicators of GSK's progress. Our pharmaceutical turnover declined 3% in CER terms, reflecting the adverse impact of generic competition to our patented products and lower *Avandia* and pandemic product sales. Excluding genericised products, *Avandia* and pandemic products, which have significant sales volatility, the remaining pharmaceuticals business delivered £16.4 billion in sales and grew by 10% in CER terms. Within this, vaccines sales rose by 20% to £2.47 billion.

Our sales in emerging markets grew by 12% to £2.3 billion. Sales in Asia Pacific and Japan totalled £1.9 billion; we are now moving into a phase of converting our extensive pipeline in Japan into approved medicines.

In 2008, we continued the good work of the previous year and launched 12 pharmaceutical products including vaccines. We are now also starting to see good traction with our new pharmaceutical products launched in the last two years, which contributed sales of almost £0.8 billion during the year.

Improved productivity and disciplined allocation of capital are key elements of our R&D strategy. We currently have around 30 assets in our late-stage pipeline, a level we aim to sustain. The augmentation of our pipeline, over the past few years, has been accomplished without substantial increases in total R&D expenditure.

*Constant exchange rates (CER) are explained on page 16.

Sales in Consumer Healthcare were just under £4 billion and we are making good progress with our strategy of investment in innovation, acquisitions and marketing excellence in this area of our business.

Strategic priorities

In 2008 we established our three strategic priorities to: grow a diversified global business; deliver more products of value; and simplify the operating model.

These priorities are designed to radically transform our business by reducing our relative dependence on small molecule pharmaceuticals in developed Western markets. We expect to see an increase in the relative importance of our emerging markets and Japanese businesses and an increasingly greater contribution to our business from vaccines and consumer products. We also anticipate a growing capability to deliver more products of value from R&D which will not only deliver benefits to patients but will also more readily meet payers' needs and therefore enable us to achieve more rapid, reimbursed product approvals. Our expanded restructuring programme, which is expected to deliver annual savings of £1.7 billion by 2011, is a vital catalyst of this change.

These priorities and the progress we made to implement them during 2008 are explained on the following pages. You can find more information, including regular updates on progress as we move through 2009, by visiting our website at www.gsk.com

Changes to the Board

Sir Ian Prosser and Dr Ronaldo Schmitz will retire from the Board after the Annual General Meeting. We thank them for their dedicated service to the Boards of GSK and our heritage companies and for the valuable contributions they have made to our business.

In May 2009, we welcome James Murdoch to the Board, as a Non-Executive Director. As the Chairman and Chief Executive of News Corporation Europe and Asia, James brings great experience and expertise to our boardroom, which will be particularly evident in his role as a member of GSK's Corporate Responsibility Committee.

Outlook

We enter 2009 with confidence and expect to make further good progress in implementing our strategic priorities that will enable us to meet our long-term objective of reducing risk and delivering sustainable growth to shareholders. Finally, we would especially like to recognise the enormous contribution of our employees and our wide network of partners. Their willingness, energy and enthusiasm for change are strong foundations on which to build our new business model.

Sir Christopher Gent
Chairman

Andrew Witty
Chief Executive Officer

To find out more visit us at
www.gsk.com

Table of Contents

4 GSK Annual Report 2008

Our strategy

The pharmaceutical industry is experiencing a time of unprecedented challenge. Patent expiries, regulatory issues and increased pressures from healthcare providers have combined to create an environment where our sector is associated with lower growth and higher risk.

We are addressing these challenges through three key strategic priorities which we believe will transform GSK into a company that delivers more growth, less risk and an improved financial performance.

Key challenges

The patents on many medicines that have driven sales growth in our industry over the last decade are coming to an end. These medicines may not be replaced by products of equivalent financial size.

In addition, there are increasing pressures on pharmaceutical companies to deliver products with demonstrable benefits over current treatments. No longer do we merely have to discover and develop products that help people do more, feel better and live longer. We now have to justify that our products represent the greatest value for healthcare providers.

At the same time, the pharmaceutical sector has been exposed to controversy regarding ethical and patient safety issues. As an industry, we are in danger of eroding what trust we already have when we actually need to be building stronger relationships with governments, regulators and the general public.

These factors have combined to move the industry from one which was expected to deliver high growth at low risk, to the very opposite.

Three strategic priorities

In 2008 we established the following three strategic priorities:

Grow a diversified global business

Deliver more products of value

Simplify the operating model

We believe these priorities will enable us to navigate the coming years successfully and retain our leading-edge as a company able to meet patients and healthcare providers needs into the future.

Updates on our progress will be published on our website at www.gsk.com and also feature in our regular financial results.

Corporate responsibility

Running our business in a responsible way is fundamental to our success and inseparable from our strategic priorities. We operate in a way that reflects our values, seeks to understand and respond to stakeholder views and connects our business decisions to ethical, social and environmental concerns. In this way we aim to minimise the negative impacts and maximise the positive benefits of our business.

Responsibility is vital in all parts of our business and we understand the need to be open about how we are operating. We also understand that transparency is a key factor in building trust with our stakeholders and have implemented a number of initiatives to improve the transparency of our activities.

Comprehensive information on our approach to responsibility issues can be found in our annual Corporate Responsibility Report at www.gsk.com/responsibility.

Table of Contents

GSK Annual Report 2008 5

Grow a diversified global business

We are reducing risk by broadening and balancing our portfolio, diversifying into new product areas that show potential, while also fully capturing opportunities for our products across all geographic boundaries.

The plans which underpin this strategic priority:

Drive growth in the pharmaceutical business in our core markets

Deliver our ambitious vaccines forecast

Fulfil the potential of emerging markets

Expand our business in Japan

Grow the Consumer Healthcare business

To find out more go to page 6

Deliver more products of value

We are striving to build one of the strongest pipelines in the industry. We are transforming R&D to ensure that we not only deliver the current pipeline but are also able to sustain a flow of new products for years to come.

The plans which underpin this strategic priority:

Focus on the best science

Diversify through externalisation

Re-personalise R&D

Focus on return on investment

To find out more go to page 8

Simplify the operating model

GSK is a complex organisation. We recognise that we need to simplify our operating model further, changing the way we work, removing unnecessary processes and structures which slow us down and distract us from our mission.

The plans which underpin this strategic priority:

Evolve our commercial model

Re-shape manufacturing

Streamline our processes

Reduce working capital
To find out more go to page 10

Table of Contents

6 GSK Annual Report 2008

We are reducing risk by broadening and balancing our portfolio, diversifying into new product areas that show potential, while also fully capturing opportunities for our products across all geographic boundaries.

Specifically, we expect to generate future sales growth by strengthening our core pharmaceuticals business and supplementing it with increased investment in growth areas such as vaccines, biopharmaceuticals and consumer healthcare.

We are also seeking to unlock the geographic potential of our businesses, particularly in emerging markets and Japan.

We have made good progress on this priority during 2008, and we believe there remain many opportunities for GSK to diversify further.

Grow a diversified global business

Our plans

Drive growth in the pharmaceutical business in our core markets

Our established strengths in the small molecule pharmaceutical sectors of larger markets such as the USA, UK, France, Germany, Italy and Spain remain central to our business. During 2008, we received European approval for *Tyverb* for advanced breast cancer, *Volibris* for the treatment of pulmonary arterial hypertension, *Avamys* a new allergic rhinitis treatment and US approval for *Promacta* for the treatment of thrombocytopenia and *Entereg* for postoperative ileus. In our US pharmaceuticals business we have initiated a major change programme, refocusing marketing to demonstrate value and introducing new product offerings which focus on volume opportunities.

Deliver our ambitious vaccines forecast

Increasingly, healthcare providers recognise the important role that vaccines play in preventative healthcare. Our proven capability and strong pipeline, plus the high barriers to entry faced by our competitors, mean that this is expected to be a source of future growth for GSK.

We are targeting sustained growth in our vaccines portfolio, by launching new vaccines and working to expand our franchise in Japan and emerging markets.

During 2008, *Cervarix* our new cervical cancer vaccine, was successful in approximately 60% of all tenders, achieving several notable successes including Europe's largest vaccination programme against cervical cancer, which is taking place in the UK. The year also saw *Rotarix*, *Boostrix* (adult indication) and *Kinrix* receive approval from the FDA.

Fulfil the potential of emerging markets

Emerging markets feature a less-defined distinction between pharmaceutical, over-the-counter and retail market structure and our ability to operate across this spectrum is a clear competitive advantage. We have an opportunity to improve this capability and further energise our business in fast-growing emerging markets.

Table of Contents

GSK Annual Report 2008 7

In 2008, we entered into an alliance with Aspen Holdings of South Africa. This new relationship gives us priority access to commercialised products from a portfolio of over 1,000 potential products.

As the year ended we acquired a BMS portfolio in Egypt and reached agreement to acquire a BMS portfolio in Pakistan. In early 2009 we also agreed with UCB to acquire its current marketed product portfolio in a range of territories.

Expand our business in Japan

Japan is a key market for GSK investment and growth. We have an extensive product pipeline and expect to launch more than 40 products in this market over the next five years.

Major approvals in this market recently were *Lamictal* for epilepsy and *Adoair* for COPD.

Grow the Consumer Healthcare business

Our Consumer Healthcare business continues to drive growth through a portfolio of powerful brands in three key segments: over-the-counter (OTC) medicines, Oral healthcare and Nutritional healthcare.

The brand portfolio, which includes *alli* for weight loss, *Panadol* a range of analgesics, *Sensodyne* toothpaste and *Lucozade* is supported by a strategy focused on innovation, marketing excellence, geographic expansion and acquisitions.

In September 2008 we launched *Sensodyne* into the Chinese market, our first major consumer launch in the country for a decade. We are now preparing to launch *alli*, the first OTC weight loss product approved by the European Commission, across Europe.

**To find out more visit us at
www.gsk.com**

Table of Contents

8 GSK Annual Report 2008

We are striving to build one of the strongest pipelines in the industry. We are transforming R&D to ensure that we not only deliver our current pipeline of new pharmaceuticals, vaccines and Consumer Healthcare products, but are also able to sustain this flow of new products for years to come.

As we move towards a more diversified business we will concentrate on developing a higher volume of mid-size products for more clearly-defined patient populations. This will help develop a lower risk portfolio which is not dependent on the performance of one or two large products.

Positive steps have already been taken, with 30 late-stage assets currently in our pharmaceuticals and vaccines pipeline. Our objective is to sustain this throughput of products over the long-term.

Our plans

Focus on the best science

Around 75% of assets in our pipeline are entirely new compounds or vaccines, demonstrating our strong drive towards innovation.

During the year we rebalanced our Drug Discovery organisation to improve efficiency and focus on the areas of new science that we believe are most likely to lead to new medicines. Together with vaccines, GSK's R&D is now focused on eight therapy areas: Biopharmaceuticals, Immuno-inflammation, Infectious diseases, Metabolic pathways, Neuroscience, Oncology, Ophthalmology and Respiratory.

Diversify through externalisation

We recognise that we do not have a monopoly on the best science. Therefore we have proactively expanded collaborations with external partners as well as with academia to access innovation and strengthen our early pipeline. Recent alliances with organisations such as Cellzome and the Harvard Stem Cell Institute and acquisitions such as that of Sirtris and Genelabs are providing us with competitive advantage in important areas of research.

In the last year, we completed or expanded 21 new drug discovery alliances adding significant breadth and scale to our R&D activities. There are currently 70 discovery units working either inside the company or externally.

Biopharmaceuticals will play an increasingly important role in our future portfolio. Offering a worldwide market of approximately £40 billion with projected compound annual growth of 18% over the next five years, biopharmaceuticals are compounds capable of being manufactured by living organisms, usually cultured cells.

Currently only 6% of our pipeline comprises biopharmaceuticals, which is below the industry average. We have significantly expanded our biopharmaceutical pipeline through in-house discovery, the acquisition of Domantis and by in-licensing late-stage products. There are currently 10 clinical research programmes underway including five assets in late-stage development.

Deliver more products of value

Table of Contents

GSK Annual Report 2008 9

Re-personalise R&D

We want to create an environment where there is no impediment to our best scientists making the kind of discoveries which will transform the company's future by delivering value to patients, healthcare providers and shareholders. 2008 saw the creation of Discovery Performance Units (DPUs) within our Centres of Excellence for Drug Discovery (CEDDs). Each DPU is a compact, fully-empowered, focused and integrated team which has responsibility for a small part of the pipeline.

We have also created new, integrated R&D Units for Biopharmaceuticals and Oncology. The R&D centre we established in China in 2007 is now 200 people strong and has recruited experienced scientists who are dedicated solely to GSK's neurodegenerative research.

Focus on return on investment

We have adopted a more disciplined approach to how and where we allocate resources within R&D. More than 35% of discovery projects have been terminated following our therapy area rebalancing exercise and reviews by the new Drug Discovery Investment Board.

As part of the same process, all our 35 Discovery Performance Units now have three year funding in place to develop their projects.

We realise that reimbursement is the key to long-term financial performance and we are working hard to bring a health outcome focus to R&D which will in turn deliver greater value to healthcare providers. For example, in Europe direct dialogue now exists between payer organisations and our R&D teams to improve our understanding of the perceived benefit and value of new products.

**To find out more visit us
at www.gsk.com**

Table of Contents

10 GSK Annual Report 2008

GSK is a complex organisation. We recognise that we need to simplify our operating model further, changing the way we work, removing unnecessary processes and structures which slow us down and distract us from our mission.

Our global restructuring programme is a vital catalyst of our strategy. We believe it will radically change our business model giving us the capability to support a more diverse, growing business that is also expected to be more profitable in the long-term.

Simplify the operating model

Our plans

Evolve our commercial model

We have reorganised so that we now have one single commercial support structure for Europe, Emerging Markets and Asia Pacific/Japan. In the USA, we have radically restructured our pharmaceuticals business. This includes the transformation of the US sales force as well as the decision to designate a single headquarters for US Pharmaceuticals, located at Research Triangle Park, North Carolina to reduce complexity and streamline our US operations.

Re-shape manufacturing

Manufacturing is a key capability at GSK and we are taking an ambitious approach to re-shaping our operations. We are moving to match network capacity more closely to volume and are leveraging our network of sites and contractors to ensure the flexibility to sustain growth and adapt to changing business models.

We continue to improve the efficiency of our sites, by applying benchmarked studies and seizing opportunities to do more with less. In addition, we are simplifying our operating model to clarify roles and responsibilities, to improve prioritisation and decision making and to introduce simpler, more efficient ways of working.

Streamline our processes

We are simplifying our organisation to speed up decision-making and improve alignment to our business priorities. There are many different programmes and initiatives across GSK including a comprehensive programme to simplify and reduce costs in IT. Through an innovative partnership with Microsoft Online we will produce financial savings, improve productivity and enhance collaboration internally and with our external partners.

Table of Contents

GSK Annual Report 2008 **11**

We are striving to ensure that cross-business processes and structures are simpler and more efficient. For example, a number of reviews are currently underway to simplify our support functions infrastructure and create a leaner corporate centre.

Reduce working capital

Our current working capital requirement is around £8 billion. In September 2008, we started a programme which has successfully delivered cash flow benefits of more than £500 million, which we are using to invest in our strategic priorities.

**To find out more visit us at
www.gsk.com**

Table of Contents

12 GSK Annual Report 2008

Report of the Directors**Financial trends and ratios**

Total results	2008		Growth*	2007		Growth*	2006
	£m	CER%	£%	£m	CER%	£%	£m
Turnover	24,352	(3)	7	22,716	2	(2)	23,225
Cost of sales	(6,415)	13	21	(5,317)	8	6	(5,010)
Selling, general and administration	(7,656)	2	10	(6,954)		(4)	(7,257)
Research and development	(3,681)	4	11	(3,327)	(1)	(4)	(3,457)
Other operating income	541			475			307
Operating profit	7,141	(20)	(6)	7,593	3	(3)	7,808
Profit before taxation	6,659	(24)	(11)	7,452	2	(4)	7,799
Profit after taxation for the year	4,712	(25)	(11)	5,310	3	(3)	5,498
Profit attributable to minority interests	110			96			109
Profit attributable to shareholders	4,602			5,214			5,389
Basic earnings per share (pence)	88.6p	(21)	(6)	94.4p	5	(1)	95.5p
Diluted earnings per share (pence)	88.1p			93.7p			94.5p

Results before major restructuring

Turnover	24,352	(3)	7	22,716	2	(2)	23,225
Cost of sales	(5,776)	4	11	(5,206)	6	4	(5,010)
Selling, general and administration	(7,352)		8	(6,817)	(2)	(6)	(7,257)
Research and development	(3,506)	2	8	(3,237)	(3)	(6)	(3,457)
Other operating income	541			475			307
Operating profit	8,259	(10)	4	7,931	8	2	7,808
Profit before taxation	7,782	(14)		7,790	6		7,799
Profit after taxation for the year	5,551	(14)		5,571	8	1	5,498

Profit attributable to minority interests	110			96			109
Profit attributable to shareholders	5,441			5,475			5,389
Basic earnings per share (pence)	104.7p	(9)	6	99.1p	10	4	95.5p
Diluted earnings per share (pence)	104.1p			98.3p			94.5p

Research and development total

Pharmaceuticals	3,557			3,215			
Consumer Healthcare	124			112			
Total	3,681			3,327			

Net finance cost cover total

Net finance costs	530			191			
Cover	14			40			
	times			times			

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

Tax rate total	29.2%			28.7%			
Tax rate before major restructuring	28.7%			28.5%			

Borrowings

Net debt	10,173			6,039			
Gearing	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 13.

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

Table of ContentsGSK Annual Report 2008 13
Report of the Directors**Report of the Directors**

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.

The report is divided into a number of sections. These are:

Business review

This discusses our financial and non-financial activities, resources development and performance during 2008 and outlines the factors including the trends and the principal risks and uncertainties which are likely to affect future development. This is sub divided into:

<u>Financial trends and ratios</u>	12
<u>2008 Performance overview</u>	14
<u>Products, intellectual property and competition</u>	17
<u>Global manufacturing and supply</u>	20
<u>Research and development</u>	21
<u>Our employees</u>	26
<u>Our responsibility</u>	27
<u>Regulation</u>	32
<u>Economy, world market and outlook</u>	33
<u>Financial review 2008</u>	34
<u>Financial position and resources</u>	43
<u>Risk factors</u>	50
<u>Financial review 2007</u>	54
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.	
<u>Biographies of our Board</u>	60
<u>Biographies of our Corporate Executive Team</u>	62
<u>Governance and policy</u>	64
<u>Dialogue with shareholders</u>	68
<u>Share capital and control</u>	68
<u>Donations to EU political organisations and EU political expenditure</u>	70
<u>Annual General Meeting</u>	71
<u>Internal control framework</u>	71
<u>Committee reports</u>	73
<u>The Combined Code</u>	76
<u>US law and regulation</u>	76

Directors remuneration

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 Directors Remuneration Report Regulations 2002 (the Regulations). The sections cover:

<u>Letter from the Chairman of the Remuneration Committee</u>	78
<u>Remuneration policy</u>	80-87
<u>Executive Director terms, conditions and remuneration</u>	87
<u>Non-Executive Director terms, conditions and fees</u>	88
<u>Directors and Senior Management remuneration</u>	89
<u>Annual remuneration</u>	90
<u>Non-Executive Directors remuneration</u>	91
<u>Directors interests</u>	92
<u>Share options</u>	92
<u>Incentive plans</u>	94
<u>Pensions</u>	97
<u>Directors and Senior Management</u>	98
<u>Directors interests in contracts</u>	98

Accounting presentation

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.

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.

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.

Currencies

The currencies that most influence the Group's results remain the US dollar, the euro, the yen and the pound. In 2008 the pound weakened by 28% against the 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.

Table of Contents



**14 GSK Annual Report 2008
Report of the Directors**

2008 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 .
- + Free cash flow is described on page 46.

Our strategies

During 2008 we set out three new strategic priorities. Full details are given on pages 4 to 11.

Grow a diversified global business

Broadening and balancing our portfolio, diversifying into new product areas while also fully capturing opportunities for our products across all geographic boundaries.

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.

Simplify the operating model

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

Table of Contents

Our measures

Progress in 2008

We are developing 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 business, including growth in vaccines

Excluding genericised products, Avandia and pre-pandemic preparations, our core pharmaceuticals business had turnover of £16.4 billion and grew by 10%.

Growth of Consumer Healthcare market share

Consumer Healthcare sales grew 3% to nearly £4 billion. Continued market share growth in Oral healthcare and Nutritional healthcare but sales fell in OTC due to lower sales of smoking cessation products.

Contribution of Emerging Markets to our overall sales and growth

Sales in Emerging Markets grew 12% to £2.3 billion. Transactions with Aspen and BMS executed to build broader and more geographically diverse portfolio.

Expansion of Japanese business

Major recent approvals in Japan for Lamictal for epilepsy and *Adoair for COPD*. *Around 40 new product opportunities in development*. Sales in Japan fell by 3% as a result of price cuts mandated by government.

Contribution to sales of new products

New product launches in the last two years contributed sales of almost £0.8 billion in 2008.

Number of reimbursable product approvals and filings

12 key product launches, including Tyverb, Volibris and *Avamys in Europe and*

Treximet, Entereg, Promacta, Kinrix and Rotarix in the USA. Secured 17% of all FDA approvals for new chemical entities and vaccines.

Sustaining late-stage pipeline of around 30 assets

Late stage pipeline maintained at around 30 assets. Five new assets moved into phase III development during 2008, including darapladib for atherosclerosis and Syncria for type 2 diabetes.

Enhanced productivity and increased externalisation for Drug Discovery

Created 35 Discovery Performance Units, small teams each with three-year funding in place. Entered or expanded 21 new drug discovery alliances.

Delivery of major restructuring programme

Annual cost savings of £390 million already achieved. Programme expanded to deliver annual savings of £1.7 billion by 2011.

Evolution of our commercial model

Rescaled and redeployed US pharmaceuticals sales force. Sales forces expanded in Emerging Markets.

Reshaping of Global Manufacturing and Supply

Manufacturing network rationalisation continuing with multiple site exits ongoing.

Reduction in working capital

Delivered more than £500 million of cash flow benefits from the working capital reduction programme which started in September 2008.

Table of Contents**16 GSK Annual Report 2008****Report of the Directors****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, with operations in some 114 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 2008, prepared in accordance with United Kingdom requirements. It was approved by the Board of Directors on 3rd March 2009 and published on 4th March 2009.

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 251 of the Companies Act 1985. The Annual Report is issued to shareholders who have elected to receive it. Both documents are available on GSK's website.

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 represents 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, *Boniva/Bonviva*, a trademark of Roche, *Citrucel*, a trademark of Merrell Pharmaceuticals, *Entereg*, a trademark of Adolor Corporation in the USA, *Volibris*, a trademark of Gilead, *NicoDerm*, a trademark of Sanofi-Aventis, Pfizer Canada, Elan, Novartis, Merrell or GlaxoSmithKline, 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.

Business segments

GSK operates in two industry segments:

Pharmaceuticals (prescription pharmaceuticals and vaccines)

Consumer Healthcare (OTC medicines, Oral healthcare and Nutritional healthcare).

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 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. With an estimated total cost of approximately £3.6 billion, the expanded programme is expected to deliver annual pre-tax savings of approximately £1.7 billion by the time it is substantially complete in 2011. 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 is the only acquisition since October 2007 that meets 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.

Table of Contents

GSK Annual Report 2008 **17**
Report of the Directors

Products, intellectual property and competition

Pharmaceutical products

GSK's principal pharmaceutical products are currently directed to eight main therapeutic areas. A description of the products is on pages 18 to 19 and an analysis of sales by therapeutic area, is on page 35.

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

Schering-Plough

Wyeth

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 bear 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. For details of some of the challenges to our products see legal proceedings on pages 172 to 180. 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 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 most 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 provide assurance that the issued patent will be held valid and enforceable by a court. Significant litigation concerning such challenges is summarised in Note 44 to the financial statements, *Legal proceedings*. 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.

The life of a patent in most countries is 20 years from the filing date. Patents protecting new active ingredients are generally applied for early in the development process. 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.

Table of Contents

18 GSK Annual Report 2008

Report of the Directors**Products, intellectual property and competition** continued

Product	Compounds	Indication	Major competitor brands	Patent expiry dates	
				USA	EU
Respiratory					
<i>Seretide/Advair</i>	salmeterol xinafoate/ fluticasone propionate	asthma/COPD	Singulair, Symbicort, Spiriva, Asmanex, Pulmicort	2010 (combination)	2013 ² (combination)
<i>Flixotide/Flovent</i>	fluticasone propionate	asthma/COPD	Qvar, Singulair	expired	expired
<i>Serevent</i>	salmeterol xinafoate	asthma/COPD	Foradil, Spiriva	expired	expired
<i>Veramyst</i>	fluticasone furoate	rhinitis	Nasacort	2021	2023
<i>Flixonase/Flonase</i>	fluticasone propionate	rhinitis	Nasonex, Rhinocort	expired	expired
Anti-virals					
<i>Epzicom/Kivexa</i>	lamivudine and abacavir	HIV/AIDS	Truvada, Atripla	2016 (combination)	2019 (combination)
<i>Combivir</i>	lamivudine and zidovudine	HIV/AIDS	Truvada, Atripla	2012 (combination)	2013 (combination)
<i>Trizivir</i>	lamivudine, zidovudine and abacavir	HIV/AIDS	Truvada, Atripla	2016 (combination)	2016 (combination)
<i>Agenerase</i>	amprenavir	HIV/AIDS	Prezista, Kaletra, Reyataz	2013	2014
<i>Lexiva</i>	fosamprenavir	HIV/AIDS	Prezista, Kaletra, Reyataz	2017	2019
<i>Epivir</i>	lamivudine	HIV/AIDS	Truvada, Atripla	2010	2011
<i>Ziagen</i>	abacavir	HIV/AIDS	Truvada, Atripla	2012	2014
<i>Valtrex</i>	valaciclovir	genital herpes, coldsore, shingles	Famvir	2009	2009
<i>Zeffix</i>	lamivudine		Hepsera	2010	2011

		chronic hepatitis B			
<i>Relenza</i>	zanamivir	influenza	Tamiflu	2013	2014
Central nervous system					
<i>Lamictal</i>	lamotrigine	epilepsy, bipolar disorder	Keppra, Dilantin	expired	expired
<i>Imigran/lmitrex</i>	sumatriptan	migraine	Zomig, Maxalt, Relpax	expired	expired
<i>Seroxat/Paxil</i>	paroxetine	depression, various anxiety disorders	Effexor, Cymbalta, Lexapro	expired	expired
<i>Wellbutrin SR</i>	bupropion	depression	Effexor, Cymbalta, Lexapro	expired	2009
<i>Requip</i>	ropinirole	Parkinson's disease, restless legs syndrome	Mirapex	expired	2011 (use in treating Parkinson's disease)
<i>Treximet</i>	sumatriptan and naproxen	migraine	Zomig, Maxalt, Relpax	2017 (combination and use)	NA
Cardiovascular and urogenital					
<i>Avodart</i>	dutasteride	benign prostatic hyperplasia	Proscar, Flomax, finasteride	2015	2017
<i>Lovaza</i>	formulation of omega-4 acid ethyl esters	very high triglycerides	Tricor	2017 (Formulation)	
<i>Coreg CR</i>	carvedilol phosphate	mild-to-severe heart failure, hypertension, left ventricular dysfunction post MI	Toprol XL	2023 ¹	NA
<i>Fraxiparine</i>	nadroparin	deep vein thrombosis, pulmonary embolism	Lovenox	expired	expired

<i>Arixtra</i>	fondaparinux	deep vein thrombosis, pulmonary embolism	Lovenox, Fragmin Innohep	expired	expired
<i>Vesicare</i>	solifenacin	overactive bladder	Detrol, Detrol LA, Enablex, Sanctura	2018	NA

1 Generic competition possible in 2010 as a result of patent settlement

2 The UK patent has been revoked by the UK courts

Table of ContentsGSK Annual Report 2008 **19**
Report of the Directors**Products, intellectual property and competition** continued

Product	Compounds	Indication	Major competitor brands	Patent expiry dates	
				USA	EU
Metabolic					
<i>Avandia</i>	rosiglitazone maleate	type 2 diabetes	Actos, Januvia	2012	2013
<i>Avandamet</i>	rosiglitazone maleate and metformin HCl	type 2 diabetes	Competact, Janumet Actoplus met	2012	2013
<i>Bonviva/Boniva</i>	ibandronate	osteoporosis	Actonel, Fosamax	2012	2011
Anti-bacterials					
<i>Augmentin</i>	amoxicillin/clavulanate potassium	common infections		expired	expired
<i>Altabax</i>	retapamulin	skin infections		2021	2022
Oncology and emesis					
<i>Hycamtin</i>	topotecan	ovarian cancer, small cell lung cancer	Doxil, Gemzar	2010	2011
<i>Zofran</i>	ondansetron	nausea and vomiting from cancer	Kytril, Emend, Aloxi	expired	expired
<i>Tykerb</i>	lapatanib	advanced and metastatic breast cancer in HER2 positive patients	Herceptin	2020	2023
Vaccines					
<i>Infanrix/Pediarix</i>	diphtheria, tetanus, pertussis, polio, hepatitis B (HepB), inactivated antigens	diphtheria, tetanus, pertussis, polio, hepatitis B (HepB),	Pentavac, Pentaxim, Pediacel, Pentacel	2017	2016
<i>Fluarix</i>	split inactivated influenza virus subtypes A and type B antigens	seasonal influenza	Vaxigrip, Mutagrip, Fluzone, Influvac, Aggripal, Fluad	none	none
<i>FluLaval</i>	split inactivated influenza virus subtypes A and type B antigens	seasonal influenza	Vaxigrip, Mutagrip, Fluzone, Influvac, Aggripal, Fluad	none	none

<i>Cervarix</i>	HPV 16 & 18 virus like particles human papilloma virus (VLPs), AS04 adjuvant (MPL + aluminium hydroxide)	type 16 & 18	Gardasil, Silgard	2026	2019
<i>Rotarix</i>	live attenuated rotavirus strain G1P(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: OTC medicines, Oral healthcare and Nutritional healthcare.

Sales of key Consumer Healthcare products in 2008 are shown on page 37.

Our leading Consumer Healthcare products include the following:

OTC medicines

alli, the first licensed weight loss medicine to be available without a prescription, launched in the USA in 2007 and has now won approval to launch 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*.

Table of Contents

20 GSK Annual Report 2008

Report of the Directors

Products, intellectual property and competition continued

Oral healthcare

Aquafresh, a range of toothpastes, toothbrushes and mouthwashes

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

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

Polident, *PoliGrip* and *Corega*, the 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 third largest in Oral healthcare and in OTC medicines. 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 Wyeth. 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.

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

Global manufacturing and supply (GMS)

More than 31,000 people work in GMS across our network of 78 sites in 37 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 staggering, 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 £3.6 billion is spent on production each year.

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 2008, as our commercial customers sought every opportunity to grow their business, we focused on the cost-competitive supply of quality product to meet their ambition. We began adapting to the emerging commercial model by leveraging 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 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.

Table of Contents**Research and development****Research and development Pharmaceuticals**

GSK R&D is striving to build one of the strongest pipelines of potential new medicines in the industry. In 2008, 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

The early research identifies the biological targets interfering with a particular disease, and creates small molecules or biopharmaceuticals that interact with these disease targets. Drug Discovery (DD) is formed of the Centres of Excellence for Drug Discovery (CEDDs), groups focused around defined Therapy Areas.

A Therapy Area Review exercise conducted in 2007 and early 2008 helped R&D refocus its discovery effort around well identified promising areas of science that are more likely to deliver products of value. R&D invested in growth areas such as ophthalmology and ceased less promising areas of science such as urology. The focus of Drug Discovery at GSK is summarised in the table below.

Following this Therapy Area Review, a major transformation of Drug Discovery was conducted in our company in 2008 to create an even more nimble, creative, and entrepreneurial environment, building on the success of the existing CEDD model. Each CEDD created Discovery Performance Units (DPU), gathering small integrated and empowered groups of scientists (size ranging from 5 to 70 people), focusing on a particular disease or pathway, taking the CEDD model one step further. 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.

Each of the CEDDs and standalone DPUs submits a 3-year business plan with overall budget and clearly defined objectives. The CEDDs are accountable for the production of quality proofs of concept, and are tackling this challenge through internal discovery as well as extensive collaborations with academia and biotech companies.

Centres of Excellence for Drug Discovery (CEDD)

All include several Discovery Performance Units (DPU)

Immuno-Inflammation

Infectious Diseases

Metabolic Pathways

Neurosciences

Respiratory

Centre of Excellence for External Drug Discovery (CEEDD)

Additional standalone Discovery Performance Units (DPU)

Macrolides

Ophthiris (focusing on ophthalmology)

Virtual PoC

Sirtris

Academic DPU

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, (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 the collection of four therapeutically aligned Medicine Development Centres (MDCs): Cardiovascular and Metabolic (CVM), Infectious Diseases (ID), 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 2008, emphasis was put on the creation of strongly empowered project teams, with the creation of Medicine Development Leader roles for all the key late stage assets. The Centre for Clinical Study Excellence was also created as a professional organisation providing study operations capabilities which, in partnership with the MDCs and the CEDDs, delivers GSK clinical trials.

Table of Contents

22 GSK Annual Report 2008
Report of the Directors

Research and development continued

Major opportunity in oncology – creation of an Oncology R&D unit in 2008

In 2008, we created an integrated Oncology unit, spanning from drug target identification through to late stage development. Its strong pipeline of cancer medicines, as well as unique aspects of oncology medicines development, were behind the creation of the Oncology R&D unit. Oncology is an important investment area for GSK and 2008 has seen its late stage pipeline flourish.

Future growth in biopharmaceuticals – creation of a Biopharm R&D unit in 2008

With the goal of becoming a leader in biopharmaceuticals, we created the Biopharm R&D unit in 2008.

Biopharmaceuticals are large molecules such as antibodies, proteins or peptides which are manufactured using living cells. Because they are very different to small molecules (which are made by chemical synthesis), the R&D process requires quite specific treatment from a discovery, development and manufacturing perspective. The Biopharm R&D unit brings all of these functions together in a single cohesive group with discovery, biopharmaceutical process development and late stage development forming part of one organisation.

Investment in global R&D: growth of R&D China

In line with our aim to access the best science and to ensure GSK is a truly global company, we announced in 2007 the creation of R&D China. In 2008, this group grew to 200 employees focusing on neurodegeneration and has created three DPUs during the year. R&D China is currently focusing on discovery, but as the unit grows and the pipeline matures, it will expand its capabilities to be a fully integrated R&D centre.

Governance

Key projects reaching significant milestones are reviewed each month by the Product Management Board (PMB), which is 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. Information from GSK clinical trials is widely and easily available at the Clinical Trial Register on GSK's website. The oversight of strategic issues, organisation choices and budget management across R&D is owned by RADEX, the R&D Executive team.

R&D employees

R&D employs staff with a wide variety of educational backgrounds, with biologists, chemists, clinical scientists and physicians being some of the more prominent qualifications. Given the number of structural changes in 2008, we are ensuring that staff retention is a top priority, through personal development programmes, staff engagement strategies and active talent management.

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.

Public/Private Partnerships (PPPs) remain essential to fund research where there is no commercially viable market for a potential product. We remain a leader in working in PPPs and continue to collaborate closely with many governments, academic centres, United Nations agencies and other global funding bodies in this area, to maximise

expertise and knowledge.

Table of Contents

GSK Annual Report 2008 **23**
Report of the Directors

Research and development continued**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 developing 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.

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 only in the numbers required for each test. We strive to exceed regulatory standards in the care and use of the animals used 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, unnecessary pain or suffering is scrupulously avoided.

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. Our Public Policy Position – The care and ethical use of animals in research, and further information and reports, are available on our website.

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: over-the-counter (OTC) medicines, Oral healthcare and Nutritional healthcare. For our major brands, dedicated R&D teams 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.

Table of Contents**24 GSK Annual Report 2008****Report of the Directors****Research and development** continued

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 2008 approvals in at least one major market.

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 199 to 202 and on our website www.gsk.com

Therapeutic area**Compound****Biopharmaceuticals**belimumab¹otelixizumab¹*Syncria*¹ofatumumab¹*Bosatria* (mepolizumab)**Cardiovascular & Metabolic***Avandamet XR**Avandia + simvastatin*darapladib¹

Arixtra

Neurosciencesalmorexant¹retigabine¹

rosiglitazone XR

Lamictal XR

*Lunivia*¹

*Solzira (1838262)*¹

Oncology

Avodart

elesclomol^{1 2}

pazopanib + *Tyverb/Tykerb*

Tyverb/Tykerb

pazopanib

Duodart (Avodart + alpha blocker)

Zunrisa/Rezonic

*Revolade/Promacta*¹

Vaccines

Hib-MenCY-TT

MAGE-A3 ASCI

MenACWY-TT

New generation flu vaccine

Simplirix

Synflorix

*Cervarix*¹

Prepandrix (Flu pre-pandemic)¹

1 In-licence or other alliance relationship with third party.

- 2 See Note 40 to the financial statements, Post balance sheet events
-

Table of Contents

GSK Annual Report 2008 25
Report of the Directors



Research and development continued

Table of Contents

26 GSK Annual Report 2008

Report of the Directors

Our employees

Recruitment, talent management and leadership development

In 2008, as with every year, recruiting, retaining and developing our employees was critical to enhancing and sustaining our performance and reputation. Some areas of focus:

Our recruiters proactively identify, engage and attract top external talent and assess their potential fit with the organisation. This takes place across all functions, businesses and geographical areas. Our assessment process is aligned to a core set of competencies, of which ethics and integrity are central.

Our streamlined annual performance and development planning (PDP) process means employees have business-aligned objectives and behavioural goals. With regular reviews, the progress is ongoing, culminating with an end-of-year review.

We have an annual talent management cycle to identify the highest performing people in each business, followed up with tailored management and leadership programmes for key talent.

Performance and reward

Our reward systems support high performance and help to attract and retain the best people. Performance-based pay and bonuses, share rewards and share options align employee interests with business targets.

Communication and employee involvement

When new full-time employees join our organisation, they have the opportunity to take part in the GSK Experience, an interactive induction programme offered at many locations across the UK and USA. Programme modules are also provided to support local induction and awareness seminars around the world. This experience gives employees a flavour of the communications and engagement activities on offer throughout GSK.

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 2008 web technology was used increasingly to engage more employees in a more immediate way. New or updated communication channels in 2008 include:

myCEO – an area on the GSK intranet that allows employees to engage directly with the CEO via discussion and Q&A

The Ambassador community – provides slides, statements and films which give employees company information and keep them up-to-date on the issues affecting GSK and the pharmaceutical industry

GSKtv – a web-based library of all GSK's video assets including presentations on strategy and employee broadcasts

Interactive multimedia events such as web broadcasts, multi-site Q&A sessions give regular updates globally from CEO, business or function leaders

Face to face communications activities town hall presentations led by senior executives, lunches with CET and senior executives.

To ensure our communications activities are effective and to enable us to continue to improve, there are a number of evaluation processes. 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 a Global Leadership Survey every two to three years. The survey asks over 10,000 managers worldwide to comment on critical issues such as culture and confidence in GSK's future.

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.

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 high performance

To be able to meet our mission and strategy, our 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 scope and impact of these programmes, see our Corporate Responsibility Report.

Table of ContentsGSK Annual Report 2008 27
Report of the Directors**Our responsibility****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 28); community investment activities and partnerships that foster effective healthcare (see page 29); and seeking innovative partnerships and solutions. We cover our contribution to improving access to medicines extensively in our Corporate Responsibility Report.

In 2008, we were a clear leader in the first Access to Medicines Index produced by the ATM Foundation. 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 new approach to pricing in the UN defined list of least developed countries. However, a significant increase in funding 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 11 other pharmaceutical companies created Together Rx Access, a programme for qualified individuals offering reductions in the pharmacy cost on more than 300 medicines. Over 820,000 Together Rx Access cardholders saved about \$24 million in 2008.

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 2008, 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 2008 was £124 million. This compares with £109 million in 2007 on a like for like basis, an increase of 13%. This comprised product donations valued at £68 million, cash giving of £37 million, in-kind donations of £4 million plus costs of £15 million to manage and deliver community programmes in over 100 countries. The product donations include £56 million for GSK's patient assistance programmes, £7 million worth of albendazole for the Lymphatic filariasis (LF) programme and £5 million for humanitarian product donations. Product donations are for the first time valued at cost (average cost of goods) rather than wholesale price (WAC). Our new approach to valuing donations is a more accurate reflection of the cost to GSK and is therefore more transparent. We believe we are the first pharmaceutical company to adopt this practice. For comparative purposes the total value of donations in 2008 using WAC for products would be £343 million compared with £282 million in 2007.

We do not operate a single charitable foundation for our community investment programmes, but have a number of country based foundations and their 2008 grants are included in the investment total.

Table of Contents

28 GSK Annual Report 2008

Report of the Directors

Our responsibility continued

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

Global Health Programmes

Eliminating lymphatic filariasis

Our effort to eliminate the disabling disease, LF from the world, continued in close partnership with the governments of countries where the disease is endemic, the WHO and over 40 partner organisations. We are committed to donating as much of the anti-parasitic drug albendazole as required to treat the one billion people at risk in over 80 countries. In 2008, 266 million albendazole treatments were donated to 30 countries. We have donated over one 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. During 2008, Positive Action worked with 16 partners to support programmes in 21 countries. Positive Action's larger programmes operate in Mexico, Kenya, India, China, Cambodia and Vietnam.

The GlaxoSmithKline African Malaria Partnership

Our malaria advocacy programme Mobilising for Malaria has launched country Coalitions Against Malaria in the UK, Belgium, France, Ethiopia and Cameroon to increase awareness of malaria and mobilise resources. During 2008, GSK co-sponsored The Guardian International Development Journalism Awards to recognise the work of NGOs in addressing the UN Millennium Development Goals - which included a focus on malaria.

PHASE

The PHASE programme (Personal Hygiene And Sanitation Education), initiated by us in 1998, is now providing education to thousands of school children in 13 countries to improve their health and hygiene to fight infectious diseases. In 2008, we committed three years funding of £320,000 to extend the programme into India.

Humanitarian product donations

During 2008, 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. The total value of our international humanitarian product donations was £5 million at average cost.

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 £6 million in 2008 to our continuing programme of charitable activities supporting over 70 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 healthcare (prevention and access) for breast or gynaecologic cancers. Funding for these was of \$24 million.

GSK was one of 21 companies, and the only manufacturing company, to be awarded the new CommunityMark, following independent assessment. The Mark created by Business in the Community (BitC) was given for our work at local and national level in the UK as well as for our larger international programmes.

Table of Contents**Our responsibility** continued**Health initiatives**

Our contribution to improve healthcare included the following grants:

Non Profit partner	Amount in 2008	Purpose of grant
Children's Health Fund USA	\$888,000	To extend the Referral Management Initiative (RMI) which ensures continuity of specialist medical care for high-risk children who are often homeless
Pittsburgh Mercy Foundation USA	\$450,000	To provide access to healthcare for homeless men and women in Pittsburgh, USA
GSK IMPACT Awards UK and Philadelphia	£489,000	To recognise excellence in non-profit community health organisations. Charities receive unrestricted grants for their work dealing with diverse and difficult social issues
Medical Research Charities UK	£449,000	To support medical research programmes

Education initiatives

Non Profit partner	Amount in 2008	Purpose of grant
Institute for a Competitive Workforce USA	\$100,000	To improve education and create a skilled workforce for the future, working in partnership with a broad business coalition and staffed by the US Chamber of Commerce
Science in the Summer Philadelphia, Pittsburgh and North Carolina	\$575,000	To teach basic scientific concepts and inspire school children through a library-based science education programme
Project ENTHUSE UK	£200,000	To support Continuing Professional Development (CPD) for science teachers and ultimately encourage children to engage with science and pursue careers in science and

technology

CREST Star Investigators
UK

£120,000

To provide science activities and awards for after school clubs in 5,000 UK primary schools, working in partnership with the British Association for the Advancement of Science

Further information about GSK grants and programmes are available on gsk.com.

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 17,000 employee and retiree gifts at a value of \$5 million in 2008 plus \$1 million to the United Way campaign. GSK's GIVE programme provided grants of over \$416,000 to 437 organisations where US employees volunteered and £244,000 to 400 UK-based non-profit organisations via the GSK Making a Difference programme.

Table of Contents

30 GSK Annual Report 2008

Report of the Directors

Our responsibility continued

Responsibility for environment, health and safety

Caring for the environment and the health and safety (EHS) of employees is a key part of our drive to be a sustainable company.

Traditional environmental control programmes address risks and impacts from wastes generated by manufacturing and other activities. We meet this responsibility with treatment and waste disposal systems that comply with laws, regulations and our own standards of performance. This was the standard of practice for most companies beginning in the 1970 s and 1980 s. Even now we continue to improve our handling of waste but we recognise that these changes are incremental rather than transformative.

In the early 1990 s, the concept of sustainability was emerging. Sustainability means we need to be concerned not only with the short term impacts of pollution but also with the long term impact of resource consumption, the types of materials used and the persistence of waste in the environment. Our journey to sustainability started with looking holistically at continuing to treat the waste while also finding ways to prevent waste from being produced. This requires what is now called sustainable technologies – more efficient chemistries and more efficient processes. We recognise that sustainability principles apply to all aspects of our operations. They apply to minimising waste and consumption of natural resources and possibly using renewable materials in discovering, manufacturing, packaging and selling our products and even the impacts from consumers' use of our products.

While traditional environmental programmes are seen as a cost without a financial return, a sustainable approach, using less resource, being concerned with the social impact of our operations, also has a financial benefit. By using less resource, we spend less money on operations.

We need to continue to address traditional environmental issues at the same time as we integrate sustainability into all aspects of our business from discovering and developing to manufacturing and selling pharmaceutical and consumer healthcare products, all of which use energy and resources and produce emissions and waste.

EHS and sustainability strategy and plan

The 10-year strategic plan for EHS that extends to 2015 is aligned with our strategic priorities and includes management objectives with performance measures and targets. In 2008, GSK's progress was evaluated against the targets set in 2006.

The focus for 2008 was embedding EHS in the business which is fundamental to making GSK a sustainable business. It involves caring for the present while thinking to the future in making decisions. This supports all three aspirations in the 2006 to 2015 plan – embedding EHS in the business, environmental sustainability and open and transparent stakeholder relations. In 2008 we reviewed our EHS and sustainability priorities with our external and internal stakeholders. This review identified the following key issues:

Manufacturing efficiency: The mass efficiency of processes in development continues to improve and progress is being made to achieve the target to double mass efficiency and thereby halve the waste per unit of product for the manufacturing processes for all phase III compounds by 2010. Late stage products have been evaluated since 2005 for efficiency and we are making progress toward our goal.

Climate change: A comprehensive strategy on climate change and energy efficiency was approved and is available on GSK's website. A climate change and energy reduction team has been formed to manage a special fund which is used to support climate change projects. The team identified more than 400 projects for 2007 and 2008 to reduce energy consumption and to increase our use of renewable energy.

Pharmaceuticals in the Environment: We apply product stewardship principles to the issue of pharmaceuticals in the environment principally unmetabolised drugs excreted from patients.

Process safety: Our Process Safety Management System is being enhanced, with new engineering standards and training programmes under development. The standards will be used to design new process plant and to upgrade existing plants where needed. The training programmes will increase process safety awareness and competencies for engineers, chemists and managers.

Table of Contents**Our responsibility** continued**EHS management**

Responsibility for EHS is at the highest level. The Corporate Responsibility Committee of the Board of Directors provides oversight and a Sustainability Council was formed in 2008 with representatives from all areas of the company. There is a corporate department reporting to the Chief of Staff that has overall responsibility for providing governance and leadership on EHS and sustainability issues. The head of this department makes regular reports to the Corporate Executive Team (CET) and the Audit and Corporate Responsibility Committees of the Board. Within the businesses all executives and managers are responsible for EHS and are supported by site-based EHS and occupational medical staff.

As part of our governance responsibility, we conduct EHS audits of our sites, operating entities and key suppliers, assessing the management of key risks and impacts and performance against our global EHS standards. This includes providing audited sites and suppliers with quantitative performance information as well as highlighting areas for risk reduction and improvement.

EHS targets

As part of the EHS plan, targets are set every five years with 2006 as the baseline year for the targets to 2010.

We selected our measures of performance improvement based on the potential for adverse impact on people, the environment, business continuity or business reputation.

Most of the measures selected are similar to those reported by other companies and are recommended by the Global Reporting Initiative, a long-term, multi-stakeholder, international undertaking, to develop and disseminate globally applicable sustainability reporting guidelines.

Targets have been set to eliminate chlorofluorocarbons (CFCs) from all uses by 2010 and each year to reduce non-hazardous waste disposed by 1%, reduce water use and volatile organic compound (VOC) releases to air by 2%, reduce pollution of wastewater, measured as chemical oxygen demand, by 3% and reduce energy usage and related greenhouse gas emissions by 20% by 2010 and 45% by 2015. All targets are normalised by sales based on constant exchange rates.

In 2008, GSK remained on track to eliminate the use of CFCs by 2010 and to meet its target for water consumption. Progress was made to meet its 2010 targets for wastewater pollution, disposal of waste and emissions of volatile organic compounds to air due to a combination of conservation programmes and reduced production of several products. The rate of injuries and illnesses also improved in line with the target due to continued emphasis on employee safety behaviours.

There was no progress towards the 2010 energy and related greenhouse gas emissions targets and therefore our carbon footprint remained unchanged. Our energy efficiency projects continue with 171 projects completed in 2008 and another 600 identified. The gains from the 2008 projects will be fully realised in 2009 and beyond. The gains experienced in 2008 in some parts of the business were offset by the continued expansion of the vaccines business. Final EHS performance data for 2008 with explanations of the trends will be published in the Corporate Responsibility report.

Sustainability

In working towards sustainability, we are addressing the economic, environmental and social issues in research, manufacturing, sales and distribution of our medicines and consumer healthcare products. Sustainability starts with healthcare solutions found by R&D and continues with innovations to improve the efficiency of manufacturing processes for new products. This reduces resource use which in turn lowers waste and cost. With lower costs our products may be available to a wider population around the world. In the future, the EHS plan for excellence proposes investigating the use of renewable resources in manufacturing.

We seek dialogue with external stakeholders and consider their views when developing approaches to sustainable development. More information on EHS programmes and performance may be found on GSK's website.

Table of Contents

32 GSK Annual Report 2008

Report of the Directors**Regulation****Regulation Pharmaceuticals**

GSK operates within a highly regulated environment. Regional and country-specific laws and regulations define the data required to show safety and efficacy of pharmaceutical products, as well as govern testing, approval, manufacturing, labelling and marketing of drugs. These regulatory requirements are a major factor in determining whether a marketable product may be successfully developed and the amount of time and expense associated with the development.

Drug safety remains a primary focus of the FDA and US congressional oversight committees and, as in Europe, evaluation of benefit and risk continues to be a paramount consideration for approval of a new drug. The FDA Amendments Act, US legislation passed in 2007, renewed the User Fee system for drug reviews and mandates a rigorous FDA review of safety from approval through the post-marketing phase of the product. The legislation also provides the FDA with the authority to convene Advisory Committees to review all new drugs prior to approval decisions by FDA, to require sponsors to complete post-marketing studies and to direct companies to make product labelling changes. The FDA are routinely exercising these new authorities.

Regulations requiring development of prescription drugs and biologics for paediatric populations are now in place in the US and EU. GSK fully supports the objective of ensuring the development of better medicines for children. In Europe, proposals for further legislative change were announced by the European Commission during 2008. These aim to strengthen the EU system for the safety monitoring of medicines, improve citizens access to reliable information on medicines and strengthen EU laws to protect citizens better from the threats posed by fake medicines. 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.

Generally, national regulatory authorisation is also required to approve the switch of products from prescription to OTC. However, in a history-making first for the OTC industry, the weight loss medicine *alli* received a centralised European positive opinion from the Committee for Medicinal Products for Human Use (CHMP) in October. This resulted in approval to market *alli* across all 27 EU member countries as the first licensed weight loss treatment available without a prescription.

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.

In the USA, recent legislative proposals on healthcare reform, cross-border trade, the acceleration of generics to market and comparative effectiveness have further increased the focus on pricing. Currently, 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 Medicaid and other state and federal healthcare programmes. Healthcare remains a leading domestic issue. During the 2008 US Presidential elections the candidates focused on health reforms to address chronic disease as the primary healthcare cost driver, rather than focusing on drug prices alone.

Medicare

From 2006, the US Medicare program, a federally funded healthcare insurance programme benefiting senior citizens and certain disabled Americans, included coverage for prescription medicines. The coverage is voluntary, includes brand-name and generic drugs and is open to the 41 million Americans with Medicare coverage.

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.

Table of ContentsGSK Annual Report 2008 **33**
Report of the Directors**Economy, world market and outlook****World economy**

The world economy deteriorated sharply during 2008 as the financial crisis deepened, particularly following the bankruptcy of Lehman Brothers in September. Despite aggressive cuts in official interest rates, fiscal stimulus measures and national initiatives to support the international banking system, the International Monetary Fund forecasts that global growth will slow from an estimated 3.4% in 2008 to a mere 0.5% in 2009, the lowest rate since World War II. The advanced economies are expected to contract by 2% in 2009, the first annual contraction in the post-war period.

The slump in global demand led to a collapse in equity prices, with the FTSE 100 Index falling by 31% and the Dow Jones Industrial Average by 33% in 2008, and also a collapse in commodity prices. Weak economic activity and lower commodity prices have dampened inflationary pressures. In the advanced economies the headline inflation rate is forecast by the IMF to decline from an estimated 3.5% in 2008 to a record low of 0.3% in 2009.

In order to engender economic recovery, the Federal Open Market Committee (FOMC) decided in December to cut the target for the federal funds rate from 1% to 0-0.25%. The decision signalled that the FOMC would effectively target the supply of credit rather than the price of credit. Nonetheless, the IMF forecasts that real GDP in the USA will contract by 2% in 2009. The housing market remains of particular concern.

Like the FOMC, the Monetary Policy Committee of the Bank of England aggressively eased its monetary stance in 2008, cutting the bank rate from 5.5% to 2%. The bank rate has already been cut further in 2009 to 1%. To reinforce the impact of the cuts in the bank rate, the Government has empowered the Bank of England to purchase high quality assets like corporate bonds and commercial paper from commercial banks. The IMF forecasts that real GDP in the UK will contract by 2.8% in 2009, more than in any other advanced economy.

The European Central Bank maintained a more cautious approach to monetary relaxation, cutting the refinancing rate from 4.25% to 2.5% in 2008. The refinancing rate was cut another 0.5 percentage point in January 2009. Additional monetary easing is anticipated. The IMF forecasts that real GDP in the euro-zone will contract by 2% in 2009, with real GDP in Germany plunging by 2.5%.

Like the other major industrialised economies, Japan fell into recession in 2008. The prime factor was the downturn in external demand. The Bank of Japan cut the overnight call money rate from 0.5% to 0.1%. Real GDP is forecast by the IMF to contract by 2.6% in 2009.

China and India remained on a path of economic expansion in 2008. However, the pace of expansion decelerated. Further deceleration is expected in 2009. Economic activity in Brazil remained buoyant in 2008 but is expected to slow markedly in 2009. Uncertainties surrounding the economic outlook are unusually large, with downside risks continuing to dominate.

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	Growth £%
USA	145	39	1
Europe	112	31	18

France	21	6	18
Germany	20	6	20
Italy	13	3	19
UK	12	3	2
Rest of World	109	30	19
Emerging markets	49	13	24
Asia Pacific	17	5	16
Japan	33	9	16
Canada	10	3	17
Total	366	100	11

The US market has increased by 1%. This represents 39% of the global prescription pharmaceutical market compared with 30% a decade ago.

At 30th September 2008, GSK held second position in the world pharmaceutical market with a market share of 5.3%, behind Pfizer with a market share of 6.4%. 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	Growth £%
Central nervous system	60	16	11
Cardiovascular	54	15	4
Alimentary tract and metabolic	44	12	10
Antineoplastic/Immunomodulatory	40	11	20
Anti-infectives (bacterial, viral and fungal) excluding vaccines	38	10	11
Respiratory	25	7	8

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

Outlook

2008 marked a turning point and those factors which impacted our performance, in particular declines in *Avandia* sales, are now starting to reduce. 2008 also saw the first steps towards a radical transformation of our business model. We enter 2009 with confidence and expect to make further good progress in implementing our strategic priorities that will enable us to meet our long-term objective of reducing risk and delivering sustainable growth to shareholders.

Table of Contents**34 GSK Annual Report 2008****Report of the Directors****Financial review 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 35 and by geographic region on page 36.

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 segment 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.

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 (see Financial review 2007 on page 54). *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.

Table of ContentsGSK Annual Report 2008 **35**
Report of the Directors**Financial review 2008** continued**Pharmaceutical turnover by therapeutic area 2008**

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

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

		71	50	32	42	71	32	42					
		60	49	12	22	57	11	21	3		50		
olic	6	1,191	1,508	(28)	(21)	590	(39)	(34)	294	(11)	1	307	(14)
<i>a products</i>		805	1,219	(40)	(34)	434	(49)	(44)	198	(22)	(12)	173	(25)
<i>a</i>		512	877	(46)	(42)	299	(53)	(49)	82	(33)	(26)	131	(30)
<i>umet</i>		256	292	(21)	(12)	109	(32)	(26)	111	(13)		36	
<i>a/Boniva</i>		237	161	34	47	156	25	36	74	48	68	7	>100
acterials	7	1,429	1,323	(2)	8	174	(17)	(11)	635	(6)	8	620	7
<i>ntin</i>		587	530		11	49	(31)	(27)	272		14	266	11
<i>x</i>		16	11	36	45	15	27	36	1				
ogy and emesis	2	496	477	(6)	4	243	(17)	(11)	169	9	25	84	9
<i>tin</i>		140	119	7	18	81	7	16	49	5	23	10	11
		110	196	(51)	(44)	3	(97)	(96)	63	(21)	(10)	44	(17)
		102	51	80	100	47	22	31	42	>100	>100	13	>100
es	12	2,539	1,993	15	27	629	(7)		1,155	28	44	755	21
<i>is</i>		665	529	14	26	275	28	38	263		14	127	16
<i>x/Pediarix</i>		682	543	12	26	212	1	8	377	21	39	93	11
<i>, FluLaval</i>		215	174	11	24	85	(20)	(13)	78	63	90	52	37
<i>pandemic</i>		66	146	(55)	(55)	1	(99)	(99)	64	25	25	1	
<i>ix</i>		125	10	>100	>100				104	>100	>100	21	>100
<i>r</i>		167	91	71	84	21			43	61	87	103	46
<i>ix</i>		70	66	(5)	6	35	(20)	(13)	26	21	37	9	14
	5	959	901	(3)	6	16	(78)	(75)	321	14	26	622	(1)
	100	20,381	19,163	(3)	6	8,894	(11)	(4)	6,483	3	17	5,004	5

CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates. Turnover by quarter is given in the Financial record on pages 190 to 193.

Table of Contents

36 GSK Annual Report 2008

Report of the Directors**Financial review 2008** continued**Regional analysis****Pharmaceutical turnover by geographic region in 2008 on an invoiced basis**

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.

Region/ major markets	% of total	2008 £m	2007 £m	CER%	Growth* £%
USA	44	8,894	9,273	(11)	(4)
Europe	32	6,483	5,560	3	17
France		1,069	991	(7)	8
UK		900	822	9	9
Italy		757	620	5	22
Germany		707	602	2	17
Spain		700	605		16
Other Europe		2,350	1,920	6	22
Rest of World	24	5,004	4,330	5	16
Emerging Markets		2,290	1,895	12	21
Japan		1,027	867	(3)	18
Asia Pacific		891	834	1	7
Canada		503	477	(4)	5
Other		293	257	4	14
	100	20,381	19,163	(3)	6

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

Individual governments determine the pricing of medicines in most countries within Europe, which can result in wide price variations for the same product. Parallel trade occurs when third parties exploit this price differential by purchasing products in markets where low prices are enforced and selling them to governments and other purchasers in those markets where higher prices have been agreed. This parallel trade is permitted under the single market rules in the European Union. GSK does not derive any benefit from the profit on resale at the higher price.

As a result, management believes that within the European region, turnover by market, on an invoiced basis as presented above, does not properly represent the consumption of the products within each market. GSK employees

based in each market are instrumental in the promotion of the Group's products within the market, thereby creating a product sale and final consumption in that market.

The following table gives the adjustments made in order to restate the turnover for markets within Europe on a turnover created basis.

Region/ major markets	Invoiced £m	Adjustment £m	2008		2007	
			Created £m	Invoiced £m	Adjustment £m	Created £m
Europe	6,483		6,483	5,560		5,560
France	1,069	(55)	1,014	991	(43)	948
UK	900	83	983	822	101	923
Italy	757	(19)	738	620	(14)	606
Germany	707	107	814	602	87	689
Spain	700	(10)	690	605	(12)	593
Other Europe	2,350	(106)	2,244	1,920	(119)	1,801

These adjustments are GSK's estimates based on the most recent data from independent external sources, valued in Sterling at relevant exchange rates. Management believes that this turnover created basis of reporting turnover by market provides a better reflection of the performance of the businesses in each market within Europe.

The total turnover for the Europe region is unaffected by these adjustments.

Parallel trade occurs occasionally elsewhere in the world, but it is not sufficiently material to affect significantly the turnover data by market presented on an invoiced basis.

Pharmaceutical turnover by geographic region in 2008 on a turnover created basis

Turnover by market within Europe has been adjusted for the effects of parallel trade to show turnover on the basis of the country where the product is finally consumed, not where the product was sold by GSK.

Region/ major markets	% of total	2008 £m	2007 £m	CER%	Growth* £%
USA	44	8,894	9,273	(11)	(4)
Europe	32	6,483	5,560	3	17
France		1,014	948	(8)	7
UK		983	923	7	7
Italy		738	606	5	22
Germany		814	689	2	18
Spain		690	593	1	16
Other Europe		2,244	1,801	7	25
Rest of World	24	5,004	4,330	5	16
Emerging Markets		2,290	1,895	12	21
Japan		1,027	867	(3)	18
Asia Pacific		891	834	1	7
Canada		503	477	(4)	5
Other		293	257	4	14
	100	20,381	19,163	(3)	6

* CER%
represents

growth at
constant
exchange rates.
£% represents
growth at actual
exchange rates.
Turnover by
quarter is given
in the Financial
record on pages
190 to 193.

Table of ContentsGSK Annual Report 2008 **37**
Report of the Directors**Financial review 2008** continued**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 Government 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
<i>Panadol franchise</i>		324	263	12	23
Smoking cessation products		299	314	(12)	(5)
<i>Tums</i>		91	88	(5)	3
Cold sore franchise		89	79	3	13
<i>Breathe Right</i>		81	63	17	29
<i>alli</i>		75	150	(53)	(50)
Oral healthcare	31	1,240	1,049	6	18
<i>Aquafresh franchise</i>		452	398	3	14
<i>Sensodyne franchise</i>		363	293	12	24
Dental care		271	222	8	22
Nutritional healthcare	20	796	716	8	11
<i>Lucozade</i>		382	347	7	10
<i>Horlicks</i>		204	174	13	17
<i>Ribena</i>		161	156		3
	100	3,971	3,553	3	12

*

CER%
represents
growth at
constant
exchange rates.
£% represents
growth at actual
exchange rates.
Turnover by
quarter is given
in the Financial
record on pages
188 to 189.

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 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. This restructuring programme, comprising these detailed formal plans, covers all areas of GSK's business, including manufacturing, selling, R&D and infrastructure. With an estimated total cost of approximately £3.6 billion, the expanded programme is expected to deliver annual pre-tax savings of approximately £1.7 billion by the time it is substantially complete in 2011. Approximately 40% of these costs were incurred by 31st December 2008, and approximately 35% are expected to be incurred in 2009, 20% 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 2009 and 2010. Given the extent and cost of the Operational Excellence programme, management believes it has a material impact on GSK's operating results and on the manner in which GSK's business is conducted. GSK presents the restructuring costs incurred solely as a direct result of the Operational Excellence programme, which in 2008 amounted to £1,089 million before tax (2007 £338 million), in a separate column in the income statement titled 'Major restructuring'.

Table of Contents**38 GSK Annual Report 2008****Report of the Directors****Financial review 2008** continued

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

The restructuring activities that follow, and relate to, such acquisitions are of the same nature as those undertaken under the Operational Excellence programme and are also carried out following a detailed formal plan. Management therefore considers it appropriate to present the costs of these restructuring activities in the same manner. The \$1.65 billion (£814 million) acquisition of Reliant Pharmaceuticals Inc. in December 2007 is the only acquisition since October 2007 that meets the criteria set out above and thus is the only acquisition where the costs incurred as a direct result of a related restructuring programme have been included within the major restructuring column. 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.

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 programme following the Reliant acquisition 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 programmes', 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 continue to be 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.

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

also to include them 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 new Operational Excellence programme, which commenced in October 2007, and the Reliant restructuring programme.

	£m	2008 %	£m	2007%	CER%	Growth £%
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)

Table of Contents**Financial review 2008** continued**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%), a 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:

	£m	2008 %	£m	2007 %	CER%	Growth £%
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.

Table of Contents

40 GSK Annual Report 2008

Report of the Directors**Financial review 2008** continued**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
	£m	£m
Finance income		
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.

In July, following discussions with HMRC, the Group settled substantially all outstanding UK tax issues for all periods up to and including 31st December 2006.

Following its audit of the period 2001 to 2003, the IRS issued Statutory Notices of Deficiency to GSK asserting income and withholding tax deficiencies, and associated penalties, arising from its reclassification of an intercompany financing arrangement in those years from debt to equity, and its consequent recharacterisation of the amounts paid as dividends subject to withholding tax under the US-UK treaty. All amounts due under the financing arrangement were timely paid, with the final payment made in April 2008.

Table of Contents**Financial review 2008** continued

The IRS commenced its audit of the period 2004 to 2006 in June 2008, and is examining the issue for these years. GSK disagrees with the IRS's position and, in August 2008, initiated actions in the United States Tax Court to contest the Statutory Notices of Deficiency. GSK estimates that the IRS claim for tax, penalties, and interest at 31st December 2008, net of federal tax relief, for 2001 through 2003 is \$864 million. GSK believes that this claim has no merit and that no adjustment is warranted. If, contrary to GSK's view, the IRS prevailed in its argument before a court in respect of the years 2001-2003, GSK would expect to have an additional liability for the five year period 2004-2008 in the amount of \$1,059 million in tax, penalties, and interest at 31st December 2008, net of federal tax relief for those years. In the event that the company is not able to resolve this issue with the IRS, a court decision would not be expected before 2011.

Lower courts in Japan have upheld claims by the tax authorities for Yen 39 billion (£177 million) relating to Japanese CFC legislation. The company has paid and fully provided for the full tax but is pursuing a claim for refund to the Japanese Supreme Court. In Canada a court decision in respect of transfer pricing in the early 1990s was completed in May 2008. GSK filed an appeal in June and a court date is awaited.

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

	2008	2007		Growth
	£m	£m	CER%	£%
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. Excluding major restructuring costs, EPS was 104.7p compared with 99.1p. This was a 9% decline at CER but a 6% increase in sterling terms. The 15 percentage point

currency benefit arose from the weakness of Sterling against most major currencies.

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. The equivalent fourth interim dividend receivable by ADR holders is 49.4564 cents per ADS based on an exchange rate of £1/\$1.4546. The ex-dividend date will be 11th February 2009, with a record date of 13th February 2009 and a payment date of 9th April 2009.

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. 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.

Table of Contents**42 GSK Annual Report 2008****Report of the Directors****Financial review 2008** continued

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. Rebates given under Medicare, Part D are included in this category. The Medicare, Part D programme was introduced in 2006 and replaced the Government Medicaid subsidies for some individuals with subsidised coverage provided through private prescription plans. The accrual for these 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:

	2008		2007		2006	
	£m	%	£m	%	£m	%
Gross turnover	11,602	100	11,826	100	13,131	100
Chargebacks	892	8	917	8	846	6
Managed care, Medicare Part D and GPO rebates	764	6	727	6	912	7
US government and state programmes	554	5	481	4	507	4
Cash discounts	207	2	208	2	248	2
Customer returns	126	1	131	1	140	1
Prior year adjustments	(38)		(73)		(69)	
Other items	203	1	162	1	194	1
Total deductions	2,708	23	2,553	22	2,778	21
Net turnover	8,894	77	9,273	78	10,353	79

Sterling values have increased by approximately 8% compared with 2007 as a result of exchange rate movements.

Chargebacks have decreased in 2008 as a result of sales of products into US government stockpiles during 2007, which did not arise in 2008. Managed care, Medicare Part D and GPO rebates were flat in dollar terms, despite additional Tricare prescription rebates. In January 2008, the National Defense Authorisation Act was approved, which authorises the Department of Defense to access discounted federal pricing on drugs dispensed at Tricare network retail pharmacies to members of the US armed forces, their dependants and military retirees. Rebates given under the US government and state programmes have risen in 2008 mainly due to pricing adjustments on *Imitrex* and *Lamictal* following the introduction of generic competition, together with the inclusion of new products from the Reliant Pharmaceuticals acquisition.

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

	At 31st December 2008 £m	At 31st December 2007 £m
Chargebacks	50	38
Managed care, Medicare Part D and GPO rebates	474	340
US government and state programmes	345	240
Cash discounts	25	21
Customer returns	259	194
Other	50	37
Total	1,203	870

Sterling values have increased largely as a result of exchange rate movements. In dollar terms, the 2008 provision is largely unchanged from 2007. 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 2008 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.

Table of ContentsGSK Annual Report 2008 **43**
Report of the Directors**Financial position and resources****Financial position**

	2008	2007
	£m	£m
Assets		
Non-current assets		
Property, plant and equipment	9,678	7,821
Goodwill	2,101	1,370
Other intangible assets	5,869	4,456
Investments in associates and joint ventures	552	329
Other investments	478	517
Deferred tax assets	2,760	2,196
Derivative financial instruments	107	1
Other non-current assets	579	687
Total non-current assets	22,124	17,377
Current assets		
Inventories	4,056	3,062
Current tax recoverable	76	58
Trade and other receivables	6,265	5,495
Derivative financial instruments	856	475
Liquid investments	391	1,153
Cash and cash equivalents	5,623	3,379
Assets held for sale	2	4
Total current assets	17,269	13,626
Total assets	39,393	31,003
Liabilities		
Current liabilities		
Short-term borrowings	(956)	(3,504)
Trade and other payables	(6,075)	(4,861)
Derivative financial instruments	(752)	(262)
Current tax payable	(780)	(826)
Short-term provisions	(1,454)	(892)
Total current liabilities	(10,017)	(10,345)
Non-current liabilities		

Long-term borrowings	(15,231)	(7,067)
Deferred tax provision	(714)	(887)
Pensions and other post-employment benefits	(3,039)	(1,383)
Other provisions	(1,645)	(1,035)
Derivative financial instruments	(2)	(8)
Other non-current liabilities	(427)	(368)
Total non-current liabilities	(21,058)	(10,748)
Total liabilities	(31,075)	(21,093)
Net assets	8,318	9,910
Equity		
Share capital	1,415	1,503
Share premium account	1,326	1,266
Retained earnings	4,622	6,475
Other reserves	568	359
Shareholders equity	7,931	9,603
Minority interests	387	307
Total equity	8,318	9,910

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 2008 was £18,987 million, with a net book value of £9,678 million. Of this, land and buildings represented £3,756 million, plant and equipment £3,644 million and assets in construction £2,278 million. In 2008, GSK invested £1,444 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 2008, GSK had capital contractual commitments for future expenditure of £489 million and operating lease commitments of £448 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 for environment, health and safety (page 30) and in Note 44 to the financial statements, Legal proceedings.

Goodwill

Goodwill has increased during the year from £1,370 million at 31st December 2007 to £2,101 million. The increase primarily reflects the goodwill arising on the acquisition of Sirtris Pharmaceuticals Inc. of £242 million and that arising on the acquisition of the BMS Egypt business of £52 million as well as a significant strengthening of overseas currencies on the translation of existing foreign currency goodwill balances.

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 2008 was £5,869 million (2007 £4,456 million). The increase in 2008 reflects additions of £847 million and currency movements partly offset by the amortisation and impairment of

existing intangibles. The largest element of the additions is £106 million relating to the acquisition of Sirtris Pharmaceuticals Inc., reflecting the existence of the technology and a large patent application portfolio covering areas of sirtuin biology.

Table of Contents**44 GSK Annual Report 2008****Report of the Directors****Financial position and resources continued****Investments**

GSK held investments, including associates and joint ventures, with a carrying value at 31st December 2008 of £1,030 million (2007 £846 million). The market value at 31st December 2008 was £1,883 million (2007 £1,517 million). The largest of these investments is in an associate, Quest Diagnostics Inc., which had a book value at 31st December 2008 of £463 million (2007 £299 million). The investments include equity stakes in companies where the Group has research collaborations, which provide access to biotechnology developments of potential interest or 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 £963 million (2007 £476 million). The increase primarily reflects fluctuations in far forward valuations on foreign exchange contracts hedging inter-company loans and deposits. Exchange movements are largely due to changes in Euro, US dollar and Yen market rates.

Inventories

Inventory of £4,056 million has increased by £994 million during the year. The majority of this increase arises from a strengthening of overseas currencies, with the remainder caused partly by strategic stock building to support growth in specific products.

Trade and other receivables

Trade and other receivables of £6,265 million have increased from 2007 reflecting the impact of strengthening overseas currencies on the translation of foreign currency receivables partly offset by the completion of non-recourse factoring arrangements in Japan and reductions in overdue receivables in certain European markets.

Derivative financial instruments: liabilities

GSK held both non-current and current derivative financial instruments held at fair value of £754 million (2007 £270 million) relating primarily to hedging exchange on translation of currency assets on consolidation. The increase again reflects the impact from Euro, US dollar and Yen currency fluctuations.

Trade and other payables

Trade and other payables amounting to £6,075 million have increased from 2007 primarily reflecting the strengthening of overseas currencies.

Provisions

The Group carried deferred tax provisions and other short-term and non-current provisions of £3,813 million at 31st December 2008 (2007 £2,814 million) in respect of estimated future liabilities, of which £1,903 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 net deficits before allowing for deferred taxation were £1,736 million (2007 £411 million) on pension arrangements and £1,303 million (2007 £972 million) on unfunded post-employment liabilities. The pension liabilities increased following declines in asset values and a negative impact of exchange movements only partially offset by further special funding contributions to the UK pension funds of £200 million (2007 £285 million to the UK pension schemes); a strengthening of long-term interest rates, including an increase in the rate used to discount UK pension liabilities from 5.75% to 6.20% and a decrease in the estimated long term inflation rate in the UK.

Net debt

	2008	2007
	£m	£m
Cash, cash equivalents and liquid investments	6,014	4,532
Borrowings repayable within one year	(956)	(3,504)
Borrowings repayable after one year	(15,231)	(7,067)
Net debt	(10,173)	(6,039)

Net debt increased by £4,134 million primarily due to share repurchases, further acquisition of businesses and a significant strengthening of the foreign currencies in which group debt is denominated, partly offset by increased cash inflows from operating activities.

Total equity

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

	2008	2007
	£m	£m
Total equity at beginning of year	9,910	9,648
Total recognised income and expense for the year	4,829	6,134
Dividends to shareholders	(2,929)	(2,793)
Ordinary Shares issued	62	417
Ordinary Shares purchased and held as Treasury shares		(3,537)
Ordinary Shares purchased and cancelled	(3,706)	(213)
Consideration received for shares transferred by ESOP Trusts	10	116
Ordinary Shares acquired by ESOP Trusts	(19)	(26)
Share-based incentive plans	241	237
Tax on share-based incentive plans	(1)	4
Distributions to minority interests	(79)	(77)
Total equity at end of year	8,318	9,910

At 31st December 2008, total equity had decreased from £9,910 million at 31st December 2007 to £8,318 million. The decrease arises principally from actuarial losses on defined benefit pension plans in the year and further share repurchases, partially offset by recognised income and expenses for the year.

Table of Contents**Financial position and resources** continued**Share purchases**

In 2008, the Employee Share Ownership Plan (ESOP) Trusts acquired £19 million of shares in GSK plc (2007 £26 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 2008, the ESOP Trusts held 129 million GSK shares against the future exercise of share options and share awards. The carrying value of £1,445 million (2007 £1,617 million) has been deducted from other reserves. The market value of these shares was £1,657 million (2007 £1,721 million).

GSK repurchased £3,706 million of shares for cancellation in 2008 (2007 £213 million) and £nil of shares to be held as Treasury shares (2007 £3,537 million). 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 2009. 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 2008, GSK held 474.2 million shares as Treasury shares (2007 504.2 million shares), at a cost of £6,286 million (2007 £6,683 million), which has been deducted from retained earnings.

There have been no purchases since 31 December 2008 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 2008 as they fall due for payment.

	Total	Under 1	1-3 yrs	3-5 yrs	5 yrs+
	£m	yr	£m	£m	£m
Loans	16,051	911	703	4,600	9,837
Interest on loans	11,868	782	1,525	1,339	8,222
Finance lease obligations	136	48	62	19	7
Finance lease charges	18	5	7	4	2
Operating lease commitments	448	140	185	76	47
Intangible assets	13,048	660	1,269	1,556	9,563
Property, plant & equipment	489	388	100	1	
Investments	56	46	10		
Purchase commitments	145	70	74	1	

Business combinations	227	227			
Pensions	597	334	132	131	
Other commitments	46	17	19	5	5
Total	43,129	3,628	4,086	7,732	27,683

Commitments in respect of loans and future interest payable on loans are disclosed after 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 up-front 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 2008 under licensing and other agreements, including arrangements with Actelion Pharmaceuticals Limited, Archemix Corporation, Dynavax Technologies Corporation, and Mpex Pharmaceuticals, Inc. The commitments relating to business combinations reflect agreements to acquire the issued share capital of Genelabs Technologies, Inc., Bristol Myers Squibb Pakistan (Private) Limited and AZ Tika SNC, the latter being subject to clearance by the Swedish Competition Authority.

In 2006, GSK formalised an agreement with the trustees of the UK pension schemes to make additional contributions, in addition to the normal contributions, over a four year period ending 31st December 2009 in order to eliminate the then funded pension deficits on an IAS 19 basis by that point. The table above shows this commitment, net of £166 million of additional contributions made in 2008, but excludes the normal ongoing annual funding requirement of approximately £150 million. GSK has also committed to eliminate any future deficits that may arise over a rolling five-year period. This agreement will be reviewed during 2009. For further information on pension obligations, see Note 28 to the financial statements, Pensions and other post-employment benefits .

Table of Contents

46 GSK Annual Report 2008

Report of the Directors**Financial position and resources** continued**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	98	73	14		11
Other contingent liabilities	36	3	12	3	18
Total	134	76	26	3	29

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 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 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 50 to 53 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.

	2008 £m	2007 £m
Net cash inflow from operating activities	7,205	6,161
Net cash outflow from investing activities	(1,149)	(3,048)
Net cash outflow from financing activities	(4,908)	(1,702)
Increase/(decrease) in cash and bank overdrafts	1,148	1,411
Exchange adjustments	1,103	48
Cash and bank overdrafts at beginning of year	3,221	1,762

Cash and bank overdrafts at end of year	5,472	3,221
Cash and bank overdrafts at end of year comprise:		
Cash and cash equivalents	5,623	3,379
Overdrafts	(151)	(158)
	5,472	3,221

The net cash inflow from operating activities after taxation paid was £7,205 million, an increase of £1,044 million over 2007 reflecting an unchanged profit before tax (excluding the impact of the significant increase in non-cash charges made in the year, primarily from the major restructuring programmes), together with improved working capital management.

The net cash outflow from investing activities was £1,149 million, a decrease of £1,899 million which reflected marginally lower capital expenditure, repayments of liquid investments and a reduced cost of business purchases during 2008, including 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 2007, the comparable acquisitions comprised of Reliant Pharmaceuticals for £794 million and Domantis for £218 million, net of cash acquired.

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. It was £4,679 million, an increase of 21% over 2007, principally reflecting the higher operating profit before non-cash charges, primarily from the major restructuring programmes, and working capital improvements, partly offset by higher levels of interest paid as a result of the significant debt issuances during the year of US \$9 billion under the US shelf registration and £0.7 billion under the EMTN programme.

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

	2008	2007
	£m	£m
Net cash inflow from operating activities	7,205	6,161
Purchase of non-current tangible assets	(1,437)	(1,516)
Purchase of non-current intangible assets	(632)	(627)
Disposal of non-current tangible fixed assets	20	35
Interest paid	(730)	(378)
Interest received	320	247
Dividends received from joint ventures and associated undertaking	12	12
Dividends paid to minority interests	(79)	(77)
Free cash flow	4,679	3,857

Table of Contents**Financial position and resources** continued**Movements in net debt**

	2008	2007
	£m	£m
Net debt at beginning of year	(6,039)	(2,450)
Increase in cash and bank overdrafts	1,148	1,411
Cash (inflow)/outflow from liquid investments	(905)	39
Net increase in long-term loans	(5,523)	(3,276)
Net repayment of/(increase in) short-term loans	3,059	(1,632)
Exchange movements	(1,918)	(88)
Other movements	5	(43)
Net debt at end of year	(10,173)	(6,039)

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 £2,069 million (2007 £2,143 million, 2006 £1,590 million). Disposals realised £191 million (2007 £44 million, 2006 £218 million). Cash payments to acquire equity investments of £87 million (2007 £186 million, 2006 £57 million) were made in the year and sales of equity investments realised £42 million (2007 £45 million, 2006 £32 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 50 to 53. 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 2008, the average number of days payable outstanding represented by trade payables of the parent company was nil (2007 nil) and in respect of the company and its UK subsidiaries in aggregate was 20 days (2007 21 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 corporate objectives.

Treasury activities are governed by policies and procedures approved by the Board of Directors, most recently on 25th September 2008.

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

Our operations are global, primarily through subsidiary companies established in the markets in which we trade. With significant levels of patent protection, our products compete largely on product efficacy 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.

Table of Contents

48 GSK Annual Report 2008

Report of the Directors**Financial position and resources continued**

These borrowings, together with cash generated from operations, are on-lent, contributed as equity to certain subsidiaries or used to pay dividends, make acquisitions or fund share buy-backs.

For further details of GSK's share buy-back programme, please see Note 33, Share capital and share premium account .

Liquidity

As at 31st December 2008, our cash and liquid investments were held as follows:

	2008	2007
	£m	£m
Bank balances and deposits	3,778	1,431
Treasuries and treasury-repo only money market funds	1,852	1,713
Corporate debt instruments	75	1,170
Government securities	309	218
	6,014	4,532

£4.3 billion of this amount is managed centrally and available within three months. We had net debt at 31st December 2008 of £10.2 billion. The table below summarises cash and gross debt.

	2008	2007
	£m	£m
Cash and liquid investments	6,014	4,532
Gross debt – fixed	(13,814)	(6,254)
floating	(2,373)	(4,317)
Net debt	(10,173)	(6,039)

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

At 31st December 2008, we had centrally available cash reserves of £4.3 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 £1.0 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. During the year, our committed undrawn bank facilities reduced from \$5 billion to \$3.9 billion as a consequence of Royal Bank of Scotland's acquisition of ABN AMRO and the collapse of Lehman Brothers. The facilities were renewed in October 2008. We consider this level of committed facilities to be adequate given our current cash holdings. For further information on these facilities, please refer to Note 32 to the financial statements, Net debt . We also benefit from strong positive cash flow from operating units.

We have a European Medium Term Note programme of £10 billion. At 31st December 2008, we had £7.9 billion of notes in issue under this programme. We also have a US shelf registration statement. At 31st December 2008, we had \$11.1 billion (£7.7 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 2010 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 negative outlook by Moody's. Our short-term debt ratings are A-1 and P-1 with Standard and Poor's and Moody's respectively.

Table of Contents**Financial position and resources** continued**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, including derivatives, to finance our operations and to manage market risks from those operations.

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 derivative financial instruments 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 exposure arising on internal and external trade flows is 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 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 are 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 review the ratio of borrowings to assets for major currencies.

Interest rate risk management

The policy on interest rate risk management requires the minimum amount of net borrowings at fixed rates to increase with the ratio of forecast interest payable to trading profit. The fixed to floating ratio is reviewed monthly by the TMG.

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

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) independent 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 the appropriate amendment can be made to limits. A full counterparty analysis is presented to the TMG annually for approval.

Since July 2007, we have tightened our criteria for holding cash equivalents and liquid investments in response to the credit crisis.

On 15th September 2008, Lehman Brothers filed for Chapter 11 proceedings in the USA and appointed administrators in the UK. Although Lehman was one of GSK's relationship banks, our exposure to Lehman at the time of the collapse was limited to immaterial costs on foreign exchange contracts and the termination of the Quest Collar referred to in more detail in Note 20 to the financial statements, Investments in associates and joint ventures .

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 would have decreased in the year to 31st December 2008, but for our purchase of our own shares in the market of £3.7 billion and acquisitions of approximately £0.5 billion.

The financial assets and liabilities at 31st December 2008 are representative of our treasury policies and strategies applied since July 2007. GSK raised £8.0 billion in the Capital Markets between December 2007 and May 2008 of which £2.4 billion was raised in 2007. We do not expect to make any significant share repurchases in 2009.

Table of Contents

50 GSK Annual Report 2008

Report of the Directors**Risk factors****Risk factors**

There are risks and uncertainties relevant to the Group's business, financial condition and results of operations that may affect future performance. These include R&D, anticipated sales growth and expected earnings. The factors below are among those that the Group thinks 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. The management and mitigation of risk is discussed on page 72 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, inability to obtain necessary regulatory approvals, difficulty or excessive costs to manufacture, erosion of patent term as a result of a lengthy development period, infringement of patents or other intellectual property rights of others or inability to differentiate the product adequately from those with which it competes.

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. Payers are also becoming increasingly more demanding with regard to the incremental benefit required to gain reimbursement and secure appropriate pricing.

Risk of unplanned loss of patents

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 turnover and margins would be 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 18 for a description of resolution 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* and *Wellbutrin XL* had a significant impact on the Group's overall turnover and earnings for 2008.

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 affecting the exclusivity period for the Group's products, including biological products. Should such proposals be

enacted they could have an adverse impact on the Group's future sales and results of operations.

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. In an effort to control public health crises, some developing countries, such as South Africa, Thailand and Brazil, have considered plans for substantial reductions in the scope of patent protection for pharmaceutical products. In particular, these countries could facilitate competition within their markets from generic manufacturers who would otherwise be unable to introduce competing products for a number of years.

Any loss of patent protection, including abrogation of patent rights or compulsory licensing, is likely to affect adversely the Group's operating 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 2006, 2007 and 2008 related to legal proceedings and investigations which reduced its earnings. 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 is potentially misleading to quantify the potential exposure to claims, proceedings and investigations of the type described in Note 44 to the financial statements, "Legal proceedings".

Table of Contents**Risk factors** continued

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 material additional charges.

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 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.

Anti-trust litigation

In the USA it has become increasingly common that following publicity around government investigations or an adverse outcome in prosecution of patent infringement actions, the defendants and direct and indirect purchasers and other payers initiate anti-trust actions as well. 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 anticompetitive and in violation of anti-trust laws.

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.

Risks of competition, price controls and limitations on sales**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 could adversely

affect the Group's operating 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 could adversely affect the Group's competitive position, while continued consolidation among the Group's customers may increase pricing pressures.

The Group had eight products with over £500 million in annual global sales in 2008. Among these products are *Augmentin IR*, *Imitrex* and *Lamictal* for which there is generic competition, and *Avandia* and *Valtrex*, with respect to which the Group's intellectual property rights in the USA are currently the subject of litigation or settlement agreements related to such litigation.

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 adverse impact on the Group's revenues and operating results could be significant. 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 18. 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.

Table of Contents

52 GSK Annual Report 2008

Report of the Directors**Risk factors** continued

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 predict whether existing controls, pressures or restrictions will increase or new controls, pressures or restrictions will be introduced that will reduce the Group's margins or affect adversely its ability to introduce new products profitably.

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 develops under the outpatient pharmaceutical programme covering Medicare beneficiaries that began in 2006. The private insurers through which coverage is offered, through their enormous purchasing power under the programme, could demand discounts that may implicitly create price controls on prescription drugs.

Changes to the enabling legislation could afford the US government a direct role in negotiating prices under the Medicare programme. Additionally, a number of states have proposed or implemented various schemes to control prices for their own senior citizens' programmes, including 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. These trends may adversely affect the Group's revenues and margins from sales in the USA.

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, declines in sales of *Avandia* 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 have a major impact on the marketing and sale of the product.

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 fines or disgorgement remedy could materially and adversely affect the Group's financial results. For example, during resolution of FDA observations of deficiencies in manufacturing practices at the Group's Cidra, Puerto Rico facility, as referred to in Note 44 to the financial statements, legal proceedings, supplies of certain products manufactured at that site were curtailed or constricted which had an adverse impact on sales in 2005 and 2006.

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 84% of the Group's US pharmaceutical sales. At 31st December 2008 the Group had trade receivables due from these three wholesalers totalling £1,067 million (31st December 2007 £915 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.

Reliance on information technology

The Group is increasingly dependent on information technology systems, including Internet-based systems, for internal communication as well as communication with customers and suppliers. Any significant disruption of these systems, whether due to computer viruses or other outside incursions, could materially and adversely affect the Group's operations.

Global political and economic conditions

As described on page 33, many of the world's largest economies, including the major markets in which the Group operates, and financial institutions currently face extreme financial difficulty, including a decline in asset prices, liquidity problems and limited availability of credit. It is uncertain how long this crisis will last, but many countries are concerned that their economies may enter a deep and prolonged recession.

Table of Contents**Risk factors** continued

Such a decline in economic activity 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, the financial crisis 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 49). Fluctuations in exchange rates between Sterling and other currencies, especially the US dollar, the Euro and the Japanese Yen, could materially 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.

Taxation

The effective tax rate on the Group's earnings benefits from the fact that a portion of its earnings is taxed at more favourable rates in some jurisdictions outside the UK. Changes in tax laws or in their application with respect to matters such as transfer pricing, foreign dividends, controlled companies or a restriction in tax relief allowed on the interest on intra-Group debt, could increase the Group's effective tax rate and adversely affect its financial results. The Group has open issues with the revenue authorities in the USA, Japan and Canada. These matters are discussed in Note 14 to the financial statements, Taxation .

Disruption from pandemic influenza

In the event of pandemic influenza, the Group could be subject to disruption from a range of factors. National governments may be more willing to abrogate intellectual property rights for medicines that might otherwise be in short supply.

In a country afflicted by pandemic flu, there would be a risk that employees and their families will be affected with the consequence that sales and distribution and manufacturing activities could be shut down and supply continuity for active ingredients and finished goods affected.

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 could materially and adversely affect the Group's operations. 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 adversely impact the Group's reported 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.

Human resources

The Group has approximately 99,000 employees globally and is subject to laws and regulations concerning its employees ranging from discrimination and harassment to personal privacy to labour relations - that vary significantly from jurisdiction to jurisdiction. The Group faces intense competition for qualified individuals from other pharmaceutical and biotechnology companies, universities, governmental entities and other research institutions. Failure to continue to recruit and retain the right people and maintain a culture of compliance may have a significant adverse effect.

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 organizations 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 health 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 could constrain the sales of the Group's products.

Table of Contents

54 GSK Annual Report 2008

Report of the Directors**Financial review 2007**

In accordance with US SEC disclosure requirements, the following discussion compares results for the year to 31st December 2007 with the results for the year to 31st December 2006.

In 2008, the Group realigned the regional reporting structure within the Pharmaceuticals business and reallocated entities and expenses between the Pharmaceuticals and Consumer Healthcare businesses. Comparative information for 2007 and 2006 below has been restated on a consistent basis. See Note 2 to the financial statements, Accounting principles and policies .

Exchange

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

In 2007, the US dollar fell by 2% against the pound, to \$1.99 at the year-end. The year-end rates for the Euro strengthened by 8% and the Japanese yen by 5% against Sterling.

World market pharmaceuticals

Global pharmaceutical sales in 2007 were £329 billion compared with £328 billion in 2006.

World market by geographic region	Value £bn	% of total	Growth £%
USA	140.8	43	(3)
Europe	97.6	30	5
Rest of World	90.4	27	1
Total	328.8	100	

The US market has decreased by 3%, but it still represents 43% of the global prescription pharmaceutical market compared with 30% a decade ago.

At 30th September 2007, GSK held second position in the world pharmaceutical market with a market share of 5.9%, behind Pfizer with a market share of 7%. GSK had four of the world's top 60 pharmaceutical products. These were *Avandia*, *Lamictal*, *Seretide/ Advair* and *Valtrex*.

World market - top six therapeutic classes	Value £bn	% of total	Growth £%
Central nervous system	54.4	17	1
Cardiovascular	50.7	15	(6)
Alimentary tract and metabolic	39.7	12	(1)
Antineoplastic/Immunomodulatory	35.6	11	8
Anti-infectives (bacterial, viral and fungal) excluding vaccines	32.9	10	(1)
Respiratory	22.1	7	2

(Note: data based on 12 months to 30th September 2007.)

Pharmaceutical turnover

Total pharmaceutical turnover in 2007 was £19,163 million compared with £20,013 million in 2006, in line with 2006 turnover at CER.

In sterling terms total pharmaceutical turnover decreased 4%, four percentage points less than CER, principally due to the strength of Sterling against the US dollar.

Pharmaceutical turnover by therapeutic area

Turnover in 2007 was in line with 2006 as high-value growth products were offset by lower *Avandia* sales and US generic competition to *Coreg IR*, *Flonase*, *Wellbutrin XL* and *Zofran*. The high-value growth products included *Seretide/Advair*, vaccines, *Lamictal*, *Valtrex*, *Requip*, *Avodart* and *Boniva*.

Respiratory

We continued to be a global leader in respiratory pharmaceuticals with sales of our three key products, *Seretide/Advair*, *Flixotide/ Flovent* and *Serevent* amounting to £4.4 billion, up 8%. Total sales of *Seretide/Advair*, for asthma and COPD, rose 10% to £3.5 billion. In the USA, sales grew 9% to £1.9 billion. In Europe sales grew 8.1% to £1.2 billion and in Rest of World markets sales grew 24% to £393 million, enhanced by its launch in Japan in June.

CNS

CNS sales decreased 2% to £3.3 billion. Sales decreased in the USA and Europe, reflecting generic competition to *Seroxat/Paxil* in both regions. Rest of World sales grew 6% which included 4% growth in *Paxil* in Japan. Total *Seroxat/Paxil* sales declined 6% to £553 million. Total *Wellbutrin* sales declined 37% to £529 million, owing to US generic competition to *Wellbutrin SR/IR* and *Wellbutrin XL* 300mg tablet.

Sales of *Lamictal*, for the treatment of epilepsy and bipolar disorder, grew 18% to £1.1 billion, driven by sales in the USA which were up 26% to £892 million, benefiting from its new indication.

Sales of *Requip*, for Parkinson's disease and Restless Legs Syndrome (RLS), grew 36% to £346 million.

Anti-virals

Total sales of HIV products were £1.4 billion, down 1%. Competition to older products, *Combivir* down 10% to £455 million and *Epivir* down 20% to £156 million, was largely offset by strong sales growth of new products *Epzicom/Kivexa*, which grew 39% to £324 million and *Lexiva/Agenerase*, up 13% to £141 million.

Sales of *Valtrex*, for herpes, rose 18% to £934 million, with US sales up 20% to £668 million driven by increased use of the product for prevention of disease transmission. Sales in Europe grew 9% to £115 million and in Rest of World grew 14% to £151 million. Sales of *Relenza*, an antiviral treatment for flu, were £262 million (2006 £91 million), driven primarily by one-off government orders for stockpiling against a possible flu pandemic.

Metabolic

In 2007, sales of the *Avandia* product group, for type 2 diabetes, declined 22% to £1.2 billion. In the USA sales fell 29% to £780 million, with fourth quarter sales down 55% to £130 million.

Table of ContentsGSK Annual Report 2008 **55**
Report of the Directors**Financial review 2007** continued**Pharmaceutical turnover by therapeutic area 2007 (restated)**

Therapeutic area/ major products	% of total	2007 £m	2006 £m	Total		USA			Europe		Rest of World			
				Growth CER%	£%	2007 £m	Growth CER%	£%	2007 £m	Growth CER%	£%	2007 £m	Growth CER%	£%
Respiratory	26	5,032	4,991	5	1	2,377	4	(3)	1,740	4	4	915	10	6
<i>Seretide/Advair</i>		3,499	3,313	10	6	1,891	9	1	1,215	8	9	393	24	21
<i>Flixotide/Flovent</i>		621	659	(1)	(6)	284	3	(5)	158	(7)	(7)	179	(3)	(7)
<i>Serevent</i>		269	291	(4)	(8)	74	(7)	(14)	134	(5)	(4)	61		(6)
<i>Veramyst</i>		21				20						1		
<i>Flixonase/Flonase</i>		199	309	(34)	(36)	72	(60)	(61)	49			78	5	3
Anti-virals	16	3,027	2,826	13	7	1,494	19	10	846		1	687	15	9
HIV		1,442	1,515	(1)	(5)	637	(2)	(9)	595	(3)	(3)	210	9	4
<i>Epzicom/Kivexa</i>		324	241	39	34	142	23	14	149	54	54	33	74	74
<i>Combivir</i>		455	528	(10)	(14)	195	(11)	(18)	181	(15)	(15)	79	6	1
<i>Trizivir</i>		233	268	(9)	(13)	120	(8)	(15)	98	(14)	(13)	15	14	7
<i>Agenerase, Lexiva</i>		141	131	13	8	78	14	5	53	10	10	10	22	11
<i>Epivir</i>		156	202	(20)	(23)	53	(16)	(23)	64	(27)	(27)	39	(11)	(13)
<i>Ziagen</i>		109	117	(3)	(7)	45	2	(6)	36	(10)	(10)	28	(3)	(3)
<i>Valtrex</i>		934	845	18	11	668	20	11	115	9	10	151	14	8
<i>Zeffix</i>		168	162	8	4	13	8		23			132	10	5
<i>Relenza</i>		262	91	>100	>100	131			76	21	23	55	>100	90
Central nervous system	17	3,348	3,642	(2)	(8)	2,377	(1)	(8)	505	(15)	(14)	466	6	
<i>Lamictal</i>		1,097	996	18	10	892	26	17	143	(17)	(17)	62	10	5
<i>Imigran/Imitrex</i>		685	711	3	(4)	558	9	1	89	(25)	(25)	38	(2)	(10)
<i>Seroxat/Paxil</i>		553	620	(6)	(11)	143	(12)	(18)	120	(19)	(18)	290	5	(3)
<i>Wellbutrin</i>		529	900	(37)	(41)	512	(38)	(42)	4	100	100	13	(13)	(19)
<i>Requip</i>		346	268	36	29	238	46	35	91	11	12	17	64	55
Cardiovascular and urogenital	8	1,554	1,636		(5)	970	(2)	(10)	401	3	4	183	7	2
<i>Avodart</i>		285	216	38	32	175	44	34	85	22	23	25	63	56

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

<i>Lovaza</i>		5				5								
<i>Coreg</i>		587	779	(18)	(25)	581	(19)	(25)				6	17	
<i>Fraxiparine</i>		184	209	(12)	(12)				151	(13)	(11)	33	(10)	(15)
<i>Arixtra</i>		100	58	81	72	55	88	72	39	70	70	6	100	100
<i>Vesicare</i>		50	32	69	56	50	69	56						
<i>Levitra</i>		49	43	23	14	47	24	15	2	100	100		(100)	(100)
Metabolic	8	1,508	1,870	(15)	(19)	895	(24)	(30)	290	15	16	323	(2)	(6)
<i>Avandia products</i>		1,219	1,645	(22)	(26)	780	(29)	(35)	225	3	4	214	(6)	(9)
<i>Avandia</i>		877	1,399	(34)	(37)	592	(40)	(45)	111	(11)	(10)	174	(14)	(16)
<i>Avandamet</i>		292	204	49	43	147	85	71	111	20	21	34	35	31
<i>Bonviva/Boniva</i>		161	95	79	69	115	49	39	44	>100	>100	2		
Anti-bacterials	7	1,323	1,363	(1)	(3)	195	(3)	(10)	588	(4)	(3)	540	3	
<i>Augmentin</i>		530	570	(6)	(7)	67	(23)	(29)	238	(9)	(8)	225	6	4
<i>Altabax</i>		11				11								
Oncology and emesis	2	477	1,069	(54)	(55)	272	(65)	(67)	135	(10)	(9)	70	(13)	(17)
<i>Hycamtin</i>		119	113	10	5	70	6	(3)	40	18	21	9	13	13
<i>Zofran</i>		196	847	(77)	(77)	78	(88)	(89)	70	(34)	(34)	48	(21)	(23)
<i>Tykerb</i>		51				36			13			2		
Vaccines	11	1,993	1,692	20	18	628	44	35	800	14	15	565	7	6
Hepatitis		529	479	14	10	199	33	24	230	5	6	100	3	
<i>Infanrix/Pediarix</i>		543	511	9	6	196	23	14	271	(4)	(3)	76	26	25
<i>Fluarix, FluLaval</i>		174	170	7	2	98	16	8	41	11	14	35	(16)	(19)
Flu-prepandemic		146				95			51					
<i>Cervarix</i>		10							9			1		
<i>Rotarix</i>		91	44	>100	>100				23	>100	>100	68	79	74
<i>Boostrix</i>		66	60	15	10	40	5	(2)	19	27	27	7	75	75
Other	5	901	924		(2)	65	(18)	(22)	255	(1)	1	581	3	(1)
	100	19,163	20,013		(4)	9,273	(3)	(10)	5,560	1	2	4,330	6	3

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

Table of Contents

56 GSK Annual Report 2008

Report of the Directors**Financial review 2007** continued

This followed publication of an article in the New England Journal of Medicine. This article suggested that there may be cardiovascular risk associated with *Avandia*. Despite GSK's efforts, doctors became reluctant to start new patients on *Avandia* without further guidance from the FDA. Following clarification from the FDA in October, there was a new approved label for *Avandia*. Outside the USA, sales in Europe grew 3% to £225 million, and in Rest of World markets, sales declined 6% to £214 million.

We recorded in turnover a £161 million share of co-promotion income for *Boniva/Bonviva*, a once-monthly oral bisphosphonate for the treatment of postmenopausal osteoporosis.

Vaccines

Vaccine sales increased 20% to £2.0 billion, with good performances in all regions: US sales rose 44% to £628 million; European sales grew 14% to £800 million and sales in Rest of World were up 7% to £565 million. Sales of hepatitis vaccines grew 14% to £529 million, driven by US growth of 33%.

Infanrix/Pediarix grew 9% to £543 million, again driven by US growth of 23%. Sales of the new two-dose vaccine, *Rotarix*, to prevent rotavirus gastroenteritis, doubled to £91 million, with strong growth in both Europe and Rest of World. Sales of *Cervarix*, GSK's vaccine to prevent cervical cancer, were £10 million.

Cardiovascular and urogenital

Sales of *Coreg*, for heart disease, fell 18% to £587 million, following the introduction of US generic competition to *Coreg IR* in September. Sales of *Coreg CR*, which was launched in March 2007, were £88 million. *Avodart*, for benign prostatic hyperplasia (enlarged prostate), continued to perform strongly with sales up 38% to £285 million.

Anti-bacterials

Anti-bacterial sales declined 1% to £1,323 million reflecting generic competition in all regions.

Oncology and emesis

Tykerb achieved sales of £51 million in its first year, £36 million of which arose in the USA following its launch in March. Sales of *Zofran* declined 77% to £196 million, reflecting generic competition in the USA, Europe and Rest of World where sales declined 88%, 34% and 21% respectively.

Consumer Healthcare sales**OTC medicines**

Over-the-counter medicine sales grew 20% to £1.8 billion, with *Panadol* up 14% to £263 million and *alli* sales of £150 million since launch in the USA in June. Smoking control products declined 6% to £314 million due to strong competition in the US market. *Breathe Right* and *FiberChoice*, added to the portfolio with the acquisition of CNS in December 2006, achieved combined sales of £81 million.

Consumer Healthcare turnover

	% of total	2007 £m	2006 £m	CER%	Growth £%
Over-the-counter medicines	50	1,788	1,561	20	15

<i>Panadol</i> franchise		263	234	14	12
Smoking cessation products		314	353	(6)	(11)
<i>Tums</i>		88	93	2	(5)
Cold sore franchise		79	69	19	14
<i>Breathe Right</i>		63	2	>100	>100
<i>alli</i>		150			
Oral healthcare	30	1,049	993	8	6
<i>Aquafresh</i> franchise		398	374	9	6
<i>Sensodyne</i> franchise		293	257	16	14
Dental care		222	217	6	2
Nutritional healthcare	20	716	658	9	9
<i>Lucozade</i>		347	301	16	15
<i>Horlicks</i>		174	156	12	12
<i>Ribena</i>		156	169	(7)	(8)
	100	3,553	3,212	14	11

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

Oral healthcare

Oral healthcare sales grew 8% to over £1 billion. Sales of *Aquafresh* were up 9% to £398 million, helped by the success of the new *Aquafresh* White Trays. *Sensodyne* also grew strongly, up 16% for the year to £293 million, driven by a successful launch of *Sensodyne ProNamel*.

Nutritional healthcare

Nutritional healthcare product sales grew 9% to £716 million. *Lucozade* grew 16% to £347 million, and *Horlicks* grew 12% to £174 million. *Ribena* sales were down 7% to £156 million.

Operating profit total results

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

	£m	2007 %	£m	2006 %	CER%	Growth £%
Turnover	22,716	100.0	23,225	100.0	2	(2)
Cost of sales	(5,317)	(23.4)	(5,010)	(21.6)	8	6
Selling, general and administration	(6,954)	(30.6)	(7,257)	(31.2)		(4)
Research and development	(3,327)	(14.7)	(3,457)	(14.9)	(1)	(4)
Other operating income	475	2.1	307	1.3		
Operating profit	7,593	33.4	7,808	33.6	3	(3)

Table of ContentsGSK Annual Report 2008 **57**
Report of the Directors**Financial review 2007** continued**Cost of sales**

Cost of sales as a percentage of turnover increased by 1.8 percentage points. At constant exchange rates, cost of sales as a percentage of turnover increased by 1.3 percentage points, reflecting charges related to the new Operational Excellence programme of £111 million (2006 £nil) and unfavourable product and regional mixes compared with 2006.

Selling, general and administration

Selling, general and administration (SG&A) costs as a percentage of turnover reduced 0.6 percentage points. At constant exchange rates, the decrease was 0.7 percentage points, reflecting flat expenditure compared with the prior year on a turnover growth of 2%. SG&A costs included charges related to the new Operational Excellence programme of £137 million (2006 £nil). Advertising and promotion increased by 2%, selling and distribution increased by 2%, and general and administration expenditure declined 5%.

Research and development

R&D expenditure declined 1% and included charges related to the new Operational Excellence programme of £90 million (2006 £nil). The benefit arose from lower impairment charges and the winding-down of previous restructuring activities. Excluding these items, R&D expenditure declined 2% on last year. Pharmaceutical R&D expenditure represented 16.7% (2006 16.7%) of pharmaceutical turnover.

Other operating income

Other operating income includes royalty income, equity investment disposals and impairments, product disposals and fair value adjustments to financial instruments. Other operating income was £475 million in 2007 (2006 £307 million). The increase is primarily due to higher royalty income (£216 million in 2007 compared with £94 million in 2006), favourable fair value movements on financial instruments (£41 million in 2007 compared with £29 million in 2006), and the Roche litigation settlement relating to carvedilol, partially offset by lower asset disposal profits.

Operating profit total results

Overall, the operating profit margin decreased 0.2 percentage points as operating profit decreased 3% in sterling terms to £7,593 million. Operating profit increased 3% at constant exchange rates and the CER margin increased 0.5 percentage points, reflecting flat SG&A expenditure and higher other operating income, partially offset by an increase in cost of sales.

In 2007, gains from asset disposals were £109 million (£169 million in 2006), costs for legal matters were £255 million (£333 million in 2006), fair value movements on financial instruments resulted in an income of £41 million (income of £29 million in 2006), charges related to old restructuring activity were £92 million (£205 million in 2006) and charges related to the new Operational Excellence programme were £338 million (2006 £nil). The total operating profit impact of these items was a £535 million charge in 2007 (£340 million charge in 2006).

Profit before taxation total results**Net finance costs**

2007	2006
------	------

Finance income	£m	£m
Interest and other income	255	285
Fair value adjustments and hedges	7	2
	262	287

Finance costs

Finance costs increased owing to increased levels of debt to finance the share buy-back programme.

Share of after tax profits of associates and joint ventures

The share of profits of associates arises principally from the Group's holding in Quest Diagnostics Inc.

Profit before taxation – total results

Taking account of net finance costs and the contribution from associates, total profit before taxation was £7,452 million compared with £7,799 million in 2006, an increase of 2% at constant exchange rates, but a 4% sterling decline.

Major restructuring programmes

In October 2007, GSK announced a significant new £1.5 billion Operational Excellence programme to improve the effectiveness and productivity of its operations.

An expansion to the programme was announced in February 2009 and this programme is now expected to deliver annual pre-tax savings of £1.7 billion by 2011. One-off charges of £338 million before tax relating to the programme were recorded in Q4 2007. There were no significant acquisition-related restructuring costs incurred in 2006 or 2007. Because of the extent and cost of the Operational Excellence programme, a columnar presentation has been adopted in the income statement. The analysis below of operating profit and the subsequent discussion excludes restructuring costs related to the new Operational Excellence programme. Management believes that this presentation assists shareholders in gaining a clearer understanding of the Group's financial performance and is consistent with the way management assesses the Group's financial performance.

Table of Contents

58 GSK Annual Report 2008

Report of the Directors**Financial review 2007** continued**Operating profit results before major restructuring**

	£m	2007 %	£m	2006 %	CER%	Growth £%
Turnover	22,716	100.0	23,225	100.0	2	(2)
Cost of sales	(5,206)	(22.9)	(5,010)	(21.6)	6	4
Selling, general and administration	(6,817)	(30.0)	(7,257)	(31.2)	(2)	(6)
Research and development	(3,237)	(14.3)	(3,457)	(14.9)	(3)	(6)
Other operating income	475	2.1	307	1.3		
Operating profit	7,931	34.9	7,808	33.6	8	2

Cost of sales

Cost of sales as a percentage of turnover increased by 1.3 percentage points. At constant exchange rates, cost of sales as a percentage of turnover increased by 0.8 percentage points, reflecting unfavourable product and regional mix.

Selling, general and administration

Selling, general and administration (SG&A) costs as a percentage of turnover reduced 1.2 percentage points and at constant exchange rates, the decrease was 1.3 percentage points, reflecting a 2% decline in expenditure compared with prior year on a turnover growth of 2%. SG&A costs were down 2% due to lower selling and general and administration expenditure partly offset by higher advertising and promotion. Advertising and promotion increased 2% and accounted for less than a 1% increase in total SG&A. Selling and distribution declined 1% and general and administration expenditure declined 7%. Collectively these items accounted for a 2% decline in total SG&A, of which one percentage point was due to lower charges related to legal matters.

Research and development

R&D expenditure decreased 3% partly as a result of lower impairment charges and the winding-down of previous restructuring activities. Excluding these items, R&D expenditure was flat. Pharmaceutical R&D expenditure represented 16.2% (2006 16.7%) of pharmaceutical turnover.

Other operating income

Other operating income was £475 million in 2007 (2006 £307 million). The increase is primarily due to higher royalty income (£216 million in 2007 compared with £94 million in 2006), favourable fair value movements on financial instruments (£41 million in 2007 compared with £29 million in 2006), and the Roche litigation settlement relating to carvedilol, partially offset by lower asset disposal profits.

Operating profit results before major restructuring

Overall, the operating profit margin increased 1.3 percentage points as operating profit increased 2% in sterling terms to £7,931 million. Operating profit increased 8% at constant exchange rates and the margin increased 2 percentage points, reflecting declines in SG&A and R&D expenditure on turnover growth of 2%, and higher other operating income.

In 2007, gains from asset disposals were £109 million (2006 £169 million), costs for legal matters were £255 million (2006 £333 million), fair value movements on financial instruments resulted in an income of £41 million (2006 £29 million) and charges related to old restructuring activity were £92 million (2006 £205 million). The operating profit impact of these items was a £197 million charge in 2007 (2006 £340 million).

Profit before taxation results before major restructuring

Net finance costs

	2007 £m	2006 £m
Finance income		
Interest and other income	255	285
Fair value adjustments and hedges	7	2
	262	287
 Finance costs		
Interest costs	(434)	(314)
Unwinding of discount on liabilities	(27)	(36)
Fair value adjustments and hedges	8	(2)
	(453)	(352)

Profit before taxation results before major restructuring

Taking account of net finance costs and the contribution from associates, results before major restructuring, profit before taxation was £7,790 million compared with £7,799 million in 2006, an increase of 6% CER, but flat in sterling terms.

Taxation

	2007 £m	2006 £m
UK corporation tax	452	400
Overseas taxation	1,962	2,310
Current taxation	2,414	2,710
Deferred taxation	(272)	(409)
Taxation on total profits	2,142	2,301

The charge for taxation on total profit amounting to £2,142 million, represents an effective tax rate of 28.7% (2006 29.5%). The charge for taxation on results before major restructuring profit, amounting to £2,219 million, represents an effective tax rate of 28.5% (2006 29.5%).

Table of ContentsGSK Annual Report 2008 **59**
Report of the Directors**Financial review 2007**continued

The Group balance sheet at 31st December 2007 included a tax payable liability of £826 million and a tax recoverable asset of £58 million.

The integrated nature of the Group's worldwide operations, involving significant investment in research and strategic manufacture at a limited number of locations, with consequential cross-border supply routes into numerous end-markets, gives rise to complexity and delay in negotiations with revenue authorities as to the profits on which individual Group companies are liable to tax. Disagreements with, and between, revenue authorities as to intra-Group transactions, in particular the price at which goods should be transferred between Group companies in different tax jurisdictions, can produce conflicting claims from revenue authorities as to the profits to be taxed in individual territories. Resolution of such issues is a continuing fact of life for GSK.

In 2007, our main open tax issues were in the UK, USA, Canada and Japan.

For the latest position on Taxation see 'Taxation' in the 2008 Financial Review on page 40.

Profit for the year

	2007	2006		Growth
	£m	£m	CER%	£%
Total profit after taxation for the year	5,310	5,498	3	(3)
Total profit attributable to shareholders	5,214	5,389	3	(3)
Basic earnings per share (pence)	94.4p	95.5p	5	(1)
Basic earnings per ADS (US\$)	\$3.77	\$3.53		
Results before major restructuring profit after taxation for the year	5,571	5,498	8	1
Results before major restructuring profit attributable to shareholders	5,475	5,389	8	2
Adjusted earnings per share (pence)	99.1p	95.5p	10	4
Adjusted earnings per ADS (US\$)	\$3.96	\$3.53		
Weighted average number of shares (millions)	5,524	5,643		
Diluted total earnings per share (pence)	93.7p	94.5p		
Diluted total earnings per ADS (US\$)	\$3.75	\$3.50		
Weighted average number of shares (millions)	5,567	5,700		

Total results including restructuring costs related to the new Operational Excellence programme produced a basic EPS of 94.4p compared with 95.5p in 2006. This was a 5% increase in CER terms compared with 2006, but a 1% decline in sterling terms.

Results before major restructuring profit for the year were £5,571 million, an increase of 8% (1% in sterling terms).

Profit attributable to minority interests was £96 million and profit attributable to shareholders was £5,475 million, an

increase of 8% (2% in sterling terms). The interest cost of the share buy-back programme adversely impacts the Group's profits but benefits EPS. Results before major restructuring EPS increased 10%, reflecting higher profits and also the reduction in the weighted average number of shares resulting from the Group's share buy-back programme. At actual rates of exchange, earnings per share increased 4%. The unfavourable currency impact on EPS of six percentage points reflected a strengthening of Sterling against the US dollar and compared with a four percentage point unfavourable currency impact on turnover.

Dividend

The Board declared a fourth interim dividend of 16 pence per share resulting in a dividend for the year of 53 pence, a five pence increase over the dividend of 48 pence per share for 2006.

Table of Contents**60 GSK Annual Report 2008
Report of the Directors****The Board****1 Sir Christopher Gent (Aged 60)**

Appointed on 1st June 2004. Chairman. Sir Christopher 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 Non-Executive Director of Ferrari SpA, a member of KPMG's Chairman's Advisory Group, a Senior Adviser at Bain & Co. and a member of the Advisory Board of Reform.

2 Andrew Witty (Aged 44)

Appointed on 31st January 2008. Chief Executive Officer. Mr Witty was named Chief Executive Officer Designate for GSK in October 2007 and was appointed 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, a Vice-President of EFPIA and a Member of the Singapore Economic Development Board's International Advisory Council.

3 Professor Sir Roy Anderson (Aged 61)

Appointed on 1st October 2007. Non-Executive Director. Professor Anderson is Professor of Infectious Disease Epidemiology in the Faculty of Medicine, Imperial College, London, and is Rector of Imperial College. 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. Until September 2007, Professor Anderson was the Chief Scientific Adviser at the Ministry of Defence in the UK.

4 Dr Stephanie Burns (Aged 54)

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

5 Lawrence Culp (Aged 45)

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.

6 Sir Crispin Davis (Aged 59)

Appointed on 1st July 2003. Non-Executive Director. Sir Crispin is Chief Executive Officer of Reed Elsevier PLC. Prior to that, 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.

7 Julian Heslop (Aged 55)

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.

Table of Contents**8 Sir Deryck Maughan (Aged 61)****Appointed on 1st June 2004. Non-Executive Director.**

Sir Deryck is a Partner of Kohlberg Kravis Roberts & Co, and a Non-Executive Director of Thomson Reuters and BlackRock Inc. He was formerly Chairman and Chief Executive Officer of Citigroup International and of Salomon Brothers Inc.

9 Dr Daniel Podolsky (Aged 55)**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 Academic Administration, and the Doris and Bryan Wildenthal Distinguished Chair in Medical Science. He is a member of the Board of the Southwest Medical Foundation, and is also Chairman of the Board and Scientific Co-Founder of the GI Company.

10 Sir Ian Prosser (Aged 65)**Appointed on 23rd May 2000. Senior Independent Director.**

Sir Ian was formerly a Non-Executive Director of SmithKline Beecham plc. He is Non-Executive Deputy Chairman of BP plc, Chairman of the Navy, Army and Air Force Institutes (NAAFI), a Non-Executive Director of Sara Lee Corporation and a member of the CBI President's Committee.

11 Dr Ronaldo Schmitz (Aged 70)**Appointed on 23rd May 2000. Non-Executive Director.**

Dr Schmitz was formerly a Non-Executive Director of Glaxo Wellcome plc. He is a Non-Executive Director of Legal & General Group plc, a member of the Board of Directors of Rohm and Haas Company and Cabot Corporation and of the Supervisory Board of SICK AG.

Details of membership of the Board Committees may be found on page 66.

12 Dr Moncef Slaoui (Aged 49)

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.

13 Tom de Swaan (Aged 62)**Appointed on 1st January 2006. Non-Executive Director.**

Mr de Swaan is a member of the Board of Directors of Zurich Financial Services and Vice Chairman of the Supervisory Board and Chairman of the Audit Committee of Royal Ahold, a member of the Supervisory Board of Royal DSM, and Chairman of the Supervisory Board of VanLanschot Bankiers. Until January 2006, he was a member of the Managing Board and Chief Financial Officer of ABN AMRO.

14 Sir Robert Wilson (Aged 65)**Appointed on 1st November 2003. Non-Executive Director.**

Sir Robert is Non-Executive Chairman of BG Group plc and The Economist Group and was previously Executive Chairman of Rio Tinto.

James Murdoch (Aged 36)**To join the Board on 20th May 2009. Non-Executive Director.**

Mr Murdoch is Chairman and Chief Executive of News Corporation, Europe and Asia. 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.

Other Directors

Dr Jean-Pierre Garnier, formerly Chief Executive Officer, retired from the Board on 21st May 2008. Mr Christopher Viehbacher, formerly President, North American Pharmaceuticals, who was appointed to the Board on 31st January 2008, resigned from the Board with effect from 8th September 2008.

Table of Contents

62 GSK Annual Report 2008

Report of the Directors

The Corporate Executive Team (CET)

1 Andrew Witty

Chief Executive Officer. Andrew succeeded JP Garnier as 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 US and Senior Vice President, Asia Pacific. He was appointed President, Pharmaceuticals Europe for GlaxoSmithKline in January 2003.

2 Simon Bicknell

Senior Vice President, Company Secretary and Compliance Officer. Simon ensures that compliance and risk management are effectively embedded within the business and oversees corporate governance for the Group. 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.

3 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 Futures Group before his current appointment in January 2006.

4 Deirdre Connelly

President, North American 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.

5 Marc Dunoyer

President, Pharmaceuticals Asia Pacific/Japan. Marc was appointed President, Pharmaceuticals Asia Pacific/Japan in May 2008. He joined the Group in 1999 and was President, Pharmaceuticals Japan from January 2000 until his current appointment.

6 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.

7 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, internal audit and insurance. He joined Glaxo Wellcome as Financial Controller in April 1998.

8 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.

9 Duncan Learmouth

Senior Vice President, Corporate Communications and Community Partnerships. Duncan is responsible for the Group's investor relations, internal and external communications, its image 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.

10 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.

Table of Contents**11 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.

12 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.

13 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.

14 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.

15 Jean Stéphane

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

16 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.

17 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 where he served as a primary liaison to the White House and the US Department of Health and Human Services (HHS).

Other members

Bob Ingram continues to act as a special consultant to the Group and attends some CET meetings in that capacity.

Changes to the CET in 2008

JP Garnier, Chief Executive Officer, retired from GSK in May 2008. Rupert Bondy, Senior Vice President and General Counsel, left GSK in March 2008. Russell Greig, President, Pharmaceuticals International, left the CET in May 2008 for a new role as President of the GSK Venture Fund. Chris Viehbacher, President, US Pharmaceuticals, left GSK in December 2008.

Table of Contents

64 GSK Annual Report 2008

Report of the Directors

Corporate governance continued

Governance and policy

This section discusses GSK's 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.

The Board and Corporate Executive Team

The Directors are listed under 'The Board' on page 60.

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

Independence

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

Dr Schmitz has served on the Board for more than ten years, 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.

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, Dr Podolsky, Sir Ian Prosser, Dr Schmitz, Mr de Swaan and Sir Robert Wilson are independent in accordance with the recommendations of the Combined Code.

Mr James Murdoch will join the Board with effect from 20th May 2009 and the Board has determined that he will be an independent Non-Executive Director in accordance with the Combined Code.

Sir Ian Prosser and Dr Schmitz will retire from the Board following the AGM in May 2009.

At the date of publication and throughout 2008, 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 2008. Mr Witty is the Chief Executive Officer (CEO). He succeeded Dr Garnier, who retired from the Board at the end of the AGM on 21st May 2008. Mr Witty's biographical details can be found on page 60. 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, agreed by the Board and appears in full on the company's website.

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 Corporate Executive Team (page 62).

Senior Independent Director

Sir Ian Prosser was appointed Senior Independent Director (SID) on 1st January 2005 and held this role throughout 2008. Sir Robert Wilson will become the SID following Sir Ian's retirement from the Board in May 2009.

Board process

The Board has the authority, and is accountable to shareholders, for ensuring that the company 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 company'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.

Table of Contents**Corporate governance continued**

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 2008, with each member attending as follows:

Name	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
Dr D Podolsky	6	6
Sir Ian Prosser	6	6
Dr R Schmitz	6	6
Mr T de Swaan	6	6
Sir Robert Wilson	6	6
Dr JP Garnier*	3	3
Mr C Viehbacher*	4	4

* Mr Witty and Mr Viehbacher were appointed to the Board on 31st January 2008. Dr Garnier retired from the Board on 21st

May 2008. Mr
Viehbacher
resigned from the
Board on 8th
September 2008.

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.

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. This is explained in the Governance section of the company's website.

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 2008.

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, 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.

Table of Contents**66 GSK Annual Report 2008
Report of the Directors****Corporate governance continued**

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

	Audit	Remuneration	Nominations	Corporate Responsibility
Sir Christopher Gent		M	C	C
Professor Sir Roy Anderson				
Dr S Burns				M
Mr L Culp		M	M	
Sir Crispin Davis		M		
Sir Deryck Maughan	M			
Dr D Podolsky	M			M
Sir Ian Prosser	M		M	M
Dr R Schmitz	M	M	M	
Mr T de Swaan	C			M
Sir Robert Wilson	M	C	M	

Key: C = Chairman M = Member

Table of ContentsGSK Annual Report 2008 **67**
Report of the Directors**Corporate governance continued**

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 or the Governance section of the company's website.

Committee	Role and Terms of Reference	Membership comprises	No of meetings per year	Committee Report on page
Audit	Reviews the financial and internal reporting process, the system of internal controls, the 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	73-74
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 & the Chairman	3 4	78-98
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	Independent Non-Executive Directors & the Chairman	3 1	75

the Board and Senior Management.

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 reputation. The Committee is also responsible for oversight of GSK's worldwide donations and community support.	Independent Non-Executive Directors & the Chairman	33 75-76
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 & 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 & Non-Executive Directors, CET members and the Company Secretary	As necessary

Table of Contents

68 GSK Annual Report 2008

Report of the Directors

Corporate governance continued

Evaluation of the Board, Board Committees and Directors

In previous years the evaluation of the performance of the Chairman, the Board, its Committees and Directors has been undertaken by the SID, in collaboration with the Committee Chairmen. In 2008 the Board engaged Dr Long of Boardroom Review to act as an independent facilitator for the Board evaluation process.

The process included a tailored questionnaire, a one-to-one interview with each Director and the Company Secretary, observation of the Board and Committee meetings held in December 2008 and a review of associated papers. The questions covered 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 review was provided in the form of a written report and presentation to the Board, which then discussed its findings.

The review concluded that the Chairman, the Board and its Committees were operating effectively to a high level. The Board agreed the following actions to generate more inclusive engagement with the executive management team and further improve its collective decision making process:

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 Board members also met separately, without the Chairman being present, to discuss the Chairman's performance and contribution. It was agreed during this meeting that the Chairman was performing well and had the unanimous and unequivocal support of the other Directors, both Executive and Non-Executive.

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 Annual Report, Summary and quarterly results are available on the company's website.

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 2008. 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 2009 AGM are set out in the section Annual General Meeting (see page 71) 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 and CFO maintain a dialogue with institutional shareholders on performance, plans and objectives through a programme of regular meetings. Following his appointment as CEO in May 2008, Andrew Witty has undertaken an extensive 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 meets 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.

The company's website provides access to current financial and business information about the Group.

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 2008, 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.

Table of Contents**Corporate governance continued**

The holders of Ordinary Shares are entitled to receive dividends, when declared, the company's reports 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.

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 and on the company's website.

At 24th February 2009, 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 (%)*
Barclay PLC	186,518,653	3.59

* Percentage of Ordinary Shares in issue, excluding Treasury shares as at 24th February 2009.

The Bank of New York Mellon is the Depository for the company's ADS, which are listed on the New York Stock Exchange. Ordinary Shares representing the company's ADS program, which are managed by the Depository, are registered in the name of BNY (Nominees) Limited. Details of the number of Ordinary Shares held by the Depository can be found on page 181.

The company has not acquired or disposed of any interests in its own shares, other than in connection with the company's share buy-back programme. Details of the shares purchased, cancelled and held in Treasury 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 78 to 98).

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 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. 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.

Table of Contents**70 GSK Annual Report 2008****Report of the Directors****Corporate governance continued****Memorandum and Articles of Association**

The powers of the Directors are determined by UK legislation and the company's Memorandum and Articles of Association, available on GSK's website. 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 Article 10 and the company is authorised to make purchases of its own shares under Article 7. The powers under Articles 8 and 10 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 and the company does not expect to make any significant repurchases in 2009. 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 company's AGM in 2008.

In May 2008, the company was authorised to purchase a maximum of 584 million shares. Details of shares purchased, those held as Treasury shares and those cancelled are disclosed in Note 33 to the financial statements – Share capital and share premium account. In total, the company has purchased £15.3 billion of its own shares since 1st January 2001.

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.

Donations to EU political organisations and EU political expenditure

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.

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

	2008	2007
Political Donations to:	£	£

EU Political Organisations

Non-EU Political Organisations comprising:

USA	319,000	249,000
Canada	28,000	27,000
	347,000	276,000

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 2008, a total of £539,359 (£522,172 in 2007) was donated to political organisations by the GSK PAC.

Table of Contents

GSK Annual Report 2008 71
Report of the Directors

Corporate governance continued

Annual General Meeting

The AGM will be held at 2.30pm on Wednesday, 20th May 2009 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 2008 Annual Report

Approving the 2008 Remuneration Report

The Remuneration Report on pages 78 to 98 sets out the remuneration policies operated by GlaxoSmithKline and disclosures on Directors' remuneration, including those required by the Companies Act 2006 and the Directors Remuneration Report Regulations 2002. A resolution will be proposed to approve the Remuneration Report.

Retirement, election and re-election of Directors

Mr Larry Culp, Sir Crispin Davis, Dr Moncef Slaoui and Mr Tom de Swaan will each retire and offer themselves for re-election to the Board under Article 85 of the company's Articles of Association.

Sir Ian Prosser and Dr Ronaldo Schmitz will also be retiring by rotation but will not be seeking re-appointment as they will be retiring from the Board after the conclusion of the AGM. Mr James Murdoch has been appointed a Director with effect from 20th May 2009 and will offer himself for election to the Board.

Re-appointment and remuneration of Auditors

Resolutions will be proposed to re-appoint

PricewaterhouseCoopers LLP as auditors and to authorise the Audit Committee 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

adopt new Performance Share, Share Option and Deferred Annual Bonus plans.

Shareholders are entitled to appoint one or more proxies to attend the AGM and to speak and vote on their behalf. Details on how to appoint or be appointed a corporate representative or proxy can be found on page 198. 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 Committee, which receives reports from those individuals identified in the Committee's Report on pages 73 to 74. 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.

Extensive financial controls, procedures and risk activities are reviewed by the Group's internal auditors. Commercial and financial 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.

Table of Contents**72 GSK Annual Report 2008****Report of the Directors****Corporate governance continued****Risk Oversight and Compliance Council (ROCC)**

The ROCC is a council of senior executives authorised by the Board to assist the Audit 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.

Risk Management and Compliance Boards (RMCBs)

Risk Management and Compliance Boards (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 RMCB regularly reports the status regarding its significant risks to the ROCC.

Compliance functions

In a number of risk areas, specific standards that meet or exceed requirements of applicable law have been established. Specialist audit and compliance functions (for example Corporate Environment, Health & Safety Audit, Global Manufacturing and Supply Audit and Risk Management, and Research and Development Global Quality and Compliance) assist in the dissemination, implementation and audit of these standards. These audit functions are coordinated by a Corporate Assurance group reporting to the Corporate Compliance Officer.

Corporate Ethics & Compliance (CEC)

The ROCC is also supported by the Corporate Ethics & Compliance department which is responsible for supporting the development and implementation of practices that facilitate employees' compliance with laws and Group policy. 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 is managed by the Corporate Compliance Officer, who reports directly to the CEO. The 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 Committee on a regular basis. The Corporate Compliance Officer's direct reporting line to the Audit Committee provides a mechanism for bypassing the executive management should the need ever arise.

Areas of potentially significant risk

For details of risks affecting the Group, see **Risk factors** on pages 50 to 53 and Note 44 to the financial statements, **Legal proceedings** .

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 Committee receives reports on areas of significant risk to the Group and on related internal controls. Following consideration of these reports, the Audit Committee reports annually to the Board on the effectiveness of controls. Such controls may mitigate but cannot eliminate risks. In addition, 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 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.

Table of Contents

GSK Annual Report 2008 **73**
Report of the Directors

Corporate governance continued**Committee reports**

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

Audit Committee Report

Members	Committee member since	Attendance at meetings during 2008	
		Full meetings	Quorate meetings
Mr Tom de Swaan (Chairman from 1st September 2006)	1st January 2006	6/6	5/5
Sir Deryck Maughan	21st January 2005	6/6	4/5
Dr Daniel Podolsky	1st January 2007	6/6	5/5
Sir Ian Prosser	27th December 2000	6/6	4/5
Dr Ronaldo Schmitz	27th December 2000	6/6	5/5
Sir Robert Wilson	12th December 2003	6/6	4/5

Other attendees at Committee meetings:

CEO

CFO

Chairman

General Counsel

Head of Global Internal Audit

Company Secretary & Corporate Compliance Officer

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 management of risks

Overseeing activities of each of the Group's compliance 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 compliance activities of the Group, including those concerning R&D, manufacturing, sales and marketing and Environment, Health & Safety.

Qualifications of Audit Committee Members

Committee members, with the exception of 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. Dr Podolsky's background as a world renowned researcher enables him 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 Ian Prosser	Former CFO and subsequently CEO of Bass plc Chartered Accountant
Dr Ronaldo Schmitz	Former Member of Glaxo Wellcome plc's Audit Committee Former Member of Executive Board of Directors of Deutsche Bank AG Former Head of Investment Banking of Deutsche Bank

Former member of the Executive Board of Directors of BASF from 1980 to 1990. CFO of BASF from 1985 to 1990

Former Chairman of the Committee from April 2001 to September 2006

MBA from INSEAD

Sir Robert Wilson

Economist

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

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

Former Mallinkrodt Professor of Medicine and Chief of Gastroenterology at Massachusetts General Hospital and Harvard Medical School.

Table of Contents**74 GSK Annual Report 2008****Report of the Directors****Corporate governance** continued

In 2008, 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 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 their release by the Board.

The Audit 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 2008, the Committee met both collectively and separately with the external auditors and the Head of Global Internal Audit, 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, reappointment 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 making its assessment, the Committee considers papers which detail the relevant regulatory requirements relating to external auditors and evaluates reports from the external auditors on their compliance with the requirements. 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 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 2008.

Table of Contents**Corporate governance** continued**Nominations Committee Report**

Members	Committee member since	Attendance at meetings during 2008 Full meetings
Sir Christopher Gent (Chairman from 1st January 2005)	9th December 2004	3/3
Mr Larry Culp	28th March 2008	2/2
Sir Ian Prosser (Committee Chairman February-December 2003)	27th December 2000	2/3
Dr Ronaldo Schmitz	17th May 2004	3/3
Sir Robert Wilson	28th March 2008	2/2

Other attendees at Committee meetings:

CEO
Chief of Staff
Head of HR
Company Secretary.

The Committee's main responsibilities include proposing the appointment of Board and Committee members. During 2008, the Committee's main focus was on the recruitment of new Non-Executive Directors to refresh the Board.

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 2008, particular focus was placed upon recruiting replacements for Sir Ian Prosser and Dr Ronaldo Schmitz, who will retire at the AGM in 2009. The process continues into 2009, with the Committee placing emphasis on candidates who are current CEOs or have had government or administration experience. 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 after considering their relevant qualifications.

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.

When appointing new Executive Directors and 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.

The Committee recommended the appointment of Mr Larry Culp and Sir Robert Wilson to the Nominations Committee in March 2008.

The Committee also recommended to the Board the appointment of Mr James Murdoch as a Non-Executive Director and as a member of the Corporate Responsibility Committee with effect from 20th May 2009.

Additionally, on the Committee's recommendation, the Board approved the following changes which take effect on Sir Ian Prosser and Dr Schmitz's retirement from the Board at the conclusion of the AGM in May 2009; Sir Robert Wilson will replace Sir Ian as the SID, Sir Crispin Davis will replace Sir Robert as the Chairman of the Remuneration Committee, Professor Sir Roy Anderson will become a member of the Audit Committee and Sir Crispin and Sir Deryck Maughan will become members of the Nominations Committee.

Remuneration Report

The Remuneration Report can be found on pages 78 to 98.

Corporate Responsibility Committee Report

Members	Committee member since	Attendance at meetings during 2008 Full meetings
Sir Christopher Gent (Chairman from 1st January 2005)	9th December 2004	3/3
Dr Stephanie Burns	6th December 2007	3/3
Dr Daniel Podolsky	1st July 2006	3/3
Sir Ian Prosser	17th May 2004	3/3
Mr Tom de Swaan	1st July 2006	3/3

Following his appointment to the Board with effect from 20th May 2009, Mr James Murdoch will also become a member of the Committee.

Other attendees at Committee meetings may include:

- CEO
- General Counsel
- Head of Corporate Communications & Community Partnerships
- Head of Corporate Responsibility
- Chief of Staff
- Head of HR
- Company Secretary.

Table of Contents

76 GSK Annual Report 2008

Report of the Directors

Corporate governance continued

The main responsibilities of the Corporate Responsibility Committee are set out on page 67. 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 the following areas:

access to medicines in developing countries

community partnerships and investment

humanitarian donations

employee volunteering

sales and marketing practices

disclosure of funding of medical education and patient advocacy groups

product safety and communication of clinical trial results

R&D on diseases of the developing world

use of animals in research

globalisation and externalisation of R&D

reduction of employee numbers through restructuring

employee consultation requirements

employment litigation in the USA.

GSK's Corporate Responsibility Report is available on the company's website.

The Combined Code

Throughout 2008, the company complied with the provisions of the Combined Code, except as follows:

B.1.1 In designing schemes of performance-related remuneration, the Remuneration Committee should follow the provisions in Schedule A to the Code. Item 6 of Schedule A states that, in general, only basic salary should be pensionable. The company's position is explained in the Remuneration Report on pages 78 to 98.

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 Committee and the company's statement on significant differences in 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 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 2008, the Committee met 11 times.

Sarbanes-Oxley requires that the Annual Report contains a statement as to whether a member of the company's Audit 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 73. 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.

Table of Contents

Corporate governance continued

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, 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 Committee, all significant deficiencies and material weaknesses in the design or operation of internal control 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 2008.

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 2008, 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 4th March 2009.

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 2008 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 2008 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 2008, 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 101.

Table of Contents

78 GSK Annual Report 2008

Report of the Directors

Remuneration Report

Dear Shareholder

On behalf of the Board, I am pleased to present the Committee's Report on Remuneration for 2008 for which we will be seeking approval from shareholders at our AGM in May.

Background and principles for proposed changes

Following the appointment of a new Chief Executive Officer in May 2008, the Remuneration Committee decided to review senior executive arrangements to ensure that our remuneration policy supports the future direction of the business.

Our current long-term incentive plans expire in 2010 and we are therefore reviewing them a year earlier than necessary. The current economic climate, as well as the change from a US-based to a UK-based Chief Executive Officer, has provided an opportunity to make some fundamental changes to GSK's remuneration policy. The proposed changes are designed to strengthen the alignment of GSK's remuneration arrangements with views expressed by investors, particularly those in the UK, and to reflect better GSK's UK home base. As such, the most fundamental changes will apply largely to some of the company's UK-based executives, including the Chief Executive Officer and the Chief Financial Officer.

The following sets out the key principles for the review and highlights some of the main changes proposed:

Aligning pay with the relevant market

Remuneration for some of the UK-based members of the CET, including the Chief Executive Officer and the Chief Financial Officer, will be benchmarked primarily against a UK cross-industry comparator group although, for obvious reasons, we cannot ignore intra-industry comparison. Remuneration for the Chairman, Research & Development, as well as certain other roles, will continue to be benchmarked against other global pharmaceutical companies to reflect the market in which GSK competes for that talent.

As far as benchmarking the Chief Executive Officer role is concerned, this shift from global pharmaceuticals to UK cross-industry companies represents a major change and will have a significant impact on the structure and quantum of his remuneration. At this time, at least, the proposed remuneration package of the Chief Executive Officer would be well below the median of his pharmaceutical industry peers.

Managing the balance of quantum versus risk

The current economic crisis has emphasised the need to ensure that the potential quantum and the stretch of performance targets do not implicitly encourage inappropriate behaviour. We are satisfied that our proposed structure does not do this. It also improves alignment to UK investor expectations through the capping of long-term incentive plans.

Reflecting perhaps the problems in the banking sector, several shareholders have raised the question of whether there should be a claw-back mechanism if and when problems arise years after awards have been made. In an effort to address this, we propose that where there has been continuity of executive responsibility (between initiation of an adverse event and its emergence as a problem), the adverse event should be taken into account in assessing annual bonuses in the year the problem can be identified. This means, of course, that we do not intend to penalise an executive for the misjudgements of his predecessor as far as annual bonus is concerned, although the consequences of an adverse event for the share price will inevitably reduce the potential value of long-term incentives.

Rebalancing long-term incentives

Under the new policy those executives (including the Chief Executive Officer and Chief Financial Officer) whose remuneration is benchmarked primarily against a UK cross-industry comparator group, will not receive share option grants for the foreseeable future. Instead, their long-term incentives will be focused on performance shares. In order to

remain competitive against the global pharmaceutical market, certain other Executives, including the Chairman, Research & Development, will continue to receive share options, although their weighting in the overall package will be kept under review.

Annual Bonus Plan

We will not operate the additional bonus flagged in the 2007 Remuneration Report, but will integrate it within the existing annual bonus structure. The maximum annual bonus opportunity will remain at 200% of salary. We are reducing the 96% performance threshold for annual plans to 90%, reflecting more stretching annual bonus plan targets.

In addition, the Chief Executive Officer and Chief Financial Officer (and other Executives who do not participate in the share option plan) will also have the opportunity to invest up to half of their annual bonus in GSK shares and this will be matched subject to relative total shareholder return performance over three years.

Table of Contents

Remuneration Report continued

Aligning performance measures to strategy

The performance conditions for the performance share plan will be broadened so that the CET is incentivised against a range of measures. It is intended that broadly half of the award will continue to be based on relative total shareholder return against other global pharmaceutical companies. The remaining half will be based on an additional measure or measures to support GSK's strategy over the coming years.

For awards made in 2009, 60% of the award will remain on relative total shareholder return against global pharmaceutical companies. The remaining 40% will be targeted at generating cash for investment and/or return to shareholders. Accordingly, for 2009 awards, 40% will be subject to the achievement of adjusted free cash flow targets. The Committee may make adjustments for acquisitions and divestments, currency movements and other distortions which may arise. Subject to shareholder approval, the 2009 performance share awards will be made following the AGM in May 2009. To satisfy concerns about transparency, we will disclose the adjusted free cash flow targets for the performance share awards in the announcement to the London Stock Exchange each time an award is made.

Reflecting the long-term nature of the pharmaceutical industry

To reflect better the long-term nature of the pharmaceutical industry, the performance period for the performance shares granted to members of the CET will be extended so that half of the total shareholder return element of each award will be measured over three years and half over four years. The performance period for share options granted to CET members in 2009 will similarly be extended.

In addition, to support further our emphasis on long-term decision making, the timeframes for vesting of awards on retirement and redundancy will be extended to maturity rather than vesting in the year of departure.

Over time, the Committee would like to see the range of long-term performance measures more fully reflect the company's strategic direction (eg turnover growth and R&D productivity). However, before introducing such metrics, the Committee wants to be satisfied that the measures are robust and not capable of creating unintended behaviour. The Committee believes that the new policy represents a significant step forward in supporting the future direction of the business and is in the best interests of shareholders.

Sir Robert Wilson

Chairman of the Remuneration Committee

3rd March 2009

Table of Contents**80 GSK Annual Report 2008****Report of the Directors****Remuneration Report** continued

This Directors Remuneration Report has been prepared in accordance with the Directors Remuneration Report Regulations 2002 (the Regulations) and meets the relevant requirements of the FSA Listing Rules.

The Remuneration Committee

Sir Robert Wilson has been Chairman of the Committee since 17th May 2004. Sir Crispin Davis, Mr Culp, Sir Christopher Gent and Dr Schmitz were members of the Committee throughout 2008. The Board deemed 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 7 times during 2008, with each member attending as follows:

Members	Committee member since	Attendance at full meetings during 2008
Sir Robert Wilson (Committee Chairman since May 2004)	1st January 2004	7/7
Mr L Culp	1st January 2004	7/7
Sir Crispin Davis	1st July 2003	7/7
Sir Christopher Gent	1st January 2007	7/7
Dr R Schmitz	25th May 2005	7/7

Sir Robert will step down as Chairman of the Committee following the conclusion of the 2009 AGM and will be succeeded by Sir Crispin Davis. Sir Robert will remain a member 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. The Committee's full terms of reference are available on the company's website.

During the course of 2008, the Committee's principal focus was to review the appropriateness of GSK's current remuneration policy in light of the appointment of a new CEO, changes to the management team and GSK's new strategy. This led to the development of a policy which will appropriately support the business going forward, including the design of new long-term incentive (LTI) plans to replace the existing plans which expire in 2010.

Two quorate meetings were held during the year to approve the formal grant of share options and performance share awards in accordance with GSK's remuneration policy.

With the exceptions of Mr Bicknell (Company Secretary) and Mrs Whyte (Deputy Company Secretary), no employees of the company were involved in the conduct of Committee meetings. Dr Garnier (former CEO), Mr Witt (CEO), Mr Phelan (Chief of Staff) and Ms Thomas (Senior Vice President, Human Resources) were invited to attend

part of some meetings of the Committee as required.

Deloitte LLP has been appointed by the Committee to provide it with independent advice on executive remuneration. They provided other tax services to GSK during the year, but did not provide advice on executive remuneration matters other than to the Committee. Towers Perrin 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 will discuss any significant changes to the policy or the measures used to assess performance. In line with this commitment, GSK's largest investors were consulted on the proposed changes set out in this report.

Summary of proposals

Until now, GSK's remuneration policy has been based on the principle of achieving competitiveness with the global pharmaceutical industry, which has been the primary pay comparator. The essential policy change underlying these new proposals is that the Committee will decide on an individual executive basis whether the primary pay comparator should be the global pharmaceutical sector, the UK-based large cross-industry multinationals or some other comparator group. For example, of the three Executive Directors, the Committee proposes that the primary comparator group for the CEO and CFO, at this time, should be UK-based large cross-industry multinationals. For the Chairman, Research & Development (Chairman, R&D), the comparator group should continue to be the global pharmaceutical companies.

Table of Contents**Remuneration Report** continued

The following charts summarise the proposed changes to GSK's remuneration policy and more particularly to GSK's individual remuneration elements.

Summary of proposed changes to GSK's Remuneration Policy

	Current All Executive Directors	Proposed policy for 2009 CEO & CFO	Chairman, R&D
Remuneration benchmarking	Global pharmaceutical comparator group	UK-based large cross-industry comparator group	Global pharmaceutical comparator group
Annual bonus	Bonus based on financial and personal performance	Some changes to calculation of bonus and target ranges to reflect changes in target setting in line with new strategy	
Operational bonus	N/A	Operational targets will be included within the overall annual bonus framework and there will be no stand-alone operational bonus	
LTI and share mix	LTIs provided through a mix of c.60% performance shares and c.40% share options by value	Eligible for performance shares and deferred annual bonus with a performance based match. Will not receive share options for the foreseeable future	Eligible for performance shares and share options. Not eligible for deferred annual bonus and performance based match
Plan limits	Levels of LTI awards set annually	Annual individual limits will be introduced	
Benchmarking methodology	Projected value	Expected value	

Key terms for remuneration elements**Current****Proposed policy for 2009**

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

Salary	Benchmarked against the global pharmaceutical comparator group	Benchmarked against a UK cross-industry comparator group or the global pharmaceutical comparator group or another comparator group as appropriate
Annual bonus	Most of the bonus is based on the achievement of financial targets (based on Group profit before interest and tax and on business unit operating profit). There are R&D specific key performance indicators for R&D employees. Individual performance is also taken into account in determining individual bonus payments	In addition to the current targets, achievement of operational efficiency will also be taken into account in determining the annual bonuses in respect of 2009 and 2010
Performance Share Plan (PSP)	Based on relative total shareholder return (TSR) against comparator group of 14 pharmaceutical companies Measured over three years Further two-year holding period 35% vesting at median, with 100% vesting for performance in line with the second company Three-month averaging period for TSR Dividend equivalents	60% based on relative TSR against comparator group currently comprising 12 pharmaceutical companies and 40% based on adjusted free cash flow TSR component measured half over three years and half over four years Adjusted free cash flow measured over three years Two-year holding period removed For the TSR elements, 30% vesting at median, with 100% vesting for upper quartile performance For the cash flow element, 25% vesting at threshold, rising to 100% for stretching performance exceeding the set threshold by a specified margin Twelve-month averaging period for TSR Dividend equivalents
Share Option Plan	Based on EPS growth relative to RPI Measured over three years 50% vesting for threshold performance	Intended only for certain Executives Based on EPS growth relative to RPI Will be measured over three and/or four years 30% vesting for threshold performance
Deferred Annual Bonus Plan	N/A	Only for individuals not eligible for share options 50% of bonus may be deferred Up to one-for-one match subject to relative TSR performance over three years (vesting as for PSP) Dividend equivalents

Table of Contents**82 GSK Annual Report 2008****Report of the Directors****Remuneration Report** continued**Total remuneration benchmarking**

The Committee reviews GSK's total remuneration against comparable companies on a regular basis, to ensure that remuneration arrangements are competitive, are structured appropriately and deliver value for money for shareholders. Under the new remuneration policy, the relevant comparator group(s) will be determined for each individual Executive.

For benchmarking purposes, total remuneration incorporates base salary, annual bonus (including any deferred element) and LTIs. When setting pay, the Committee also takes into account pension arrangements.

UK cross-industry comparator group

AngloAmerican
AstraZeneca
Barclays
BG Group
BHP Billiton
BP
British American Tobacco
Diageo
HSBC
Reckitt Benckiser
Royal Dutch Shell
Rio Tinto
Standard Chartered
Tesco
Unilever
Vodafone

Global pharmaceutical comparator group

France	Sanofi-Aventis
Switzerland	Novartis
	Roche Holdings
UK	AstraZeneca
USA	Abbott Laboratories
	Amgen*
	Bristol-Myers Squibb
	Eli Lilly
	Johnson & Johnson
	Merck
	Pfizer
	Schering-Plough
	Wyeth

* Amgen is included for pay benchmarking but not in the TSR comparator group.

Since 2004, GSK has used a projected value methodology to benchmark remuneration. The principal reason for this was to recognise the difference in LTI arrangements and, in particular, the less common use of performance targets in other global pharmaceutical companies.

Given the increased emphasis on benchmarking against UK companies and the increasing introduction of performance targets for LTIs in the pharmaceutical comparators, the Committee has decided to move to an expected value benchmarking methodology. This approach provides a benchmark which takes all possible outcomes into account based on the probability of achieving different performance levels.

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 opposite 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 to secure the talent needed to deliver GSK's strategic priorities.

Salary levels are reviewed annually and are influenced by the Executive's role and experience. The table below sets out current base salaries and those proposed for 2009.

Mr Witty and Mr Heslop's salary increases form part of the wider changes proposed to their remuneration packages and, in particular, reflect the move to benchmark remuneration against a UK cross-industry comparator group. Mr Witty's proposed salary increase also reflects the Committee's assessment of his performance in his role since appointment. Dr Slaoui's increase reflects his progression within the role and is intended to bring him more in line with the market. Salary increases typically take effect in April 2009. However, as an integral part of the wider remuneration policy, Mr Witty's and Mr Heslop's salary increases will not be implemented until after the 2009 AGM.

	2008 base salary	Effective date for 2008 salary	2009 base salary	Effective date for 2009 salary
Mr Witty	£ 850,000*	22nd May 2008	£1,000,000	1st April 2009
Mr Heslop	£485,000	1st April 2008	£525,000	1st April 2009
Dr Slaoui	\$825,000	1st April 2008	\$875,000	1st April 2009

* This reflects Mr Witty's base salary which took effect on his succession as CEO in May 2008.

Table of Contents**Remuneration Report** continued**Annual bonus**

The annual bonus is designed to drive the achievement of GSK's annual financial targets and personal objectives. The maximum annual bonus for the CEO remains at 200% of salary and the maximum bonuses for Executives other than the CEO range between 100% and 200% of salary. There will be no increases to the maximum bonus opportunity of 200% in 2009.

As part of the wider remuneration review, the Committee revised the annual bonus plan to strengthen the alignment to the new business strategy and budgeting process.

For 2009, the majority of the annual bonus opportunity will be 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 individual objectives. Annual bonuses will be 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 reduction of the bonus threshold from 96% to 90% reflects more stretching bonus targets.

In the 2007 Remuneration Report, reference was made to the possible introduction of additional bonuses to encourage delivery of operational targets in 2009 and 2010. After further review, the Committee determined not to increase the overall bonus opportunity and that these measures should be incorporated within the existing overall bonus.

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 page 5 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 objectives. These recommendations are considered by the Committee in determining the level of bonuses payable. The Committee considered whether to reduce any individual Executive's bonus award for 2008 to reflect revised provisions relating to any prior year activities, and determined that no current Executives were materially involved in the management of any relevant issues and therefore that no reduction of bonus payments would be appropriate. For future bonus years, the Committee will continue to review 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 future individual bonus awards to reflect those circumstances.

The strategic objectives set for 2008 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.

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. As the plan is relatively new, the Committee reviewed its 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.

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 2008. Actual bonus payments are shown on page 90 and ranged

from 86% to 118% of base salaries as at 31st December 2008.

LTIs

Currently, LTI awards are provided through a mix of performance shares and share options. GSK's existing LTI plans (the performance share and share option plans) expire in 2010 and in light of changes within the company, the Committee decided it was appropriate to review the terms of the LTI plans as part of the wider remuneration review during 2008. The new long-term incentive plans will therefore be submitted for shareholder approval at the 2009 AGM.

In line with the new remuneration policy based on individual market focus, and to provide better alignment to market practice, it is intended that the CEO and the CFO will not receive share option grants for the foreseeable future. Instead, their LTIs will be in the form of performance shares. They will also have the opportunity to defer part of any bonus earned into shares and to receive matching shares subject to the achievement of additional performance conditions. These changes are based on established practices within the UK cross-industry comparator group. The Chairman, R&D and certain other Executives will continue to receive share option grants as well as performance shares to remain competitive against the global pharmaceutical market. However, the use of share options will be kept under review and their relative importance may be reduced in the future. Share options will continue to be used to incentivise our employees below the CET.

Under the proposed new LTI plans, the Committee may reduce 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.

Table of Contents**84 GSK Annual Report 2008****Report of the Directors****Remuneration Report** continued

Typically, performance shares and share options 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 6.7% of the company's share capital at 31st December 2008.

The new plans are summarised in the relevant sections below together with the basis on which awards will be made to the Executives in 2009.

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 will be broadened so that the most senior team is incentivised against operational measures aligned with GSK's business strategy as well as TSR. TSR is considered to remain 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 between 40% and 60% 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 the business strategy.

2009 Awards

Performance share awards to Executives for 2009 will be made following approval of the new Performance Share Plan at the 2009 AGM.

For awards made in 2009, 60% of the award will be based on relative TSR against a group currently comprising 12 global pharmaceutical companies.

In order to recognise the importance of effective working capital management and of generating cash, the remaining 40% will vest subject to the achievement of adjusted free cash flow targets. The adjusted free cash flow 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 include legal and major taxation settlements and special pension contributions, which could materially distort this calculation in either direction. The impact of any acquisition or divestment will be quantified and adjusted for at the time of the event. Major adjustments in the calculation will be disclosed to shareholders. For the awards in 2009, the threshold free cash flow target will be £13.5 billion, with maximum vesting for £16 billion.

To provide a focus on sustained longer-term performance, the performance period will be extended so that half of the TSR element of each award will be measured over three years and half over four years. The element based on adjusted free cash flow will be measured over three years. There will be no retesting of performance.

For the TSR element, the percentage vesting at median will be reduced from 35% to 30% to align better the remuneration policy with shareholder expectations. Full vesting will take place for upper quartile performance. For the adjusted free cash flow element, 25% will vest for threshold performance, rising to 100% for stretching performance exceeding the set threshold by a specified margin. The graph below shows the TSR vesting schedule for awards to be granted in 2009. Where GSK's performance falls between two companies, vesting is calculated on a straight-line basis. An individual annual limit on the maximum value of performance shares that may be granted to an individual in any one year will be introduced. 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. It is intended that the value of performance shares granted to the CEO in 2009 will be five times salary. The CFO will receive an award of four times

salary and the Chairman, R&D will receive an award of 69,000 ADS.

To provide a stable assessment of performance and to reflect better the long-term nature of the pharmaceutical industry, the TSR averaging period will be twelve months for awards from 2009 onwards.

Table of Contents**Remuneration Report** continued

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 has been incorporated into the benchmarking of award levels.

The Performance Share Plan awards granted to the Executive Directors, excluding Dr Slaoui, in February 2006, with the performance period starting on 1st January 2006 and ending on 31st December 2008 did not vest as GSK's TSR performance was below median. The awards made to other senior executives in 2006, including Dr Slaoui (who was not on the CET at the time the awards were made), were dependent in part on TSR performance and in part on EPS performance. The TSR element did not vest, but the EPS element vested in full.

The vesting tables for recent performance share awards are shown on page 96.

b) Share options

GSK's share option plan is designed to ensure GSK remains competitive against its global pharmaceutical peers. It also incentivises sustained delivery of earnings growth and shareholder value creation.

As noted earlier, the Chairman, R&D as well as certain other Executives will continue to be granted share options but will not participate in the new deferred annual bonus. The CEO and CFO will not receive share options for the foreseeable future.

As part of the wider review, the Committee reviewed the performance measure used for share options and concluded that EPS remains an important measure of success. The vesting of share options granted to Executives will therefore continue to be linked to the achievement of compound annual EPS growth over the performance period. Targets will be reviewed and set annually taking into account company and market expectations.

2009 Awards

The targets for the 2009 awards will remain unchanged.

To reflect better the long-term nature of the pharmaceutical industry, the performance period will be extended so that half of each share option grant will be measured over three years and half will be measured over four years. There will be no retesting of performance.

From 2009, the percentage vesting for threshold performance will be reduced from 50% to 30% of the award to reflect better shareholder expectations. Threshold vesting will take place for compound EPS growth of RPI plus 3% p.a. with full vesting for compound EPS growth of RPI plus 6% p.a. EPS is measured at CER in line with GSK's practice to measure performance on a CER basis.

The vesting schedule for the 2009 awards is shown below.

An individual annual limit on the maximum value of share options that may be granted to an individual in any one year will be introduced. Where an individual receives an award of both performance shares and share options, the expected value of share options granted in any year will typically not exceed 60% of the expected value of the aggregate LTIs. Where an individual is not granted performance shares, the annual award limit for share options will be calculated on an equivalent basis to that which applies to the performance share plan.

The Committee will set out the basis of its decision if it considers it appropriate to make any significant adjustments to the calculation of EPS for performance measurement purposes.

No significant adjustments were made in respect of the share options granted in February 2006, of which 50.7% vested.

c) Deferred annual bonus

A new deferred annual bonus plan will be introduced for those Executives who will no longer receive share option grants, including the CEO and the CFO. The plan is designed to encourage long-term shareholding and to help drive

long-term shareholder returns relative to other global pharmaceutical companies.

Up to 50% of any annual bonus earned may be invested in shares and will be deferred for three years. The company will match these shares up to one-for-one depending on the company's relative TSR over this period. The performance measure and vesting schedule will be the same as under the three-year TSR component of the performance share plan described above.

Dividend equivalents will accrue and be delivered in respect of any invested shares and matching shares that vest.

Table of Contents**86 GSK Annual Report 2008****Report of the Directors****Remuneration Report** continued

GSK's LTI performance conditions continue to be challenging as is demonstrated by the table below. TSR has been an important part of the LTI measures for many years. This has been maintained under the proposed policy and, for the reasons set out on page 84, it remains the primary measure under the PSP despite the TSR element not paying out. The following table shows the vesting levels of GSK's Performance Share and Share Option awards to Executives since 2001. A total vesting percentage of 0% indicates that GSK's TSR performance was below the median of the comparator group for that performance period.

	Performance		Vesting under TSR measure %	Vesting under EPS measure %	Total vesting %	Share Option Plan Vesting under EPS measure %
	Period	Period				
2001	01/01/02	31/12/04	0	100	50	100
2002	01/01/03	31/12/05	0	100	50	100
2003	01/01/04	31/12/06	0		0	100
2004	01/01/05	31/12/07	38.47		38.47	100
2006	01/01/06	31/12/08	0		0	50.7

The performance measure for PSP awards for Executives was changed to exclude EPS following the Remuneration Review during 2003. No award was made during 2005 due to a change in the award cycle.

Pensions

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 97.

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.

During the year, the Committee reviewed the competitiveness of its pension policy for new employees to ensure that it remains competitive and enables the company to attract the talent required to run the business successfully. The review highlighted that the defined contribution pension policy was uncompetitive for UK Executives. The Committee therefore made some changes to align this better to evolving practice in the wider market.

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.

Executives participating in the defined contribution plan will now benefit from a company contribution of 15%–20% of base salary depending on grade. They will also have the opportunity to receive up to a further 4% in matched contributions in line with 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 the reduction factors will not apply in the same way as for all other members of the legacy final salary plans.

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 new executive Pension Credit.

For capped employees in the USA, benefits above the cap are provided through an unfunded non-qualified plan.

Table of Contents**Remuneration Report** continued**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. The CEO is required to build a shareholding to the value of four times base salary. Other Executive Directors are required to build a value of three times base salary and other members of the CET a value of two times base salary.

Shareholdings for the purpose of share ownership requirements (SOR) as at 31st December 2008 were:

	Holding for SOR purposes
Mr Witty	73,753 Ordinary Shares
Mr Heslop	47,750 Ordinary Shares
Dr Slaoui	49,799 Ordinary Shares

Executives are required to continue to satisfy these shareholding requirements for a minimum of twelve months following retirement from the company to support the long-term nature of the business. As at 31st December 2008, Dr Garnier's holding was in excess of the share ownership requirements.

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 contributes £250 a month into the plan and, up until the maturity of his savings contract in December 2008, Mr Heslop also contributed £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 2008 is shown on page 90.

On 19th February 2008, the company made a conditional award of 111,750 ADS to Mr Viehbacher, with vesting subject to his continued employment with GSK and the Committee's assessment of his performance over the vesting period. Following Mr Viehbacher's resignation on 8th September 2008 the award lapsed.

Executive Director terms, conditions and remuneration**Executive Director contracts**

The policy set out below provides the framework for contracts for Executive Directors.

12 calendar months

Notice period on termination by the employing company or executive

Termination payment

1 x annual salary and
1 x annual on-target bonus
No mitigation required²

Vesting of LTIs

Rules of relevant incentive plan³

Pension

Based on existing arrangements and terms of the relevant pension plan

Non-compete clause

12 months from termination notice date²

1 Mr Witty's target bonus is 125% of salary, Dr Slaoui's is 85% and Mr Heslop's is 75% of salary. When reviewing the policy for the level of severance payments, the Committee considered shareholder and Department for Business Enterprise & Regulatory Reform guidance. However, it determined that in line with competitive practice it is appropriate to provide for the payment of salary and target bonus on termination.

2 The imposition of a 12-month non-compete period (and a non-solicitation restriction) on the Executives is considered vitally important by the company in order to protect the Group's intellectual property and staff. In light of the non-compete clause and competitor practice, the Committee believes that it would not be appropriate to provide for mitigation in the contracts.

3 As approved by shareholders of GlaxoSmithKline, Glaxo Wellcome and SmithKline Beecham, as appropriate. The following table sets out the details of the Executive Directors' service contracts:

Current Directors	Date of contract	Effective date	Expiry date
Mr A Witty*	18.06.08	22.05.08	31.08.24
Mr J Heslop	16.03.05	01.04.05	31.01.14
Dr M Slaoui	16.05.06	01.06.06	01.08.19

* Mr Witty's contract was renewed in June 2008 following his appointment as CEO. No termination payments will be made in respect of any part of a notice period extending beyond the contract expiry date.

Table of Contents**88 GSK Annual Report 2008****Report of the Directors****Remuneration Report** continued**Other entitlements**

In addition to the contractual provisions outlined above, in the event that Executive Directors' service agreements are terminated by their employing company, the following will apply:

in the case of outstanding awards under the GlaxoSmithKline Annual Investment Plan, provided that their agreement is terminated other than for cause, any deferred amount, and any income and gains, are automatically distributed as soon as administratively practicable after termination. If they resign, retire or the termination is for cause, then any deferred amount is not distributed until the end of the minimum three-year deferral period

in line with the policy applicable to US senior executives, Dr Garnier is entitled to receive continuing medical and dental insurance after retirement. Dr Slaoui is a member of the same plan and may become eligible, at a future date, to receive continuing medical and dental cover into retirement.

Following the merger, those participants in the legacy share option schemes who elected to exchange their legacy options for options over GlaxoSmithKline shares will receive an additional cash benefit equal to 10% of the grant price of the original option. This additional benefit is triggered when the new option is exercised or lapses. To qualify for this additional cash benefit, participants had to retain their options until at least the second anniversary of the effective date of the merger.

Outside appointments for Executive Directors

Any outside appointments must be approved by the Chairman on behalf of the Board. It is the company's policy that remuneration earned from such appointments may be kept by the individual Executive Director.

Non-Executive Director terms, conditions and fees

Non-Executive Directors of GlaxoSmithKline do not have service contracts but instead have letters of appointment under which it is agreed that they serve the company as a Non-Executive Director until the conclusion of the AGM following the third anniversary of their appointment. In each case this can be extended for a further term of three years by mutual agreement. No Directors serve a term longer than three years without offering themselves for re-election by the shareholders.

The following table shows the date of the initial letter of appointment of each Non-Executive Director:

Non-Executive Director	Date of letter of appointment
Professor Sir Roy Anderson	28.09.07
Dr S Burns	12.02.07
Mr L Culp	09.06.03
Sir Crispin Davis	09.06.03
Sir Deryck Maughan	26.05.04
Mr James Murdoch	26.02.09

Dr D Podolsky	03.07.06
Sir Ian Prosser	19.06.00
Dr R Schmitz	19.06.00
Mr T de Swaan	21.12.05
Sir Robert Wilson	09.06.03

The fee structures for the Non-Executive Directors and the Chairman were reviewed during the year and some changes were made by the Board to ensure that these remained competitive. The company aims to provide Non-Executive Directors with fees that are competitive with other companies of equivalent size and complexity. Fees applying from 2008 are as follows:

	Per annum
Standard annual cash retainer fee	£75,000
Supplemental fees	
Senior Independent Director, the Audit Committee Chairman and Scientific/Medical Experts	£30,000
Chairman of the Remuneration and Corporate Responsibility Committee	£20,000
Non-Executive Director undertaking intercontinental travel to meetings	£7,500 per meeting

Table of Contents**Remuneration Report** continued**Exchange rate**

Fees that are paid in US dollars were converted at a rate of £1/US\$1.8162 for the period from 1st January to 31st March 2008, being the exchange rate that applied on 29th July 2004 when the fee arrangements were initially approved by the Board. Following the approval of the new fee arrangements, the exchange rate applicable was set by the Board at £1/US\$1.9918. This rate applied from 1st April to 31st December 2008.

Non-Executive Directors share allocation plan

To enhance the link between Directors and shareholders GlaxoSmithKline requires Non-Executive Directors to receive a significant part of their fees in the form of shares. At least 25% of the Non-Executive Directors' total fees, excluding the Chairman, are paid in the form of shares or ADS and allocated to a share account. The Non-Executive Directors may also take the opportunity to invest part or all of the balance of their fees into the same share account. The shares or ADS which are notionally awarded to the Non-Executive Directors and allocated to their interest accounts are included within the Directors' interests tables on page 92. The accumulated balance of these shares or ADS, together with notional dividends subsequently reinvested, are not paid out to the Non-Executive Directors until retirement from the Board. Upon retirement, the Non-Executive Directors will receive either the shares or ADS or a cash amount equal to the value of the shares or ADS at the date of retirement. Non-Executive Directors are not entitled to compensation if their appointment is terminated.

Chairman

Sir Christopher Gent's letter of appointment to the Board was dated 26th May 2004, under which it was agreed that he would serve the company as Deputy Chairman until 31st December 2004 and from 1st January 2005 as Chairman until the conclusion of the AGM following the third anniversary of his appointment. This was extended for a further term of three years by mutual agreement.

The Chairman's fees were increased from £460,000 to £540,000 per annum plus an allocation of shares to the value of £135,000 per annum (previously £115,000) with effect from 1st April 2008. This was in line with GSK's policy to ensure Non-Executive Directors' fees remained competitive.

TSR performance graph

The following graph sets out the performance of the company relative to the FTSE 100 Index of which the company is a constituent and to the pharmaceutical performance comparator group from 1st January 2003 to 31st December 2008. The graph has been prepared in accordance with the Regulations and is not an indication of the likely vesting of awards granted under any of the company's incentive plans.

Directors and Senior Management remuneration

The following tables set out for the Directors of GlaxoSmithKline plc the remuneration earned in 2008, their interests in shares of GlaxoSmithKline plc, their interests in share options and incentive plans and their pension benefits. The members of the CET also participate in the same remuneration plans as the Executive Directors. The aggregate remuneration and interests of the Directors and Senior Management are also provided.

Table of Contents**90 GSK Annual Report 2008****Report of the Directors****Remuneration Report** *continued***Annual remuneration**

	Footnote	Fees and salary 000	Other benefits 000	Annual bonus 000	2008 Total annual remuneration 000	Fees and salary 000	Other benefits 000	Annual bonus 000	2007 Total annual remuneration 000
Executive Directors									
Mr A Witty	a,b	£687	£92	£999	£1,778				
Mr J Heslop	b	£476	£32	£418	£926	£438	£16	£410	£864
Dr M Slaoui	c	\$805	\$405	\$942	\$2,152	\$701	\$321	\$843	\$1,865
Non-Executive Directors									
Professor Sir Roy Anderson		£116			£116	£23			£23
Sir Crispin Davis		£86			£86	£70			£70
Sir Christopher Gent		£650	£1		£651	£575	£1		£576
Sir Ian Prosser		£111			£111	£95			£95
Dr R Schmitz		£86			£86	£70			£70
Mr T de Swaan		£116			£116	£100			£100
Sir Robert Wilson		£106			£106	£90			£90
Dr S Burns		\$194			\$194	\$124			\$124
Mr L Culp		\$179			\$179	\$127			\$127
Sir Deryck Maughan		\$179			\$179	\$136			\$136
Dr D Podolsky		\$252			\$252	\$191			\$191
Former Directors									
Mr J Coombe			£3		£3		£69		£69
Dr M Barzach	d	£71			£71	£56			£56
							£1		£1

Sir Richard
Sykes

Dr JP Garnier	b,c	\$756	\$1,586	\$759	\$3,101	\$1,810	\$1,516	\$2,709	\$6,035
Mr C Viehbacher	f	\$687	\$123		\$810				
Dr T Yamada	b		\$2,243		\$2,243		\$250		\$250
Dr L Shapiro	e	\$85			\$85	\$85			\$85
Total remuneration		£4,201	£2,483	£2,336	£9,020	£3,104	£1,131	£2,186	£6,421
Analysed as:									
Executive									
Directors		£1,598	£343	£1,926	£3,867	£789	£177	£831	£1,797
Non-Executive Directors		£1,706	£1		£1,707	£1,312	£1		£1,313
Former Directors		£897	£2,139	£410	£3,446	£1,003	£953	£1,355	£3,311
Total remuneration		£4,201	£2,483	£2,336	£9,020	£3,104	£1,131	£2,186	£6,421

Remuneration for Directors on the US payroll is reported in Dollars. Dollar amounts are included in the totals based on conversion to Sterling at the average exchange rates for each year.

- a) Mr Witty joined the Board on 31st January 2008 and his remuneration is disclosed from this date.
- b) Following the merger, and in order to encourage employees to convert their non-savings related options held over Glaxo Wellcome or SmithKline Beecham shares or ADS, for options over GlaxoSmithKline shares or ADS, employees were granted an additional cash benefit equal to 10% of the grant price of the original option. This additional benefit, known as the Exchange Offer Incentive (EOI), is only payable when the new option is exercised or lapses. To qualify for this additional cash benefit, participants had to retain these options until at least the second anniversary of the effective date of the merger. During the year, Mr Witty received £9,374 in EOI payments as a result of options granted to him in March 1998 lapsing and Mr Heslop received £14,499 as a result of options granted to him in July 1998 lapsing. Dr Garnier received \$1,227,599 (2007 \$1,132,994), Mr Viehbacher received \$50,744 and Dr Yamada received \$2,225,018 (2007 \$184,516).
- c) Dr Garnier retired as a Director on 21st May 2008 and retired from the company on 31st May 2008. He is a Non-Executive Director of United Technologies Corporation, in respect of which he received \$89,651 up to the end of May 2008 (2007 \$230,000) in the form of deferred stock units which is not included above. Dr Slaoui is a Non-Executive Director of the Agency for Science, Technology and Research (A*STAR) in respect of which he received \$3,961 during 2008 (2007 \$667) which are not included above.
- d) Dr Barzach received fees of \$89,700 (2007 \$81,933) from GlaxoSmithKline France for healthcare consultancy provided. These are included within fees and salary above.
- e) Dr Shapiro retired from the Board on 17th May 2006 and stepped down as a member of GlaxoSmithKline's Scientific Advisory Board on 21st July 2008. During 2008 she received fees of \$85,000 (2007 \$85,000), of which \$30,000 (2007 \$30,000) was in the form of ADS. These are included within fees and salary above.

- f) Mr Viehbacher was appointed to the Board on 31st January 2008 and his remuneration is disclosed from this date. He resigned from the Board on 8th September 2008.

None of the above Directors received reimbursement for expenses during the year requiring separate disclosure as required by the Regulations.

Table of Contents

GSK Annual Report 2008 91
Report of the Directors

Remuneration Report continued**Non-Executive Directors remuneration**

Fees	Total 000	Cash 000	2008			2007		
			Shares/ADS 000	Total 000	Cash 000	Shares/ADS 000	Total 000	Cash 000
Current Non-Executive Directors								
Professor Sir Roy Anderson	£116	£87	£29	£23	£17	£6		
Sir Crispin Davis	£86		£86	£70		£70		
Sir Christopher Gent	£650	£520	£130	£575	£460	£115		
Sir Ian Prosser	£111	£56	£55	£95	£48	£47		
Dr R Schmitz	£86	£51	£35	£70	£42	£28		
Mr T de Swaan	£116	£87	£29	£100	£75	£25		
Sir Robert Wilson	£106	£79	£27	£90	£68	£22		
Dr S Burns	\$194	\$97	\$97	\$124	\$62	\$62		
Mr L Culp	\$179		\$179	\$127		\$127		
Sir Deryck Maughan	\$179		\$179	\$136		\$136		
Dr D Podolsky	\$252	\$126	\$126	\$191	\$96	\$95		
Total Remuneration	£1,706	£1,001	£705	£1,312	£789	£523		

The table above sets out the remuneration received as Non-Executive Directors of GlaxoSmithKline. Non-Executive Directors are required to take at least a part of their total fees in the form of shares allocated to a share account which is not paid out until retirement from the Board (see page 89 for further details). The total value of these shares and ADS as at the date of award, together with the cash payment, forms their total fees, which are included within the Annual remuneration table under Fees and salary. The table above sets out the value of their fees received in the form of cash and shares and ADS.

The table below sets out the accumulated number of shares and ADS held by the Non-Executive Directors in relation to their fees received as Board members as at 31st December 2008, together with the movements in their accounts over the year.

Non-Executive Directors share arrangements	Number of shares and ADS			
	At 31.12.07	Elected	Dividends reinvested	At 31.12.08
Current Non-Executive Directors Shares				
Professor Sir Roy Anderson	438	2,526	37	3,001
Sir Crispin Davis	24,069	7,511	1,103	32,683

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

Sir Christopher Gent	27,153	11,192	1,244	39,589
Sir Ian Prosser	24,861	4,828	1,113	30,802
Dr R Schmitz	19,639	3,005	875	23,519
Mr T de Swaan	3,156	2,526	102	5,784
Sir Robert Wilson	6,607	2,310	304	9,221
ADS				
Dr S Burns	1,184	2,378	83	3,645
Mr L Culp	11,747	4,347	728	16,822
Sir Deryck Maughan	9,800	4,347	609	14,756
Dr D Podolsky	2,796	3,084	184	6,064

Table of Contents**92 GSK Annual Report 2008****Report of the Directors****Remuneration Report** continued**Directors' interests**

The following interests of the Directors of the company and their connected persons are shown in accordance with the Listing Rules.

	Footnote	24th February 2009	31st December 2008	Shares 1st January 2008	24th February 2009	31st December 2008	ADS 1st January 2008
Executive Directors							
Mr A Witty	a,c	74,535	73,753	51,740			
Mr J Heslop	c	48,304	47,750	41,529			
Dr M Slaoui	b	59,518	48,636	40,961	485	411	286
Non-Executive Directors							
Professor Sir Roy Anderson	d	3,001	3,001	438			
Dr S Burns	d	44	44	44	3,805	3,805	1,344
Mr L Culp	d				16,822	16,822	11,747
Sir Crispin Davis	d	39,443	39,443	29,236			
Sir Christopher Gent	d	39,589	39,589	27,153			
Sir Deryck Maughan	d				14,756	14,756	9,800
Dr D Podolsky	d				6,065	6,065	2,796
Sir Ian Prosser	d	31,712	31,712	25,771			
Dr R Schmitz	d	29,199	29,199	25,319			
Mr T de Swaan	d	5,784	5,784	3,156			
Sir Robert Wilson	d	15,349	15,349	12,736			

One GlaxoSmithKline ADS represents two GlaxoSmithKline shares. The interests of the above-mentioned Directors at 24th February 2009 reflect the change between the year-end and that date.

- Mr Witty joined the Board on 31st January 2008 and his holdings are disclosed from this date.
- Includes ADS purchased in the GlaxoSmithKline Stock Fund within the US Retirement Savings Plan and US Executive Supplemental Savings Plan.
- Includes shares purchased through the GlaxoSmithKline ShareReward Plan for Mr Heslop totalling 1,853 at 31st December 2008 (31st December 2007 1,523) and 1,911 shares at 24th February 2009 and Mr Witty totalling 1,853 at 31st December 2008 and 1,911 shares at 24th February 2009.

- d) Includes shares and ADS received as part or all of their fees, as described under Non-Executive Directors share allocation plan on page 89. Dividends received on these shares and ADS were converted to shares and ADS as at 31st December 2008.

Share options

Options	Shares	Footnote	At 31.12.07	Date of grant	Exercise period	Grant price	Granted			At 31.12.08
							Unexercised	Lapsed	Exercised	
Mr A Witty	a,c		999,244	19.02.08 23.07.08 01.12.08	19.02.11 23.07.11 01.12.11	18.02.18 22.07.18 31.05.15	£11.47 £12.21 £9.51	525,000 145,000 1,009	5,630	1,664,623
Mr J Heslop	c		785,254	19.02.08	19.02.11	18.02.18	£11.47	242,750	7,643	1,020,361
Dr M Slaoui	b		170,712							170,712
Mr C Viehbacher	d		778,367						778,367	

Options	ADS	Footnote	At 31.12.07	Date of grant	Exercise period	Grant price	Granted			At 31.12.08
							Unexercised	Lapsed	Exercised	
Dr M Slaoui	b,c		162,320	19.02.08	19.02.11	18.02.18	\$44.75	162,320		324,640
Dr JP Garnier	e		4,453,448						225,324	4,228,124
Mr C Viehbacher	d		364,000	19.02.08	19.02.11	18.02.18	\$44.75	97,750	461,750	

- a) Mr Witty joined the Board on 31st January 2008 and his options are disclosed from this date.
- b) These details include the interests of Dr Slaoui's connected person who is also an employee of GSK.
- c) As part of the main option grant that occurred on 17th February 2009, Dr Slaoui and his connected person were awarded 164,690 ADS options with a grant price of \$33.42. The options granted to Dr Slaoui will vest in two parts, with 50% of awards vesting in February 2012 and the remaining 50% vesting in February 2013. In line with the new remuneration policy, Mr Witty and Mr Heslop will not receive share options for the foreseeable future.
- d) Mr Viehbacher joined the Board on 31st January 2008 and his options are disclosed above from this date until 8th September 2008 when he resigned from the Board. His unvested options lapsed on 1st December 2008 when he left the company.
- e) Dr Garnier retired from the Board on 21st May 2008 and the closing balance of his options is disclosed as at that date.

Table of Contents**Remuneration Report** continued

For those options outstanding at 31st December 2008, the earliest and latest vesting and lapse dates for options above and below the market price for a GlaxoSmithKline share at the year-end are given in the table below.

Mr A Witty		Weighted average grant price	Number	Vesting date		Lapse date	
				earliest	latest	earliest	latest
Options above market price at year-end:	vested	£17.17	234,298	24.03.02	28.11.04	23.03.09	27.11.11
	unvested	£14.78	373,000	21.02.09	20.02.10	20.02.16	19.02.17
Options below market price at year-end:	vested	£11.85	386,316	03.12.05	27.10.08	27.04.09	01.12.14
	unvested	£11.63	671,009	18.02.11	01.12.11	31.05.12	21.07.18
Total share options as at 31st December 2008		£13.17	1,664,623				

Mr J Heslop		Weighted average grant price	Number	Vesting date		Lapse date	
				earliest	latest	earliest	latest
Options above market price at year-end:	vested	£16.96	186,795	24.03.02	28.11.04	22.03.09	27.11.11
	unvested	£14.78	473,750	21.02.09	20.02.10	20.02.16	19.02.17
Options below market price at year-end:	vested	£11.91	117,066	28.10.06	27.10.08	27.04.09	01.12.14
	unvested	£11.47	242,750	19.02.11	19.02.11	18.02.18	18.02.18
Total share options as at 31st December 2008		£14.06	1,020,361				

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

	Weighted average	grant price	Number	Vesting date		Lapse date	
				earliest	latest	earliest	latest
Dr M Slaoui							
Options above market price at year-end:	vested	£18.56	15,522	24.11.02	24.11.02	23.11.09	23.11.09
	unvested	£14.68	73,340	21.02.09	21.02.09	20.02.16	20.02.16
Options below market price at year-end:	vested	£11.59	81,850	03.12.05	02.12.07	02.10.12	01.12.14
Total share options as at 31st December 2008		£13.55	170,712				
Options above market price at year-end:	unvested	\$51.38	324,640	20.02.10	19.02.11	19.02.17	18.02.18
Total ADS options as at 31st December 2008		\$51.38	324,640				

This includes those share options held by Dr Slaoui's connected person, who is also an employee of GSK.

	Weighted average	grant price	Number	Vesting date		Lapse date	
				earliest	latest	earliest	latest
Dr JP Garnier							
Options above market price at year-end:	vested	\$52.13	2,728,124	15.03.02	02.12.07	14.03.09	01.12.14
	unvested	\$54.68	1,050,000	21.02.09	20.02.10	20.02.16	19.02.17
Options below market price at year-end:	vested	\$37.25	450,000	03.12.05	03.12.05	02.12.12	02.12.12
Total ADS options as at 21st May 2008		\$51.18	4,228,124				

Table of Contents**94 GSK Annual Report 2008****Report of the Directors****Remuneration Report** continued

GSK grants share options to Executive Directors and Senior Managers on an annual basis. The Directors hold these options under the various share option plans referred to in Note 42 to the financial statements, Employee share schemes. None of the Non-Executive Directors had an interest in any option over the company's shares. The table below sets out, for share options granted in respect of 2006, 2007 and 2008, the performance period, whether or not the options have vested at 31st December 2008 and the performance targets.

Grant	Footnote	Performance period		Vesting status at 31.12.08	Annualised growth in EPS	Performance target Percentage of award vesting
February 2006	a	01.01.06	31.12.08	Unvested	³ RPI + 6%	100%
February 2007		01.01.07	31.12.09	Unvested	RPI + 5%	83%
February 2008		01.01.08	31.12.10	Unvested	RPI + 4%	67%
					RPI + 3%	50%
					< RPI	
					+ 3%	0%

a) The performance targets for these share options were partially met, and as a result part of the option grant vested on the third anniversary of the date of grant.

The table below sets out, for share options granted in respect of 2009, the performance period and targets.

Options exercised	Date	Number	Grant price	Market price	2008 Gain	2007 Gain
Dr JP Garnier						\$ 4,222,318
Aggregate gain on options exercised						£ 2,111,159

The highest and lowest closing prices during the year ended 31st December 2008 for GlaxoSmithKline shares were £13.85 and £9.95, respectively. The highest and lowest prices for GlaxoSmithKline ADS during the year ended 31st December 2008 were \$54.36 and \$32.02, respectively. The market price for a GlaxoSmithKline share on 31st

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

December 2008 was £12.85 (31st December 2007 £12.79) and for a GlaxoSmithKline ADS was \$37.27 (31st December 2007 \$50.39). The prices on 24th February 2009 were £11.06 per GlaxoSmithKline share and \$32.19 per GlaxoSmithKline ADS.

Incentive plans

Performance Share Plan (PSP) awards

Mr A Witty - Shares	Unvested at	Number granted in	Market price on date of grant	Number	Market price	Vested Gain	Lapsed	Additional shares by dividends invested	Unvested at
Performance period	31.01.08	2008	grant		price				31.12.08
01.01.05 31.12.07	85,250		£ 11.63	33,271	£ 11.23	£ 373,633	53,215	1,236	
01.01.06 31.12.08	81,838		£ 14.68					4,104	85,942
01.01.07 31.12.09	87,436		£ 14.88					4,385	91,821
01.01.08 31.12.10		225,000	£ 11.47					7,908	232,908
01.01.08 31.12.10		62,000	£ 12.21					1,443	63,443

Table of ContentsGSK Annual Report 2008 **95**
Report of the Directors**Remuneration Report** continued

Mr J Heslop - Shares	Unvested at 31.12.07	Number granted in 2008	Market price on date of grant	Number	Market price	Vested		Additional shares by		Unvested at 31.12.08
						Gain	Lapsed	dividends reinvested		
Performance period										
1.01.05 - 31.12.07	16,982		£ 11.63	6,698	£ 11.23	£ 75,219	10,712	428		
1.01.06 - 31.12.08	105,178		£ 14.68					6,435	111,613	
1.01.07 - 31.12.09	106,887		£ 14.88					6,539	113,426	
1.01.08 - 31.12.10		105,000	£ 11.47					3,690	108,690	

Dr M Slaoui - Shares	Unvested at 31.12.07	Number granted in 2008	Market price on date of grant	Number	Market price	Vested		Additional shares by		Unvested at 31.12.08
						Gain	Lapsed	dividends reinvested		
Performance period										
1.01.05 - 31.12.07	14,260		£ 11.63	10,122	£ 11.23	£ 113,670	4,498	360		
1.01.06 - 31.12.08	30,208		£ 14.68					1,847	32,055	

Dr M Slaoui - ADS	Unvested at 31.12.07	Number granted in 2008	Market price on date of grant	Number	Market price	Vested		Additional ADS by		Unvested at 31.12.08	Number granted in 2009
						Gain	Lapsed	dividends reinvested			
Performance period											
1.01.07 - 31.12.09	71,840		\$ 58.00					4,444	76,284		
1.01.08 - 31.12.10		70,570	\$ 44.75					2,545	73,115		
1.01.09 - 31.12.11											2,620

This includes those performance shares held by Dr Slaoui's connected person, who is also an employee of GSK.

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

Dr JP Garnier - ADS	Unvested at 31.12.07	Vested & deferred at 31.12.07	Number granted in 2008	Market price on date of grant	Number	Market price	Vested Gain	Additional ADS by dividends Lapsed	Unvested at 31.05.08
Performance period	31.12.07	31.12.07	2008	grant	Number	price	Gain	Lapsed	21.05.08
1.01.01 - 31.12.03 (Deferred)		39,216		\$ 51.30	40,599	\$ 47.53	\$ 1,929,657	1,383	
1.01.01 - 31.12.03 (Deferred)		36,826		\$ 37.25	38,125	\$ 35.44	\$ 1,351,156	1,299	
1.01.05 - 31.12.07	218,945			\$ 43.73	86,326	\$ 44.75	\$ 3,863,089	138,072	5,453
1.01.06 - 31.12.08	231,300			\$ 51.02					239,849
1.01.07 - 31.12.09	244,320			\$ 58.00					253,349

As set out in Dr Garnier's contract, his unvested PSP awards all vest, subject to achievement of the performance conditions, at the end of the performance periods set out above.

Mr C Viehbacher - ADS*	Unvested at 31.01.08	Number granted in 2008	Market price on date of grant	Number	Market price	Vested Gain	Additional ADS by dividends Lapsed	Unvested at 08.09.08
Performance period	31.01.08	2008	grant	Number	price	Gain	Lapsed	08.09.08
1.01.05 - 31.12.07	42,585		\$ 43.73	16,618	\$ 44.75	\$ 743,656	26,579	612
1.01.06 - 31.12.08	40,898		\$ 51.02				42,982	2,084
1.01.07 - 31.12.09	43,715		\$ 58.00				45,942	2,227
1.01.08 - 31.12.10		42,500	\$ 44.75				44,033	1,533

* Mr Viehbacher joined the Board on 31st January 2008 and his PSPs are disclosed from this date until 8th September when he resigned from the Board. All unvested PSPs lapsed when Mr Viehbacher left the company on 1st December 2008.

Under the terms of the PSP the number of shares actually vesting is determined following the end of the relevant measurement period and is dependent on GSK's performance during that period as described on pages 84 to 85.

Table of Contents**96 GSK Annual Report 2008****Report of the Directors****Remuneration Report** continued

Dividends are reinvested on the performance shares awarded to Executives, throughout the performance period and up to the date of the final award. The dividend reinvestment is calculated as of the ex-dividend date. Under the terms of the PSP, US participants may defer receipt of all or part of their vested awards. The total gain on vesting of PSP awards made by Executive Directors is £4,826,067 (2007 £74,400).

The PSP awards granted to Executive Directors in February 2006, excluding Dr Slaoui, with the performance period starting on 1st January 2006 and ending on 31st December 2008 lapsed because GSK's relative TSR performance was below the median of the comparator group.

The awards made to other senior Executives, including Dr Slaoui who was not a member of the CET at the time of the award, in 2006 were dependent in part on TSR performance and in part on EPS performance. The TSR portion lapsed and the EPS portion vested in full.

The following vesting schedule applies to PSP awards made in 2006.

Vesting schedule

Award	Performance Period	TSR rank with 13 companies	Percentage of award vesting*
2006	01.01.06 - 31.12.08	1	100%
		2	100%
		3	87%
		4	74%
		5	61%
		6	48%
		Median	35%
	Below median	0%	

The following vesting schedules apply to PSP awards made in 2007 and 2008.

Vesting schedule

Award	Performance Period	TSR rank with 14 companies	Percentage of award vesting*
-------	--------------------	-------------------------------------	------------------------------

2007	01.01.07 - 31.12.09	1	100%
2008	01.01.08 - 31.12.10	2	100%
		3	90%
		4	80%
		5	70%
		6	60%
		7	50%
		Median	35%
		Below median	0%

* TSR is measured on a pro-rata basis. Where GlaxoSmithKline's performance falls between two of the comparators, the level of vesting will be determined by the actual relative level of TSR rather than simple ranking. Dividends will be treated as reinvested during the performance period.

The 2009 awards will be made following approval of the new PSP at the 2009 AGM.

Share Value Plan awards

Dr M Slaoui - Shares and ADS	Number granted in	Market price on date of grant	Vested & deferred		Number of ADS granted in 2009
			Market price	Unvested at 31.12.08	
Plan year	Unvested at 31.12.07	Number granted	Market price	Gain/Lapsed	Unvested at 31.12.08
2006 (shares)	1,200	£ 14.68			1,200
2007 (ADS)	890	\$ 58.00			890
2008 (ADS)	890	\$ 44.75			890
2008 (ADS)	2,980	\$ 48.55			2,980
2009 (ADS)					1,490

As an Executive Director, Dr Slaoui is not eligible to receive awards under the Share Value Plan. The awards shown above reflect the holdings of Dr Slaoui's connected person, an employee of GSK. The awards are subject to three-year vesting periods and vesting is contingent on continued employment with GSK.

Table of ContentsGSK Annual Report 2008 **97**
Report of the Directors**Remuneration Report** continued

	Vested and deferred participations at 31.12.07	Additional ADS by dividends reinvested in 2008	Exercised	Market Price	Vested and deferred participations at Gain 21.05.08
Mid-Term Incentive Plan - ADS	180,137	6,353	186,490	\$47.53	\$ 8,863,870

The Mid-Term Incentive Plan (MTIP) was a share award scheme operated by SmithKline Beecham. The plan closed to new entrants upon completion of the merger and no further participations have been granted.

Where a final award of ADS is made, receipt of the award may be deferred by a Director. Dr Garnier deferred receipt of the full amounts which vested in each year between 1999 and 2003. The deferred awards, together with any additional ADS subsequently received through dividend reinvestment, are not included in the Directors' interests table on page 92 since they are retained in the MTIP until paid out.

On 19th February 2008, the company made a conditional award of 111,750 ADS to Mr Viehbacher. Following Mr Viehbacher's resignation from the Board, with effect from 8th September 2008, this conditional award lapsed in full.

Pension benefits

The accrued annual pension benefits and transfer values for Executive Directors in office on 31st December 2008 on retirement are set out below.

The Companies Act 1985 requires disclosure of the accrued benefit at the end of the year, the change in accrued benefit over the year, the transfer value at both the beginning and end of the year and the change in the transfer value over the year. The Listing Rules require additional disclosure of the change in the accrued benefit net of inflation and the transfer value of this change. Pensions for the Executive Directors have been disclosed in the currency in which the pension is payable.

Accrued benefit at 31.12.07	Accrued benefit at 31.12.08	Change in accrued benefit over the year	Contributions made during the year	Transfer value at 31.12.07	Transfer value at 31.12.08	Change in transfer value	Change in accrued benefit over year net of inflation	Transfer value of change in accrued benefit*

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

Executive Directors	000	000	000	000	000	000	000*	000	000
Mr A Witty	£218	£315	£97	£22	£2,598	£3,848	£1,228	£89	£1,112
Mr J Heslop	£142	£170	£28	£14	£2,609	£2,837	£214	£23	£374
Dr M Slaoui	\$72	\$131	\$59		\$399	\$731	\$332	\$58	\$332
Dr M Slaoui	53	55	2		572	608	36	1	36
Former Executive Directors									
Dr JP Garnier	\$1,235	\$1,353	\$118		\$16,239	\$17,423	\$1,184	\$106	\$1,184
Mr C Viehbacher	\$126	\$187	\$61		\$682	\$1,013	\$331	\$60	\$331

* These are shown net of contributions made by the individual.

Mr Witty and Mr Heslop participate in the Glaxo Wellcome Defined Benefit Plan with an accrual rate of 1/30th of final pensionable salary per annum. In 2000 all benefits accrued under the Glaxo Wellcome UK pension arrangements were augmented by the Trustees of the plans by 5% to reflect a distribution of surplus. This augmentation will apply to that element of Mr Witty and Mr Heslop's pension earnings before 31st March 2000.

Mr Witty's and Mr Heslop's transfer values have been calculated on the basis of actuarial advice in accordance with pensions regulation. The transfer value represents the present value of future payments to be made under the pension plan. Mr Witty's annual accrued benefit has increased by £97,331 (£88,814 excluding the effects of inflation), and the transfer value less personal contributions has increased by £1,228,350 over the year. The increase in Mr Witty's pensionable salary of £300,000 reflecting his appointment to CEO is the primary reason for the increase in transfer value. Mr Heslop's annual accrued benefit has increased by £28,459 (£22,911 excluding the effects of inflation) and the transfer value less personal contributions has increased by £214,095 over the year.

Table of Contents

98 GSK Annual Report 2008

Report of the Directors**Remuneration Report** continued**Pension benefits**

Dr Slaoui and Mr Viehbacher are members of the US Executive Cash Balance Pension Plan. The plan provides for an Executive Pension Credit, under which GSK makes annual contributions calculated as a percentage of the executive's base salary. GSK makes contributions at 38% of base pay. The fund increases at an interest rate set annually in advance based on the 30 year US Treasury bond rate to provide a cash sum at retirement. The plan has no entitlement to a spouse's pension or to pension increases.

Mr Viehbacher resigned from the Board on 8th September 2008 and left the company on 1st December 2008.

The transfer value, or cash sum, has increased by \$331,860 for Dr Slaoui and \$331,407 for Mr Viehbacher over the year as a result of further accumulation of interest and contributions paid by the company.

Dr Slaoui was an active participant in the Belgium Fortis Plan until 31st May 2006. This plan is a defined benefit plan with a lump sum payable at normal retirement which is age 60 for the plan. The transfer value, or cash sum, of Dr Slaoui's plan has increase by 36,380 over the year as a result of further accumulation of interest.

Dr Garnier retired from the company on 31st May 2008. He was a member of the US Cash Balance Pension Plan, under which GSK made annual contributions calculated as a percentage of base salary and bonus. GSK made annual contributions of 15% of Dr Garnier's annual salary and bonus as detailed in his contract. The fund increased at an interest rate set annually based on the 30 year US Treasury bond rate to provide a cash sum at retirement. The plan has no entitlement to a spouse's pension or to pension increases. Dr Garnier has selected to receive his pension payments on an annual basis paid over 15 years commencing January 2009. The transfer value, or cash sum, has increased by \$1,184,468 over the year for Dr Garnier's plan as a result of further accumulation of interest and contributions paid by the company.

Dr Slaoui, Dr Garnier and Mr Viehbacher are also members of the US Retirement Savings Plan, a 401k savings scheme open to all US employees and the Executive Supplemental Savings Plan, a savings scheme open to executives to accrue benefits above US government limits imposed on the Retirement Savings Plan. Contributions to both plans are invested in a range of funds and the value of the accumulated funds is paid at retirement.

During 2008, contributions of \$98,474 (£53,229) were paid into these two schemes by GSK in respect of Dr Slaoui, \$143,314 (£77,467) in respect of Dr Garnier and \$96,958 (£52,410) in respect of Mr Viehbacher.

Directors and Senior Management

Further information is also provided on compensation and interests of Directors and Senior Management as a group (the group). For this purpose, the group is defined as the Executive and Non-Executive Directors and members of the CET. For the financial year 2008, the total compensation paid to members of the group for the periods during which they served in that capacity was £17,352,130, the aggregate increase in accrued pension benefits, net of inflation, was £772,637 and the aggregate payment to defined contribution schemes was £485,612.

During 2008, the members of the group were granted 1,454,517 share options and 607,836 ADS options under the Share Option Plan, were awarded 629,176 shares and 291,547 ADS under the Performance Share Plan, were awarded 2,520 shares and 3,870 ADS under the Share Value Plan and were awarded 35,778 notional shares under the Deferred Investment Award Plan. Members of the group were also awarded through the reinvestment of dividends 71,755 shares and 54,110 ADS in the Performance Share Plan and 2,100 notional shares and 144 notional ADS in the Deferred Investment Award Plan.

At 24th February 2009, the group (comprising 28 persons) owned 765,249 shares and 78,770 ADS, constituting less than 1% of the issued share capital of the company. The group also held, at that date: options to purchase 6,742,286 shares and 2,170,034 ADS; 1,124,013 shares and 417,316 ADS awarded under the Performance Share Plan, including those shares and ADS that are vested and deferred; 38,113 vested and deferred ADS under the legacy SmithKline Beecham Mid-Term Incentive Plan; 20,130 shares and 6,250 ADS awarded under the Share Value Plan and 83,460 notional shares awarded under the Deferred Investment Award Plan. These holdings were issued under the various executive share option plans described in Note 42 to the financial statements, Employee share schemes .

Directors' interests in contracts

Except as described in Note 35 to the financial statements, Related party transactions , during or at the end of the financial year no Director or connected person had any material interest in any contract of significance in relation to the Group's business with a Group company.

The Directors' Remuneration Report has been approved by the Board of Directors and signed on its behalf by

Sir Christopher Gent

Chairman

3rd March 2009

Table of ContentsGSK Annual Report 2008 **99**
Financial statements**Financial statements**

The financial statements set out below/(overleaf) provide a summary of the Group's financial performance throughout 2008 and its position as at 31st December 2008. The financial statements are prepared in accordance with the IFRS as adopted by the European Union and also IFRS as issued by the International Accounting standards board. The financial statements comprise of the following audited primary statements and related notes:

Consolidated income statement;

Consolidated balance sheet;

Consolidated cash flow statement, and

Consolidated statement of recognised income and expense.

Directors' statements of responsibility **100****Independent Auditors' report** **101****Financial statements**

Consolidated income statement **102**

Consolidated balance sheet **103**

Consolidated cash flow statement **104**

Consolidated statement of recognised income and expense **105**

Notes to the financial statements

1. Presentation of the financial statements **106**

2. Accounting principles and policies **107**

3. Key accounting judgements and estimates **111**

4. New accounting requirements **112**

5. Exchange rates **113**

6. Segment information **114**

7. Major restructuring programmes **117**

8. Other operating income **119**

9. Operating profit **119**

10. Employee costs **120**

11. Finance income **120**

12. Finance costs **121**

13. Associates and joint ventures **121**

14. Taxation **122**

15. Earnings per share **124**

16. Dividends **125**

<u>17. Property, plant and equipment</u>	125
<u>18. Goodwill</u>	127
<u>19. Other intangible assets</u>	129
<u>20. Investments in associates and joint ventures</u>	131
<u>21. Other investments</u>	132
<u>22. Other non-current assets</u>	132
<u>23. Inventories</u>	132
<u>24. Trade and other receivables</u>	133
<u>25. Cash and cash equivalents</u>	133
<u>26. Assets held for sale</u>	133
<u>27. Trade and other payables</u>	134
<u>28. Pensions and other post-employment benefits</u>	134
<u>29. Other provisions</u>	142
<u>30. Other non-current liabilities</u>	144
<u>31. Contingent liabilities</u>	144
<u>32. Net debt</u>	144
<u>33. Share capital and share premium account</u>	146
<u>34. Movements in equity</u>	147
<u>35. Related party transactions</u>	149
<u>36. Adjustments reconciling profit after tax to operating cash flows</u>	149
<u>37. Reconciliation of net cash flow to movement in net debt</u>	150
<u>38. Acquisitions and disposals</u>	150
<u>39. Commitments</u>	154
<u>40. Post balance sheet events</u>	155
<u>41. Financial instruments and related disclosures</u>	156
<u>42. Employee share schemes</u>	164
<u>43. Principal Group companies</u>	169
<u>44. Legal proceedings</u>	172

Table of Contents

100 GSK Annual Report 2008

Financial statements

Directors' statement of responsibilities

Directors' statement of responsibilities in relation to the Group financial statements

The Directors are responsible for preparing the Annual Report, the Remuneration Report and the Group financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In preparing the Group financial statements, the Directors have also elected to comply with IFRS, as issued by the International Accounting Standards Board (IASB). The Group financial statements are required by law to give a true and fair view of the state of affairs of the Group as at the end of the financial period and of the profit or loss of the Group for that period.

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

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

state that the Group financial statements comply with IFRS as adopted by the European Union and IFRS as issued by the IASB, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the Group financial statements and the Directors' Remuneration Report comply with the Companies Acts 1985 and 2006 and Article 4 of the IAS Regulation. They are also responsible for taking reasonable steps to safeguard the assets of the Group and ensuring the operation of systems of internal control, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Group financial statements for the year ended 31st December 2008, comprising principal statements and supporting notes, are set out in 'Financial statements' on pages 102 and 180 of this Report.

The responsibilities of the auditors in relation to the Group financial statements are set out in the Independent Auditors' report on page 101.

The Group financial statements for the year ended 31st December 2008 are included in the Annual Report, which is published in hard-copy printed form and made available on the company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

Each of the current Directors, whose names and functions are listed in the Corporate governance section of the Annual Report 2008 confirms that, to the best of his or her knowledge:

the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU and IFRS as issued by IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

the Business review section contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and

uncertainties that it faces.

Disclosure of information to auditors

The Directors in office at the date of this Report have each confirmed that:

so far as he or she is aware, there is no relevant audit information of which the company's auditors are unaware; and

he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234 ZA of the Companies Act 1985.

Going concern basis

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control

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

The Combined Code

The Board considers that GlaxoSmithKline plc applies the principles of the Combined Code on Corporate Governance of the Financial Reporting Council, as described under 'Corporate governance' on pages 60 to 77, and has complied with its provisions except as described on page 76.

As required by the Listing Rules of the Financial Services Authority, the auditors have considered the Directors statement of compliance in relation to those points of the Combined Code which are specified for their review.

Annual Report

The Annual Report for the year ended 31st December 2008, comprising the Report of the Directors, the Remuneration Report, the Financial statements and additional information for investors, has been approved by the Board of Directors and signed on its behalf by

Sir Christopher Gent

Chairman

3rd March 2009

Table of ContentsGSK Annual Report 2008 **101**
Financial statements**Report of Independent Registered Public Accounting Firm**

to the Board of Directors and Shareholders of GlaxoSmithKline plc

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statement, consolidated statement of cash flows and, consolidated statements of recognised income and expense present fairly, in all material respects, the financial position of GlaxoSmithKline and its subsidiaries at 31st December 2008 and 31st December 2007, and the results of their operations and their cash flows for each of the three years in the period ended 31st December 2008 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the company maintained, in all material respects, effective internal control over financial reporting as of 31st December 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in

Managements annual report on internal control over financial reporting on page 77. Our responsibility is to express opinions on these financial statements and on the company's internal control over financial reporting based on our audits (which were integrated audits in 2008 and 2007). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
London
4th March 2009

Table of Contents

102 GSK Annual Report 2008

Financial statements**Consolidated income statement**

for the year ended 31st December 2008

		Results before major restructuring		2008	Results before major restructuring		2007	2006
	Note	£m	£m	Total £m	£m	£m	Total £m	Total £m
Turnover	6	24,352		24,352	22,716		22,716	23,225
Cost of sales		(5,776)	(639)	(6,415)	(5,206)	(111)	(5,317)	(5,010)
Gross profit		18,576	(639)	17,937	17,510	(111)	17,399	18,215
Selling, general and administration		(7,352)	(304)	(7,656)	(6,817)	(137)	(6,954)	(7,257)
Research and development		(3,506)	(175)	(3,681)	(3,237)	(90)	(3,327)	(3,457)
Other operating income	8	541		541	475		475	307
Operating profit	9,10	8,259	(1,118)	7,141	7,931	(338)	7,593	7,808
Finance income	11	313		313	262		262	287
Finance costs	12	(838)	(5)	(843)	(453)		(453)	(352)
Share of after tax profits of associates and joint ventures	13	48		48	50		50	56
Profit before taxation		7,782	(1,123)	6,659	7,790	(338)	7,452	7,799
Taxation	14	(2,231)	284	(1,947)	(2,219)	77	(2,142)	(2,301)
Profit after taxation for the year		5,551	(839)	4,712	5,571	(261)	5,310	5,498
Profit attributable to minority interests		110		110	96		96	109
Profit attributable to shareholders		5,441	(839)	4,602	5,475	(261)	5,214	5,389
		5,551	(839)	4,712	5,571	(261)	5,310	5,498
Basic earnings per share (pence)	15			88.6p			94.4p	95.5p
Diluted earnings per share (pence)	15			88.1p			93.7p	94.5p

The calculation of Results before major restructuring is described in Note 1, Presentation of the financial statements .

Table of ContentsGSK Annual Report 2008 **103**
Financial statements**Consolidated balance sheet**

at 31st December 2008

	Notes	2008 £m	2007 £m
Non-current assets			
Property, plant and equipment	17	9,678	7,821
Goodwill	18	2,101	1,370
Other intangible assets	19	5,869	4,456
Investments in associates and joint ventures	20	552	329
Other investments	21	478	517
Deferred tax assets	14	2,760	2,196
Derivative financial instruments	41	107	1
Other non-current assets	22	579	687
Total non-current assets		22,124	17,377
Current assets			
Inventories	23	4,056	3,062
Current tax recoverable	14	76	58
Trade and other receivables	24	6,265	5,495
Derivative financial instruments	41	856	475
Liquid investments	32	391	1,153
Cash and cash equivalents	25	5,623	3,379
Assets held for sale	26	2	4
Total current assets		17,269	13,626
Total assets		39,393	31,003
Current liabilities			
Short-term borrowings	32	(956)	(3,504)
Trade and other payables	27	(6,075)	(4,861)
Derivative financial instruments	41	(752)	(262)
Current tax payable	14	(780)	(826)
Short-term provisions	29	(1,454)	(892)
Total current liabilities		(10,017)	(10,345)
Non-current liabilities			

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

Long-term borrowings	32	(15,231)	(7,067)
Deferred tax liabilities	14	(714)	(887)
Pensions and other post-employment benefits	28	(3,039)	(1,383)
Other provisions	29	(1,645)	(1,035)
Derivative financial instruments	41	(2)	(8)
Other non-current liabilities	30	(427)	(368)
Total non-current liabilities		(21,058)	(10,748)
Total liabilities		(31,075)	(21,093)
Net assets		8,318	9,910
Equity			
Share capital	33	1,415	1,503
Share premium account	33	1,326	1,266
Retained earnings	34	4,622	6,475
Other reserves	34	568	359
Shareholders' equity		7,931	9,603
Minority interests	34	387	307
Total equity		8,318	9,910

Approved by the Board on 3rd March 2009

Sir Christopher Gent

Chairman

Table of Contents

104 GSK Annual Report 2008

Financial statements**Consolidated cash flow statement**

the year ended 31st December 2008

	Notes	2008 £m	2007 £m	2006 £m
Cash flow from operating activities				
Profit after taxation for the year		4,712	5,310	5,498
Adjustments reconciling profit after tax to operating cash flows	36	4,343	2,770	2,705
Cash generated from operations		9,055	8,080	8,203
Taxation paid		(1,850)	(1,919)	(3,846)
Net cash inflow from operating activities		7,205	6,161	4,357
Cash flow from investing activities				
Purchase of property, plant and equipment		(1,437)	(1,516)	(1,366)
Proceeds from sale of property, plant and equipment		20	35	43
Purchase of intangible assets		(632)	(627)	(224)
Proceeds from sale of intangible assets		171	9	175
Purchase of equity investments		(87)	(186)	(57)
Proceeds from sale of equity investments		42	45	32
Share transactions with minority shareholders	38			(157)
Purchase of businesses, net of cash acquired	38	(454)	(1,027)	(273)
Disposal of businesses and interest in associates	38			5
Investments in associates and joint ventures	38	(9)	(1)	(13)
Decrease/(increase) in liquid investments		905	(39)	(55)
Interest received		320	247	299
Dividends from associates and joint ventures		12	12	15
Net cash outflow from investing activities		(1,149)	(3,048)	(1,576)
Cash flow from financing activities				
Proceeds from own shares for employee share options		9	116	151
Shares acquired by ESOP Trusts		(19)	(26)	
Issue of share capital	33	62	417	316
Purchase of own shares for cancellation		(3,706)	(213)	
Purchase of Treasury shares			(3,538)	(1,348)

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

Increase in long-term loans		5,523	3,483	
Repayment of long-term loans			(207)	
Net (repayment of)/increase in short-term loans		(3,059)	1,632	(739)
Net repayment of obligations under finance leases		(48)	(39)	(34)
Interest paid		(730)	(378)	(414)
Dividends paid to shareholders		(2,929)	(2,793)	(2,598)
Dividends paid to minority interests		(79)	(77)	(87)
Other financing cash flows		68	(79)	16
Net cash outflow from financing activities		(4,908)	(1,702)	(4,737)
Increase/(decrease) in cash and bank overdrafts	37	1,148	1,411	(1,956)
Exchange adjustments		1,103	48	(254)
Cash and bank overdrafts at beginning of year		3,221	1,762	3,972
Cash and bank overdrafts at end of year		5,472	3,221	1,762
Cash and bank overdrafts at end of year comprise:				
Cash and cash equivalents		5,623	3,379	2,005
Overdrafts		(151)	(158)	(243)
		5,472	3,221	1,762

Table of ContentsGSK Annual Report 2008 **105**
Financial statements**Consolidated statement of recognised income and expense**

for the year ended 31st December 2008

	2008	2007	2006
	£m	£m	£m
Exchange movements on overseas net assets	1,101	411	(359)
Tax on exchange movements	15	21	(78)
Fair value movements on available-for-sale investments	(81)	(99)	84
Deferred tax on fair value movements on available-for-sale investments	8	19	(15)
Actuarial (losses)/gains on defined benefit plans	(1,370)	671	429
Deferred tax on actuarial movements in defined benefit plans	441	(195)	(161)
Fair value movements on cash flow hedges	6	(6)	(5)
Deferred tax on fair value movements on cash flow hedges	(3)	2	2
Net profits/(losses) recognised directly in equity	117	824	(103)
Profit for the year	4,712	5,310	5,498
Total recognised income and expense for the year	4,829	6,134	5,395
Total recognised income and expense for the year attributable to:			
Shareholders	4,670	6,012	5,307
Minority interests	159	122	88
	4,829	6,134	5,395

Table of Contents

106 GSK Annual Report 2008

Financial statements

Notes to the financial statements

1 Presentation of the financial statements

Description of business

GlaxoSmithKline is a major global healthcare Group which is engaged in the creation and discovery, development, manufacture and marketing of pharmaceutical products including vaccines, over-the-counter (OTC) medicines and health-related consumer products. GSK's principal pharmaceutical products include medicines in the following therapeutic areas: respiratory, central nervous system, anti-virals, anti-bacterials, metabolic, vaccines, cardiovascular and urogenital, oncology and emesis.

Compliance with applicable law and IFRS

The financial statements have been prepared in accordance with the Companies Act 1985, Article 4 of the IAS Regulation and International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations, as adopted by the European Union.

The financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board.

Composition of financial statements

The consolidated financial statements are drawn up in Sterling, the functional currency of GlaxoSmithKline plc, and in accordance with IFRS accounting presentation. The financial statements comprise:

Consolidated income statement

Consolidated balance sheet

Consolidated cash flow statement

Consolidated statement of recognised income and expense

Notes to the financial statements.

Accounting convention

The financial statements have been prepared using the historical cost convention, as modified by the revaluation of certain items, as stated in the accounting policies.

Financial period

These financial statements cover the financial year from 1st January to 31st December 2008, with comparative figures for the financial years from 1st January to 31st December 2007 and, where appropriate, from 1st January to 31st December 2006.

Composition of the Group

A list of the subsidiary and associated undertakings which, in the opinion of the Directors, principally affected the amount of profit or the net assets of the Group is given in Note 43, 'Principal Group companies'.

Presentation of restructuring costs

In October 2007, the Board approved the implementation of a detailed formal plan for, and GSK announced, a significant new Operational Excellence restructuring programme. A second formal plan, representing a significant expansion of the Operational Excellence programme, was approved by the Board and announced in February 2009. This restructuring programme, comprising these detailed formal plans, covers all areas of GSK's business, including manufacturing, selling, R&D and infrastructure.

With an estimated total cost of approximately £3.6 billion, the expanded programme is expected to deliver annual pre-tax savings of approximately £1.7 billion by the time it is substantially complete in 2011. Given the extent and cost of the Operational Excellence programme, management believes it has a material impact on GSK's operating results and on the manner in which GSK's business is conducted. GSK presents the restructuring costs incurred solely as a direct result of the Operational Excellence programme in a separate column in the income statement titled "Major restructuring".

In addition to the restructuring costs of the Operational Excellence programme, the major restructuring column in the income statement includes restructuring costs incurred solely as a direct result of any restructuring programmes that follow, and relate to, material acquisitions where the operations of the acquired business overlap extensively with GSK's existing operations. The restructuring activities that follow, and relate to, such acquisitions are of the same nature as those undertaken under the Operational Excellence programme and are also carried out following a detailed formal plan. Management therefore considers it appropriate to present the costs of these restructuring activities in the same manner. The \$1.65 billion (£814 million) acquisition of Reliant Pharmaceuticals in December 2007 is the only acquisition since October 2007 that meets the criteria set out above and thus is the only acquisition where the costs incurred as a direct result of a related restructuring programme have been included within the major restructuring column.

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

Any restructuring costs that do not arise solely as a direct result of the Operational Excellence programme and restructuring programmes following, and relating to, acquisitions meeting the criteria described above continue to be reported in operating expenses within results before major restructuring.

Table of Contents**Notes to the financial statements continued****Accounting principles and policies**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements have been prepared in accordance with the Group's accounting policies approved by the Board and described in Note 2, Accounting principles and policies. Information on the application of these accounting policies, including areas of estimation and judgement is given in Note 3, Key accounting judgements and estimates. Where appropriate, comparative figures are reclassified to ensure a consistent presentation with current year information.

Restated comparative information

As a result of the review of the strategic direction of the Group, the regional reporting structure within the Pharmaceuticals business has been realigned. Russia and a number of developing Eastern European markets, previously reported within Europe are now included within the Emerging Markets sector in the Rest of World. No change has been made to the reporting structure in the Consumer Healthcare business where these markets are still reported within Europe.

The Group has also taken the opportunity to review the allocation of entities and expenses between the Pharmaceuticals and Consumer Healthcare businesses. As a result, one entity in China has been reclassified from Pharmaceuticals to Consumer Healthcare. Comparative information has been restated onto a consistent basis.

These reallocations have no impact on Group turnover or Group operating profit.

2 Accounting principles and policies**Consolidation**

The consolidated financial statements include:

- the assets and liabilities, and the results and cash flows, of the company and its subsidiaries, including ESOP Trusts

- the Group's share of the results and net assets of associates and joint ventures.

The financial statements of entities consolidated are made up to 31st December each year.

Entities over which the Group has the power to govern the financial and operating policies are accounted for as subsidiaries. Where the Group has the ability to exercise joint control, the entities are accounted for as joint ventures, and where the Group has the ability to exercise significant influence, they are accounted for as associates. The results and assets and liabilities of associates and joint ventures are incorporated into the consolidated financial statements using the equity method of accounting.

Interests acquired in entities are consolidated from the date the Group acquires control and interests sold are de-consolidated from the date control ceases.

Transactions and balances between subsidiaries are eliminated; no profit before tax is taken on sales between subsidiaries or on sales to joint ventures and associates until the products are sold to customers outside the Group. Deferred tax relief on unrealised intra-Group profit is accounted for only to the extent that it is considered recoverable. Goodwill arising on the acquisition of interests in subsidiaries, joint ventures and associates, representing the excess of the acquisition cost over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised as a separate item in the case of subsidiaries and as part of the cost of investment in

the case of joint ventures and associates. Goodwill is denominated in the currency of the operation acquired. Where the cost of acquisition is below the fair value of the net assets acquired, the difference is recognised directly in the income statement.

Foreign currency translation

Foreign currency transactions are booked in the functional currency of the Group company at the exchange rate ruling on the date of transaction. Foreign currency monetary assets and liabilities are retranslated into the functional currency at rates of exchange ruling at the balance sheet date. Exchange differences are included in the income statement.

On consolidation, assets and liabilities, including related goodwill, of overseas subsidiaries, associates and joint ventures, are translated into Sterling at rates of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiaries, associates and joint ventures are translated into Sterling using average rates of exchange.

Exchange adjustments arising when the opening net assets and the profits for the year retained by overseas subsidiaries, associates and joint ventures are translated into Sterling, less exchange differences arising on related foreign currency borrowings which hedge the Group's net investment in these operations, are taken to a separate component of equity.

Table of Contents

108 GSK Annual Report 2008

Financial statements**Notes to the financial statements** continued**2 Accounting principles and policies** continued

When translating into Sterling the assets, liabilities, results and cash flows of overseas subsidiaries, associates and joint ventures which are reported in currencies of hyper-inflationary economies, adjustments are made to reflect current price levels. Any loss on net monetary assets is charged to the consolidated income statement.

Revenue

Revenue is recognised in the income statement when goods or services are supplied or made available to external customers against orders received, title and risk of loss is passed to the customer, and reliable estimates can be made of relevant deductions. Turnover represents net invoice value after the deduction of discounts and allowances given and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. Turnover also includes co-promotion income where the Group records its share of the revenue but no related cost of sales. Value added tax and other sales taxes are excluded from revenue.

Royalty income is recognised in other operating income on an accruals basis in accordance with the terms of the relevant licensing agreements.

Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Manufacturing start-up costs between validation and the achievement of normal production are expensed as incurred. Advertising and promotion expenditure is charged to the income statement as incurred. Shipment costs on intercompany transfers are charged to cost of sales; distribution costs on sales to customers are included in selling, general and administrative expenditure.

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

Research and development

Research and development expenditure is charged to the income statement in the period in which it is incurred. Development expenditure is capitalised when the criteria for recognising an asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable. Property, plant and equipment used for research and development is depreciated in accordance with the Group's policy.

Environmental expenditure

Environmental expenditure related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible is charged to the income statement. The Group recognises its liability on a site-by-site basis when it can be reliably estimated. This liability includes the Group's portion of the total costs and also a portion of other potentially responsible parties' costs when it is probable that they will not be able to satisfy their respective shares of the clean-up obligation. Recoveries of reimbursements are recorded as assets when virtually certain.

Legal and other disputes

Provision is made for the anticipated settlement costs of legal or other disputes against the Group where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. In addition, provision

is made for legal or other expenses arising from claims received or other disputes. In respect of product liability claims related to products where there is sufficient history of claims made and settlements, an incurred but not reported (IBNR) actuarial technique is used to determine a reasonable estimate of the Group's exposure to unasserted claims for those products and a provision is made on that basis.

No provision is made for other unasserted claims or where an obligation exists under a dispute but it is not possible to make a reasonable estimate. Costs associated with claims made by the Group against third parties are charged to the income statement as they are incurred.

Pensions and other post-employment benefits

The costs of providing pensions under defined benefit schemes are calculated using the projected unit credit method and spread over the period during which benefit is expected to be derived from the employees' services, consistent with the advice of qualified actuaries. Pension obligations are measured as the present value of estimated future cash flows discounted at rates reflecting the yields of high quality corporate bonds.

Table of Contents**Notes to the financial statements** continued**2 Accounting principles and policies** continued

Pension scheme assets are measured at fair value at the balance sheet date. Actuarial gains and losses, differences between the expected and actual returns of assets and the effect of changes in actuarial assumptions, are recognised in the statement of recognised income and expense in the year in which they arise. The Group's contributions to defined contribution plans are charged to the income statement as incurred. The costs of other post-employment liabilities are calculated in a similar way to defined benefit pension schemes and spread over the period during which benefit is expected to be derived from the employees' services, in accordance with the advice of qualified actuaries.

Employee share plans

Incentives in the form of shares are provided to employees under share option and share award schemes. The fair values of these options and awards are calculated at their grant dates using a Black-Scholes option pricing model and charged to the income statement over the relevant vesting periods.

The Group provides finance to ESOP Trusts to purchase company shares on the open market to meet the obligation to provide shares when employees exercise their options or awards. Costs of running the ESOP Trusts are charged to the income statement. Shares held by the ESOP Trusts are deducted from other reserves. A transfer is made between other reserves and retained earnings over the vesting periods of the related share options or awards to reflect the ultimate proceeds receivable from employees on exercise.

Property, plant and equipment

Property, plant and equipment (PP&E) is stated at the cost of purchase or construction less provisions for depreciation and impairment. Financing costs are not capitalised.

Depreciation is calculated to write off the cost less residual value of PP&E, excluding freehold land, using the straight-line basis over the expected useful life. Residual values and lives are reviewed, and where appropriate adjusted, annually. The normal expected useful lives of the major categories of PP&E are:

Freehold buildings	20 to 50 years
Leasehold land and buildings	Lease term or 20 to 50 years
Plant and machinery	10 to 20 years
Fixtures and equipment	3 to 10 years

On disposal of PP&E, the cost and related accumulated depreciation and impairments are removed from the financial statements and the net amount, less any proceeds, is taken to the income statement.

Leases

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

Goodwill

Goodwill is stated at cost less impairments. Goodwill is deemed to have an indefinite useful life and is tested for impairment annually.

Where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the consideration paid, this excess is recognised immediately as a gain in the income statement.

Other intangible assets

Intangible assets are stated at cost less provisions for amortisation and impairments.

Licences, patents, know-how and marketing rights separately acquired or acquired as part of a business combination are amortised over their estimated useful lives, not exceeding 25 years, using the straight-line basis, from the time they are available for use. The estimated useful lives for determining the amortisation charge take into account patent lives, where applicable, as well as the value obtained from periods of non-exclusivity. Asset lives are reviewed, and where appropriate adjusted, annually. Contingent milestone payments are recognised at the point that the contingent event becomes certain. Any development costs incurred by the Group and associated with acquired licences, patents, know-how or marketing rights are written off to the income statement when incurred, unless the criteria for recognition of an internally generated intangible asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

Acquired brands are valued independently as part of the fair value of businesses acquired from third parties where the brand has a value which is substantial and long-term and where the brands either are contractual or legal in nature or can be sold separately from the rest of the businesses acquired. Brands are amortised over their estimated useful lives, except where it is considered that the useful economic life is indefinite.

The costs of acquiring and developing computer software for internal use and internet sites for external use are capitalised as intangible fixed assets where the software or site supports a significant business system and the expenditure leads to the creation of a durable asset. ERP systems software is amortised over seven years and other computer software over three to five years.

Table of Contents

110 GSK Annual Report 2008

Financial statements

Notes to the financial statements continued

2 Accounting principles and policies continued**Impairment of non-current assets**

The carrying values of all non-current assets are reviewed for impairment when there is an indication that the assets might be impaired. Additionally, goodwill, intangible assets with indefinite useful lives and intangible assets which are not yet available for use are tested for impairment annually. Any provision for impairment is charged to the income statement in the year concerned.

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

Investments in associates and joint ventures

Investments in associates and joint ventures are carried in the consolidated balance sheet at the Group's share of their net assets at date of acquisition and of their post-acquisition retained profits or losses together with any goodwill arising on the acquisition.

Available-for-sale investments

Liquid investments and other investments are classified as available-for-sale investments and are initially recorded at fair value plus transaction costs and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses on available-for-sale investments are recognised directly in equity. Impairments arising from the significant or prolonged decline in fair value of an investment reduce the carrying amount of the asset directly and are charged to the income statement. On disposal or impairment of the investments, any gains and losses that have been deferred in equity are recycled into the income statement. Dividends on equity investments are recognised in the income statement when the Group's right to receive payment is established. Equity investments are recorded in non-current assets unless they are expected to be sold within one year.

Purchases and sales of equity investments are accounted for on the trade date and purchases and sales of other available-for-sale investments are accounted for on settlement date.

Inventories

Inventories are included in the financial statements at the lower of cost (including raw materials, direct labour, other direct costs and related production overheads) and net realisable value. Cost is generally determined on a first in, first out basis. Pre-launch inventory is held as an asset when there is a high probability of regulatory approval for the product. Before that point a provision is made against the carrying value to its recoverable amount; the provision is then reversed at the point when a high probability of regulatory approval is determined.

Trade receivables

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

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

Trade payables

Trade payables are held at amortised cost which equates to nominal value. Long-term payables are discounted where the effect is material.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions and highly liquid investments with original maturities of three months or less. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

Taxation

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date. Deferred tax liabilities and assets are not discounted.

Derivative financial instruments and hedging

Derivative financial instruments are used to manage exposure to market risks from treasury operations. The principal derivative instruments used by GlaxoSmithKline are foreign currency swaps, interest rate swaps and forward foreign exchange contracts. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

Table of Contents

GSK Annual Report 2008 111

Financial statements**Notes to the financial statements** continued**2 Accounting principles and policies** continued

Derivative financial instruments are classified as held-for-trading and are carried in the balance sheet at fair value. Derivatives designated as hedging instruments are classified on inception as cash flow hedges, net investment hedges or fair value hedges.

Changes in the fair value of derivatives designated as cash flow hedges are recognised in equity, to the extent that the hedges are effective. Ineffective portions are recognised in profit or loss immediately. Amounts deferred in equity are recycled to the income statement when the hedged item affects profit or loss.

Net investment hedges are accounted for in a similar way to cash flow hedges.

Changes in the fair value of derivatives designated as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Discounting

Where the time effect of money is material, balances are discounted to current values using appropriate rates of interest. The unwinding of the discounts is recorded in finance income/costs.

3 Key accounting judgements and estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported in the financial statements. Actual amounts and results could differ from those estimates. The following are considered to be the key accounting judgements and estimates made.

Turnover

Revenue is recognised when title and risk of loss is passed to the customer and reliable estimates can be made of relevant deductions. Gross turnover is reduced by rebates, discounts, allowances and product returns given or expected to be given, which vary by product arrangements and buying groups. These arrangements with purchasing organisations are dependent upon the submission of claims some time after the initial recognition of the sale. Accruals are made at the time of sale for the estimated rebates, discounts or allowances payable or returns to be made, based on available market information and historical experience.

Because the amounts are estimated they may not fully reflect the final outcome, and the amounts are subject to change dependent upon, amongst other things, the types of buying group and product sales mix.

The level of accrual is reviewed and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. Future events could cause the assumptions on which the accruals are based to change, which could affect the future results of the Group.

Where the Group co-promotes a product and the third party records the sale, the Group records its share of revenue as co-promotion income within turnover. The nature of co-promotion activities is such that the Group records no costs of sales. Pharmaceutical turnover includes co-promotion revenue of £378 million (2007 £274 million, 2006 - £182 million).

Taxation

Current tax is provided at the amounts expected to be paid, and deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts, at the rates that have been enacted or

substantively enacted by the balance sheet date.

The Group has open tax issues with a number of revenue authorities. GSK continues to believe that it has made adequate provision for the liabilities likely to arise from open assessments. Where open issues exist the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of negotiations with the relevant tax authorities or, if necessary, litigation proceedings.

Legal and other disputes

GSK provides for anticipated settlement costs where an outflow of resources is considered probable and a reasonable estimate may be made of the likely outcome of the dispute and legal and other expenses arising from claims against the Group.

The company's Directors, having taken legal advice, have established provisions after taking into account the relevant facts and circumstances of each matter and in accordance with accounting requirements. Provisions for product liability claims on certain products have been made on an incurred but not reported basis where sufficient history of claims made and settlements is available. No provisions have been made for other unasserted claims or for claims for which no reasonable estimate of the likely outcome can yet be made.

The ultimate liability for pending and unasserted claims may vary from the amounts provided, if any, and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

Table of Contents

112 GSK Annual Report 2008

Financial statements**Notes to the financial statements** continued**3 Key accounting judgements and estimates** continued**Property, plant and equipment**

The carrying values of property, plant and equipment are reviewed for impairment when there is an indication that the values of the assets might be impaired. Impairment is determined by reference to the higher of fair value less costs to sell and value in use, measured by assessing risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse effect on the future results of the Group.

Goodwill

Goodwill arising on business combinations is capitalised and allocated to an appropriate cash generating unit. It is deemed to have an indefinite life and so is not amortised. Annual impairment tests of the relevant cash generating units are performed. Impairment tests are based on established market multiples or risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse effect on the future results of the Group.

Other intangible assets

Where intangible assets are acquired by GSK from third parties the costs of acquisition are capitalised. Licences to compounds in development are amortised from the point at which they are available for use, over their estimated useful lives, which may include periods of non-exclusivity. Estimated useful lives are reviewed annually and impairment tests are undertaken if events occur which call into question the carrying values of the assets. Brands acquired with businesses are capitalised independently where they are separable and have an expected life of more than one year. Brands are amortised on a straight-line basis over their estimated useful lives, not exceeding 25 years, except where the end of the useful economic life cannot be foreseen. Where brands are not amortised, they are subject to annual impairment tests. Impairment tests are based on established market multiples or risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse effect on the future results of the Group.

Pensions and other post-employment benefits

The costs of providing pensions and other post-employment benefits are charged to the income statement in accordance with IAS 19 over the period during which benefit is derived from the employee's services. The costs are assessed on the basis of assumptions selected by management. These assumptions include future earnings and pension increases, discount rates, expected long term rates of return on assets and mortality rates, and are disclosed in Note 28,

Pensions and other post-employment benefits .

The expected long term rates of return on bonds are determined based on the portfolio mix of index-linked, government and corporate bonds. An equity risk premium is added to this for equities.

Discount rates are based on appropriate long-term indices, including the iBoxx over 15 year AA index for the UK, and Moody's Aa index for the USA. Sensitivity analysis is provided in Note 28, Pensions and other post-employment benefits , but a 0.25% reduction in the discount rate would lead to an increase in the net pension deficit of approximately £349 million and an increase in the annual pension cost of approximately £4 million. The selection of

different assumptions could affect the future results of the Group.

4 New accounting requirements

The following IFRS and IFRIC interpretations have been issued by the IASB and are likely to affect future Annual Reports, although none is expected to have a material impact on the results or financial position of the Group.

IFRS 8 *Operating segments* was issued in November 2006 and is required to be implemented by GSK from 1st January 2009. This standard replaces IAS 14 and aligns the segmental reporting requirements with those of the equivalent US standard, whereby segmental information is to be disclosed on the same basis as that used for internal reporting purposes. GSK is assessing the impact of this standard on the presentation of its segmental information.

IAS 23 (Revised) *Borrowing costs* was issued in March 2007 and will be implemented prospectively from 1st January 2009. It requires borrowing costs attributable to the acquisition or construction of certain assets to be capitalised. The option currently taken by GSK of expensing such costs as incurred will no longer be available.

Table of Contents**Notes to the financial statements** continued

IAS 1 (Revised) Presentation of financial statements was issued in September 2007 and will be effective from 1st January 2009. The amendments to the Standard mandate various presentation formats and disclosures, many of which are already adopted by GSK. Movements in equity will be presented in a Statement of changes in equity rather than as a note to the financial statements.

IFRS 2 (Revised) Share-based payment was issued in January 2008. The revised Standard will apply retrospectively from 1st January 2009 and specifies that all cancellations of share-based payment arrangements, including those by an employee or other counterparty, should receive the same accounting treatment of requiring immediate recognition in the income statement of the charge that would otherwise have been recognised over the remainder of the service period.

The IASB's annual improvements project was published in May 2008 and will be effective from 1st January 2009. The project makes minor amendments to a number of Standards on topics including investments in associates, intangible assets, borrowing costs and impairment of assets.

IFRS 3 (Revised) Business combinations was issued in January 2008 and will apply to business combinations arising from 1st January 2010. Amongst other changes, the new Standard will require recognition of subsequent changes in the fair value of contingent consideration in the income statement rather than against goodwill, and transaction costs to be recognised immediately in the income statement. Fair value gains or losses on existing investments in an acquired company will be recognised in the income statement at the date of acquisition.

IAS 27 (Revised) Consolidated and separate financial statements was issued in January 2008 and will be implemented at the same time as IFRS 3 (Revised). In respect of transactions with non-controlling interests in Group entities that do not result in a change of control, the revised Standard requires that the difference between the consideration paid or received and the recorded non-controlling interest is recognised in equity. In the case of divestment of a subsidiary, any retained interest will be remeasured to fair value and the difference between fair value and the previous carrying value will be recognised immediately in the income statement.

IFRS 3 (Revised) and IAS 27 (Revised) will both be applied prospectively to transactions occurring after the implementation date. It is therefore not possible to assess in advance their impact on the financial statements of the Group.

5 Exchange rates

The Group uses the average of exchange rates prevailing during the period to translate the results and cash flows of overseas subsidiaries, joint ventures and associated undertakings into Sterling and period end rates to translate the net assets of those undertakings. The currencies which most influence these translations and the relevant exchange rates were:

	2008	2007	2006
Average rates:			
£/US\$	1.85	2.00	1.85
£/Euro	1.26	1.46	1.47
£/Yen	192	235	215

Period end rates:

£/US\$	1.44	1.99	1.96
£/Euro	1.04	1.36	1.48
£/Yen	131	222	233

Table of Contents

114 GSK Annual Report 2008

Financial statements**Notes to the financial statements** continued**6 Segment information**

The Group's primary segment reporting is by business sector with geographical reporting being the secondary format. The business sectors consist of Pharmaceuticals and Consumer Healthcare. The geographical sectors of the USA, Europe and Rest of World reflect the Group's most significant regional markets and are consistent with the Group's regional market management reporting structure. Business sector data includes an allocation of corporate costs to each sector on an appropriate basis. There are no sales between business sectors. The Group's activities are organised on a global basis. The geographical sector figures are influenced by the location of the Group's operating resources, in particular manufacturing and research, and by variations over time in intra-Group trading and funding arrangements. Turnover is shown by business sector, by location of customer and by location of subsidiary. Operating profit is shown by business sector and by location of subsidiary. Other geographic information is given by location of subsidiary. Following a review of the strategic direction of the Group during the year, several entities have been reclassified from Europe to Rest of World. In addition, one entity in China has been reclassified from Pharmaceuticals to Consumer Healthcare. Comparative information has been restated onto a consistent basis.

	2008	2007	2006
	£m	(restated) £m	(restated) £m
Turnover by business sector			
Pharmaceuticals	20,381	19,163	20,013
Consumer Healthcare	3,971	3,553	3,212
Turnover	24,352	22,716	23,225
Profit by business sector			
Pharmaceuticals	6,331	6,877	7,108
Consumer Healthcare	810	716	700
Operating profit	7,141	7,593	7,808
Finance income	313	262	287
Finance costs	(843)	(453)	(352)
Share of after tax profits of associates and joint ventures:			
Pharmaceuticals	48	50	56
Consumer Healthcare			
Profit before taxation	6,659	7,452	7,799

Taxation	(1,947)	(2,142)	(2,301)
Profit after taxation for the year	4,712	5,310	5,498

Property, plant and equipment and other intangible assets by business sector

Additions			
Pharmaceuticals	2,173	2,562	
Consumer Healthcare	138	327	
Total additions	2,311	2,889	
Depreciation/amortisation			
Pharmaceuticals	(1,175)	(931)	
Consumer Healthcare	(56)	(91)	
Total depreciation/amortisation	(1,231)	(1,022)	
Impairment			
Pharmaceuticals	(391)	(216)	
Consumer Healthcare		(2)	
Total impairment	(391)	(218)	
Impairment reversal			
Pharmaceuticals	18	67	
Consumer Healthcare	2		
Total impairment reversal	20	67	

Table of ContentsGSK Annual Report 2008 **115**
Financial statements**Notes to the financial statements** continued**6 Segment information** continued

	2008	2007
	£m	(restated) £m
Investments in associates and joint ventures by business sector		
Pharmaceuticals	552	329
Consumer Healthcare		
Investment in associates and joint ventures	552	329
Total assets by business sector		
Pharmaceuticals	25,060	20,221
Consumer Healthcare	3,966	3,187
Total operating assets	29,026	23,408
Investments in associates and joint ventures	552	329
Liquid investments	391	1,153
Derivative financial instruments	963	476
Cash and cash equivalents	5,623	3,379
Current and deferred taxation	2,836	2,254
Assets held for sale	2	4
Total assets	39,393	31,003
Total liabilities by business sector		
Pharmaceuticals	(11,520)	(7,633)
Consumer Healthcare	(1,120)	(906)
Total operating liabilities	(12,640)	(8,539)
Short-term borrowings	(956)	(3,504)
Long-term borrowings	(15,231)	(7,067)

Derivative financial instruments	(754)	(270)
Current and deferred taxation	(1,494)	(1,713)
Total liabilities	(31,075)	(21,093)
Net assets by business sector		
Pharmaceuticals	13,540	12,588
Consumer Healthcare	2,846	2,281
Net operating assets	16,386	14,869
Net debt	(10,173)	(6,039)
Investments in associates and joint ventures	552	329
Derivative financial instruments	209	206
Current and deferred taxation	1,342	541
Assets held for sale	2	4
Net assets	8,318	9,910

Table of Contents

116 GSK Annual Report 2008

Financial statements**Notes to the financial statements** continued**6 Segment information** continued

	2008	2007	2006
	£m	(restated) £m	(restated) £m
Turnover by location of customer			
USA	9,746	10,168	11,102
Europe	8,262	7,107	6,905
Rest of World	6,344	5,441	5,218
Turnover	24,352	22,716	23,225
Turnover by location of subsidiary undertaking			
USA	10,209	10,400	11,362
Europe	14,744	14,009	14,007
Rest of World	8,782	10,911	9,349
Turnover including inter-segment turnover	33,735	35,320	34,718
USA	398	341	339
Europe	5,671	6,042	6,337
Rest of World	3,314	6,221	4,817
Inter-segment turnover	9,383	12,604	11,493
USA	9,811	10,059	11,023
Europe	9,073	7,967	7,670
Rest of World	5,468	4,690	4,532
External turnover	24,352	22,716	23,225

Operating profit by location of subsidiary undertaking

USA	1,951	2,849	2,495
Europe	2,963	3,671	2,701
Rest of World	2,227	1,073	2,612
Operating profit	7,141	7,593	7,808

Property, plant and equipment and other intangible asset additions by location

USA	589	1,172
Europe	1,512	1,456
Rest of World	210	261
Total additions	2,311	2,889

Total assets by location

USA	8,147	6,125
Europe	15,584	12,812
Rest of World	5,610	5,106
Inter-segment trading balances	(315)	(635)
Total operating assets	29,026	23,408

Table of ContentsGSK Annual Report 2008 **117**
Financial statements**Notes to the financial statements** continued**6 Segment information** continued

	2008	2007
	£m	£m
Net operating assets by location		
USA	2,245	2,385
Europe	10,119	9,212
Rest of World	4,022	3,272
Net operating assets	16,386	14,869

UK segment

The UK is included in the Group's Europe market region.

	2008	2007	2006
	£m	£m	£m
Turnover by location of customer	1,642	1,553	1,501
Turnover including inter-segment turnover	5,181	4,977	4,890
Inter-segment turnover	3,127	2,956	3,086
Turnover by location of subsidiary	2,054	2,021	1,804
Non-current assets	4,404	4,380	

7 Major restructuring programmes

In October 2007, GSK announced a significant new Operational Excellence programme to improve the effectiveness and productivity of its operations. A significant expansion of the Operational Excellence programme was approved by the Board and announced in February 2009. Total costs for the implementation of the expanded programme are expected to be approximately £3.6 billion, to be incurred over the period from 2007 to 2011. Approximately 40% of these costs were incurred by 31st December 2008, and approximately 35% are expected to be incurred in 2009, 20% 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 2009 and 2010. The programme is expected to deliver total annual pre-tax savings of up to £1.7 billion by 2011, with savings realised across the business. Costs of £1,084 million incurred in 2008 under the Operational Excellence programme have arisen in the following areas:

the commencement of the closure of a number of manufacturing sites, including Dartford and Crawley in the UK and Cidra in Puerto Rico, giving rise to asset write-downs, staff reductions and a foreign exchange loss on the liquidation of a subsidiary;

the adoption of more customised sales approaches, leading to staff reductions in a number of sales forces, principally in the USA;

cost saving projects in R&D, focused primarily on the simplification and streamlining of support infrastructure, and

projects to eliminate unnecessary processes and simplify continuing processes, leading to staff reductions in administrative and support functions.

In addition, costs of £34 million were incurred during the year under the restructuring programme related to the integration of the Reliant Pharmaceuticals, Inc. business in the USA, following its acquisition in December 2007.

Table of Contents**118** GSK Annual Report 2008**Financial statements****Notes to the financial statements** continued**7 Major restructuring programmes** continued

The analysis of the costs incurred under these programmes in 2008 and 2007 is as follows:

2008	Asset impairment £m	Staff reductions £m	Other costs £m	Total £m
Cost of sales	(181)	(370)	(88)	(639)
Selling, general and administration	(2)	(177)	(125)	(304)
Research and development	(14)	(143)	(18)	(175)
Effect on operating profit	(197)	(690)	(231)	(1,118)
Net finance expense				(5)
Effect on profit before taxation				(1,123)
Effect on taxation				284
Effect on earnings				(839)
2007	Asset impairment £m	Staff reductions £m	Total £m	
Cost of sales		(77)	(34)	(111)
Selling, general and administration		(1)	(136)	(137)
Research and development		(28)	(62)	(90)
Effect on profit before taxation		(106)	(232)	(338)
Effect on taxation				77
Effect on earnings				(261)

Asset impairments of £197 million (2007 £106 million) and other costs totalling £137 million (2007 £nil) are non-cash items. All other charges have been or will be settled in cash.

These restructuring costs are reported in the major restructuring column of the Income statement on page 102. There were no costs related to major restructuring programmes in 2006. Other costs related to minor restructuring activity initiated prior to October 2007 amounting to £20 million (2007 £92 million) are reported within Results before major

restructuring .

The costs of the major restructuring programmes have arisen as follows:

	2008	2007
	£m	£m
Increase in provision for major restructuring programmes (see Note 29)	(740)	(220)
Amount of provision reversed unused (see Note 29)	7	
Impairments to property, plant and equipment (see Note 17)	(197)	(106)
Foreign exchange loss recognised on liquidation of subsidiary	(84)	
Other non-cash charges	(53)	
Other cash costs	(51)	(12)
Net finance expense	(5)	
Effect on profit before taxation	(1,123)	(338)

Other non-cash charges are principally accelerated depreciation arising where asset lives have been shortened as a result of the major restructuring programmes. Other cash costs include consultancy and project management fees, the termination of leases and site closure costs.

Table of ContentsGSK Annual Report 2008 **119**
Financial statements**Notes to the financial statements** continued**8 Other operating income**

	2008	2007	2006
	£m	£m	£m
Royalty and milestone income	318	223	112
Impairment of equity investments	(63)	(19)	(14)
Disposal of equity investments	33	32	18
Disposal of other assets and legal settlements	260	181	151
Fair value adjustments on derivative financial instruments	(10)	41	29
Other income	3	17	11
	541	475	307

Royalty and milestone income is principally a core of recurring income from the out-licensing of intellectual property. Fair value adjustments on derivative financial instruments include movements on the now expired Quest collar and Theravance put and call options.

9 Operating profit

	2008	2007	2006
	£m	£m	£m
The following items have been included in operating profit:			
Employee costs (Note 10)	6,524	5,733	5,495
Advertising	805	744	759
Distribution costs	310	270	276
Depreciation of property, plant and equipment	920	796	732
Amortisation of intangible assets	311	226	226
Net foreign exchange (gains)/losses	(145)	(1)	36
Inventories:			
Cost of inventories included in cost of sales	5,734	4,784	4,480
Write-down of inventories	258	265	146
Reversal of prior year write-down of inventories	(118)	(103)	(93)
Operating lease rentals:			
Minimum lease payments	143	121	114
Contingent rents	15	13	11
Sub-lease payments	1	2	2
Fees payable to company's auditor for the audit of parent company and consolidated financial statements	1.6	1.8	1.7
Fees payable to the company's auditor and its associates for other services	17.6	14.5	15.9

The reversals of prior year write-downs of inventories principally arise from the reassessment of usage or demand expectations prior to inventory expiration.

	2008	2007	2006
Fees payable to the company's auditor and its associates for other services	£m	£m	£m
Audit of accounts of the Group's UK and overseas subsidiaries and related pension schemes of the company, pursuant to legislation	9.3	7.9	7.7
Other assurance services, pursuant to such legislation	2.9	2.9	4.4
Other tax services	2.5	2.5	1.9
All other services, including regulatory, compliance and treasury related services	2.9	1.2	1.9
	17.6	14.5	15.9

At 31st December 2008, the amount due to PricewaterhouseCoopers LLP and its associates for fees yet to be invoiced was £4.5 million, comprising statutory audit £4.0 million, taxation services £0.4 million and other services £0.1 million.

In 2008, fees payable to PricewaterhouseCoopers LLP and its associates increased by 10% in CER terms.

Fees in respect of the GlaxoSmithKline pension schemes included above:

	2008	2007	2006
	£m	£m	£m
Audit	0.4	0.2	0.3
Other services		0.1	0.1
	0.4	0.3	0.4

Table of Contents

120 GSK Annual Report 2008

Financial statements**Notes to the financial statements** continued**10 Employee costs**

	2008	2007	2006
	£m	£m	£m
Wages and salaries	4,640	4,444	4,363
Social security costs	653	527	461
Pension and other post-employment costs, including augmentations (Note 28)	505	313	377
Cost of share-based incentive plans	241	237	226
Severance and other costs from integration and restructuring activities	485	212	68
	6,524	5,733	5,495

In 2008, wages and salaries declined by 4% in CER terms.

The Group provides benefits to employees, commensurate with local practice in individual countries, including, in some markets, healthcare insurance, subsidised car schemes and personal life assurance.

The average number of persons employed by the Group (including Directors) during the year:

	2008	2007	2006
	Number	Number	Number
Manufacturing	33,372	33,975	32,403
Selling, general and administration	52,115	53,707	53,665
Research and development	15,646	15,719	15,734
	101,133	103,401	101,802

The average number of Group employees excludes temporary and contract staff. The numbers of Group employees at the end of each financial year are given in the Financial record on page 192. The average number of persons employed by GlaxoSmithKline plc in 2008 was nil (2007 nil).

The compensation of the Directors and Senior Management (members of the CET) in aggregate, was as follows:

	2008	2007	2006
	£m	£m	£m
Wages and salaries	17	16	15
Social security costs	1	1	1
Pension and other post-employment costs	3	3	3
Cost of share-based incentive plans	12	15	14

33	35	33
-----------	----	----

11 Finance income

	2008	2007	2006
	£m	£m	£m
Interest income arising from:			
cash and cash equivalents	107	98	168
available-for-sale investments	31	49	35
derivatives at fair value through profit or loss	159	79	59
loans and receivables	22	27	21
Realised gains on liquid investments	2	1	1
Fair value adjustments on derivatives at fair value through profit or loss	4		4
Net investment hedge ineffectiveness	(13)	7	(2)
Unwinding of discounts on assets	1	1	1
	313	262	287

All derivatives at fair value through profit or loss other than designated and effective hedging instruments (see Note 41, Financial instruments and related disclosures) are classified as held-for-trading financial instruments under IAS 39. Interest income arising from derivatives at fair value through profit or loss relates to swap interest income.

Table of ContentsGSK Annual Report 2008 **121**
Financial statements**Notes to the financial statements** continued**12 Finance costs**

	2008	2007	2006
	£m	£m	£m
Interest expense arising on:			
financial liabilities at amortised cost	(664)	(313)	(241)
derivatives at fair value through profit or loss	(165)	(121)	(73)
Fair value hedges:			
fair value adjustments on derivatives designated as hedging instruments	92	10	(31)
fair value adjustments on hedged items	(90)	(8)	28
Fair value adjustments on other derivatives at fair value through profit or loss		6	1
Unwinding of discounts on provisions	(16)	(27)	(36)
	(843)	(453)	(352)

All derivatives at fair value through profit or loss except designated and effective hedging instruments are classified as held-for-trading financial instruments under IAS 39.

13 Associates and joint ventures

	2008	2007	2006
	£m	£m	£m
Associates:			
Share of after tax profits of Quest Diagnostics Inc.	47	48	59
Share of after tax losses of other associates	(3)	(3)	(2)
	44	45	57
Share of after tax profits/(losses) of joint ventures	4	5	(1)
	48	50	56
Share of turnover of joint ventures	13	13	21
Sales to joint ventures and associates	9	9	18

Summarised income statement information in respect of the Group's associates is set out below:

	2008	2007	2006
	£m	£m	£m

Total turnover:

Quest Diagnostics Inc.	3,919	3,352	3,389
Others	3		3
	3,922	3,352	3,392
Total profit:			
Quest Diagnostics Inc.	314	170	317
Others	(7)	(3)	(2)
	307	167	315

Table of Contents

122 GSK Annual Report 2008

Financial statements**Notes to the financial statements** continued**14 Taxation**

	2008	2007	2006
	£m	£m	£m
Taxation charge based on profits for the year			
UK corporation tax at the UK statutory rate	2,213	791	2,512
Less double taxation relief	(1,924)	(339)	(2,112)
	289	452	400
Overseas taxation	1,589	1,962	2,310
Current taxation	1,878	2,414	2,710
Deferred taxation	69	(272)	(409)
	1,947	2,142	2,301
	2008	2007	2006
	%	%	%
Reconciliation of the taxation rate on Group profits			
UK statutory rate of taxation	28.5	30.0	30.0
Overseas taxes	1.9	4.3	4.2
Benefit of special tax status	(2.4)	(3.6)	(5.2)
R&D credits	(1.3)	(1.5)	(1.3)
Intercompany stock profit	2.1	(0.8)	(1.9)
Impact of share based payments	0.7	0.6	0.5
Tax on profit of associates	(0.4)	(0.3)	(0.4)
Other differences	1.2	(0.3)	0.3
Prior year items	(1.6)	0.1	3.3
Restructuring	0.5	0.2	
Tax rate	29.2	28.7	29.5

Additional UK corporation tax and double taxation relief in 2008 arise from dividends received from overseas subsidiaries.

The Group operates in countries where the tax rate differs from the UK tax rate. The impact of these overseas taxes on the overall rate of tax is shown above. Profits arising from certain operations in Singapore, Puerto Rico and Ireland are accorded special status and are taxed at reduced rates compared with the normal rates of tax in these territories. The effect of this reduction in the taxation charge increased earnings per share by 2.8p in 2008, 4.9p in 2007 and 7.2p in 2006. The Group is required under IFRS to create a deferred tax asset in respect of unrealised intercompany profit arising on inventory held by the Group at the year-end by applying the tax rate of the country in which the inventory is

held (rather than the tax rate of the country where the profit was originally made and the tax paid, which is the practice under UK and US GAAP). As a result of this difference in accounting treatment the Group tax rate under IFRS increased by 2.1% in 2008 (2007 0.8% decrease, 2006 1.9% decrease) arising from changes in work-in-progress and finished goods.

The integrated nature of the Group's worldwide operations, involving significant investment in research and strategic manufacture at a limited number of locations, with consequential cross-border supply routes into numerous end-markets, gives rise to complexity and delay in negotiations with revenue authorities as to the profits on which individual Group companies are liable to tax. Resolution of such issues is a continuing fact of life for GSK. The Group's main open tax issues are in the USA, Canada and Japan.

In July, following discussions with HMRC, the Group settled substantially all outstanding UK tax issues for all periods up to and including 31st December 2006.

Following its audit of the period 2001 to 2003, the IRS issued Statutory Notices of Deficiency to GSK asserting income and withholding tax deficiencies, and associated penalties, arising from its reclassification of an intercompany financing arrangement in those years from debt to equity, and its consequent recharacterisation of the amounts paid as dividends subject to withholding tax under the US-UK treaty. All amounts due under the financing arrangement were paid on a timely basis, with the final payment made in April 2008. The IRS commenced its audit of the period 2004 to 2006 in June 2008 and is examining the issue for these years. GSK disagrees with the IRS position and, in August 2008, initiated actions in the United States Tax Court to contest the Statutory Notices of Deficiency. GSK estimates that the IRS claim for tax, penalties, and interest at 31st December 2008, net of federal tax relief, for 2001 to 2003 is \$864 million. GSK believes that this claim has no merit and that no adjustment is warranted. If, contrary to GSK's view, the IRS prevailed in its argument before a court in respect of the years 2001 to 2003, GSK would expect to have an additional liability for the five year period 2004-2008 in the amount of \$1,059 million in tax, penalties, and interest at 31st December 2008, net of federal tax relief for those years. In the event that the company is not able to resolve this issue with the IRS, a court decision would not be expected before 2011.

Table of ContentsGSK Annual Report 2008 **123**
Financial statements**Notes to the financial statements** continued**14 Taxation** continued

Lower courts in Japan have upheld claims by the tax authorities for Yen 39 billion (£177 million) relating to Japanese CFC legislation. The company has paid and fully provided for the full tax but is pursuing a claim for refund to the Japanese Supreme Court. In Canada a court decision in respect of transfer pricing in the early 1990s was completed in May 2008. GSK filed an appeal in June and a court date is awaited.

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.

No provision has been made for taxation which would arise on the distribution of profits retained by overseas subsidiary and associated undertakings, on the grounds that no remittance of profit retained at 31st December 2008 is required in such a way that incremental tax will arise. The aggregate amount of these unremitted profits at the balance sheet date was approximately £28 billion (2007 £31 billion).

Movement on current tax account	Payable £m	Recoverable £m	Net £m
At 1st January 2008	(826)	58	(768)
Exchange adjustments	(109)	15	(94)
Charge for the year	(1,687)	(191)	(1,878)
Cash paid	1,663	187	1,850
Transfer to/from deferred tax	138		138
Other movements	41	7	48
At 31st December 2008	(780)	76	(704)

Movement in deferred tax assets and liabilities

Deferred taxation asset/(liability)	Accelerated		Intra- group	Pensions & other retirement benefits	Tax losses	Legal & disputes	Manu- facturing & restructur- ing	Share valuation adjustments	Other net temporary differences	Offset within countries	Total	
	capital allowances	intangibles										£m
Deferred tax asset at 1st January 2008	4	94	1,140	458	137	170	108	18	101	640	(674)	2,196
Deferred tax liability at 1st January 2008	(596)	(782)		(2)				(127)		(54)	674	(887)
At 1st January 2008	(592)	(688)	1,140	456	137	170	108	(109)	101	586		1,309

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

Exchange adjustments	(44)	(145)	250	182	52	72	17	(55)		196		525
(Charge)/credit to income statement	(69)	61	(156)	52	(41)	3	83	(68)	6	60		(69)
Credit/(charge) to equity				441					(5)	6		442
Transfer to/from current tax	2			(69)		4	(46)			(29)		(138)
Acquisitions		(46)			25					(2)		(23)
At 31st December 2008	(703)	(818)	1,234	1,062	173	249	162	(232)	102	817		2,046
Deferred tax assets at 31st December 2008	23	152	1,234	1,062	196	249	162	15	102	830	(1,265)	2,760
Deferred tax liability at 31st December 2008	(726)	(970)			(23)			(247)		(13)	1,265	(714)
	(703)	(818)	1,234	1,062	173	249	162	(232)	102	817		2,046

The deferred tax charge to income relating to changes in tax rates is £18 million. All other deferred tax movements arise from the origination and reversal of temporary differences. Other net temporary differences include accrued expenses and other provisions.

Table of Contents

124 GSK Annual Report 2008

Financial statements**Notes to the financial statements** continued**14 Taxation** continued

At 31st December 2008, the Group had recognised a deferred tax asset of £173 million (2007 £137 million) in respect of income tax losses of approximately £566 million (2007 £494 million). Of these losses, £142 million (2007 £139 million) are due to expire between 2009-2019, £357 million (2007 £327 million) are due to expire between 2020-2028 and £67 million (2007 £28 million) are available indefinitely. At 31st December 2008, the Group had not recognised any deferred tax asset in respect of income tax losses of approximately £4,526 million (2007 £3,688 million), of which £37 million (2007 £62 million) are due to expire between 2009-2019, £66 million (2007 £45 million) are due to expire between 2020-2028 and £4,423 million (2007 £3,581 million) which are available indefinitely. The Group had capital losses at 31st December 2008 of approximately £5 billion in respect of which no deferred tax asset has been recognised. Deferred tax assets are recognised where it is probable that future taxable profit will be available to utilise losses.

15 Earnings per share

	2008	2007	2006
	pence	pence	pence
Basic earnings per share	88.6	94.4	95.5
Adjustment for major restructuring	16.1	4.7	
Results before major restructuring earnings per share (basic)	104.7	99.1	
Diluted earnings per share	88.1	93.7	94.5
Adjustment for major restructuring	16.0	4.6	
Results before major restructuring earnings per share (diluted)	104.1	98.3	

Basic and adjusted earnings per share have been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the period after deducting shares held by the ESOP Trusts and Treasury shares.

Adjusted earnings per share is calculated using results before major restructuring earnings. The calculation of results before major restructuring is described in Note 1 Presentation of the financial statements.

Diluted earnings per share have been calculated after adjusting the weighted average number of shares used in the basic calculation to assume the conversion of all potentially dilutive shares. A potentially dilutive share forms part of the employee share schemes where its exercise price is below the average market price of GSK shares during the period and any performance conditions attaching to the scheme have been met at the balance sheet date.

The numbers of shares used in calculating basic and diluted earnings per share are reconciled below.

	2008	2007	2006
	millions	millions	millions
Weighted average number of shares in issue			
Basic	5,195	5,524	5,643

Dilution for share options	31	43	57
Diluted	5,226	5,567	5,700

Shares held by the ESOP Trusts are excluded. The trustees have waived their rights to dividends on the shares held by the ESOP Trusts.

Table of Contents**Notes to the financial statements** continued**16 Dividends**

	First interim	Second interim	Third interim	Fourth interim	Total
2008					
Total dividend (£m)	683	679	730	860	2,952
Dividend per share (pence)	13	13	14	17	57
Paid/payable	10th July 2008	9th October 2008	8th January 2009	9th April 2009	
2007					
Total dividend (£m)	670	667	708	859	2,904
Dividend per share (pence)	12	12	13	16	53
Paid	12th July 2007	11th October 2007	10th January 2008	10th April 2008	
2006					
Total dividend (£m)	619	620	671	785	2,695
Dividend per share (pence)	11	11	12	14	48
Paid	6th July 2006	5th October 2006	4th January 2007	12th April 2007	

Under IFRS interim dividends are only recognised in the financial statements when paid and not when declared. GSK normally pays a dividend two quarters after the quarter to which it relates and one quarter after it is declared. The 2008 financial statements recognise those dividends paid in 2008, namely the third and fourth interim dividends for 2007 and the first and second interim dividends for 2008. The amounts recognised in each year are as follows:

	2008 £m	2007 £m	2006 £m
Dividends to shareholders	2,929	2,793	2,598

17 Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Assets in construction £m	Total £m
Cost at 1st January 2007	4,244	7,776	1,423	13,443
Exchange adjustments	143	229	61	433
Additions	140	401	1,042	1,583
Additions through business combinations	1	7		8
Disposals and write-offs	(20)	(309)	(16)	(345)
Reclassifications	134	418	(552)	
Transfer to assets held for sale	(8)	(25)	(2)	(35)
Cost at 31st December 2007	4,634	8,497	1,956	15,087
Exchange adjustments	1,046	1,471	442	2,959
Additions	124	425	895	1,444
Additions through business combinations	13	7		20
Disposals and write-offs	(128)	(356)	(27)	(511)
Reclassifications	292	643	(944)	(9)
Transfer to assets held for sale	(2)	(1)		(3)
Cost at 31st December 2008	5,979	10,686	2,322	18,987

Table of Contents

126 GSK Annual Report 2008

Financial statements**Notes to the financial statements** continued**17 Property, plant and equipment** continued

	Land and buildings £m	Plant, equipment and vehicles £m	Assets in construction £m	Total £m
Depreciation at 1st January 2007	(1,325)	(4,805)		(6,130)
Exchange adjustments	(45)	(125)		(170)
Provision for the year	(177)	(619)		(796)
Disposals and write-offs	10	242		252
Transfer to assets held for sale	3	17		20
Depreciation at 31st December 2007	(1,534)	(5,290)		(6,824)
Exchange adjustments	(385)	(914)		(1,299)
Provision for the year	(228)	(692)		(920)
Disposals and write-offs	85	265		350
Transfer to assets held for sale		1		1
Depreciation at 31st December 2008	(2,062)	(6,630)		(8,692)
Impairment at 1st January 2007	(141)	(231)	(11)	(383)
Exchange adjustments	(2)	(3)	(1)	(6)
Disposals and write-offs	7	32	5	44
Impairment losses	(29)	(53)	(82)	(164)
Reversal of impairments	43	16	8	67
Impairment at 31st December 2007	(122)	(239)	(81)	(442)
Exchange adjustments	(22)	(27)	(14)	(63)
Disposals and write-offs	50	67	27	144
Impairment losses	(70)	(176)	(20)	(266)
Reclassifications		(44)	44	
Reversal of impairments	3	7		10
Impairment at 31st December 2008	(161)	(412)	(44)	(617)

Total depreciation and impairment at 31st December 2007	(1,656)	(5,529)	(81)	(7,266)
Total depreciation and impairment at 31st December 2008	(2,223)	(7,042)	(44)	(9,309)
Net book value at 1st January 2007	2,778	2,740	1,412	6,930
Net book value at 31st December 2007	2,978	2,968	1,875	7,821
Net book value at 31st December 2008	3,756	3,644	2,278	9,678

The net book value at 31st December 2008 of the Group's land and buildings comprises freehold properties £3,510 million (2007 £2,752 million), properties with leases of 50 years or more £185 million (2007 £168 million) and properties with leases of less than 50 years £61 million (2007 £58 million).

Included in land and buildings at 31st December 2008 are leased assets with a cost of £519 million (2007 £424 million), accumulated depreciation of £263 million (2007 £198 million), impairment of £8 million (2007 £nil) and a net book value of £248 million (2007 £226 million). Included in plant, equipment and vehicles at 31st December 2008 are leased assets with a cost of £77 million (2007 £180 million), accumulated depreciation of £36 million (2007 £81 million), and a net book value of £41 million (at 1st January 2008 £99 million). Some lease agreements include renewal or purchase options or escalation clauses.

Table of ContentsGSK Annual Report 2008 **127**
Financial statements**Notes to the financial statements** continued**17 Property, plant and equipment** continued

The impairment losses principally arise from decisions to rationalise facilities and are calculated based on either fair value less costs to sell or value in use. The value in use calculations determine the net present value of the projected risk-adjusted, post-tax cash flows of the relevant asset or cash generating unit, applying a discount rate of the Group post-tax weighted average cost of capital (WACC) of 8%, adjusted where appropriate for country specific risks.

Where an impairment is indicated and a pre-tax cash flow calculation is expected to give a materially different result, the test would be reperformed using pre-tax cash flows and a pre-tax discount rate. The Group WACC is equivalent to a pre-tax discount rate of approximately 11%. The impairment losses have been charged through cost of sales (£209 million), R&D (£47 million) and SG&A (£10 million), and include £197 million (2007 £106 million) arising from the major restructuring programmes.

Reversals of impairment arise from subsequent reviews of the impaired assets where the conditions which gave rise to the original impairments are deemed no longer to apply. All of the reversals have been credited to cost of sales.

18 Goodwill

	2008	2007
	£m	£m
Cost at 1st January	1,370	758
Exchange adjustments	437	81
Additions through business combinations	294	533
Impairments		(2)
Cost at 31st December	2,101	1,370
Net book value at 1st January	1,370	758
Net book value at 31st December	2,101	1,370

The additions in the year, translated at acquisition exchange rates, comprise £242 million on the acquisition of Sirtris Pharmaceuticals Inc. and £52 million on the acquisition of the BMS Egypt business. See Note 38,

Acquisitions and disposals for further details.

The carrying value of goodwill, translated at year-end exchange rates, is made up of balances arising on acquisition of the following companies:

		2008	2007
	Cash generating unit	£m	£m
Reliant Pharmaceuticals, Inc.	US Pharmaceuticals	485	356

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

ID Biomedical Corporation	Vaccines	404	367
Sirtris Pharmaceuticals, Inc.	Worldwide Pharmaceuticals	329	
GlaxoSmithKline K.K.	Japan Pharmaceuticals	238	140
Domantis Limited	Worldwide Pharmaceuticals	181	181
CNS, Inc.	Consumer Healthcare	153	111
Polfa Poznan S.A.	Poland Pharmaceuticals	128	111
	Emerging Markets	48	
BMS Egypt	Pharmaceuticals		
Corixa Corporation	Vaccines	33	24
Others		102	80
		2,101	1,370

Table of Contents

128 GSK Annual Report 2008

Financial statements**Notes to the financial statements** continued**18 Goodwill** continued

Goodwill is allocated to cash generating units which are tested for impairment at least annually. The valuations of the Worldwide Pharmaceuticals cash generating unit (for Sirtris Pharmaceuticals and Domantis) and the US Pharmaceuticals cash generating unit (for Reliant Pharmaceuticals) have both been prepared on a fair value less costs to sell basis, using turnover and earnings multiples derived from observed market data. In each case the value of goodwill inherent in the cash generating units is considerably in excess of the book values of the acquired goodwill. The recoverable amounts of the other cash generating units are assessed using either a value in use or a fair value less costs to sell model. Value in use is calculated as the net present value of the projected risk-adjusted post-tax cash flows plus a terminal value of the cash generating unit to which the goodwill is allocated. Initially a post-tax discount rate is applied to calculate the net present value of the post-tax cash flows. The post-tax discount rate used is based on the Group WACC of 8%, as most cash generating units have integrated operations across large parts of the Group. The discount rate is increased where specific country risks are sufficiently significant to have a material impact on the outcome of the impairment test. The Group WACC is equivalent to a pre-tax discount rate of approximately 11%. Where the impairment test indicates that the recoverable value of the unit is close to or below its carrying value, it is reperformed using a pre-tax discount rate and pre-tax cash flows in order to determine if an impairment exists and to establish its magnitude.

Fair value is calculated using a similar discounted cash flow approach based on the Group's acquisition valuation model. A post-tax discount rate is applied to the projected risk-adjusted post-tax cash flows and terminal value. Details relating to the discounted cash flow models used in the impairment tests of the other significant goodwill balances are as follows:

	Vaccines CGU for ID Biomedical	Japan Pharmaceuticals CGU for GlaxoSmithKline KK	Consumer Healthcare CGU for CNS	Poland Pharmaceuticals CGU for Polfa Poznan
Valuation basis	Fair value less costs to sell	Fair value less costs to sell	Fair value less costs to sell	Value in use
Assumptions	Sales growth rates Profit margins Discount rate	Sales growth rates Profit margins Discount rate	Sales growth rates Advertising and promotion investment Terminal growth rate	Sales growth rates Profit margins Discount rate
Determination of assumptions	Growth rates are internal forecasts based on both internal and external market information. Margins reflect past experience, adjusted for expected changes. Discount rate based on Group WACC.	Growth rates are internal forecasts based on both internal and external market information. Margins reflect past experience, adjusted for expected changes. Discount rate based on Group WACC.	Growth rates are internal forecasts based on both internal and external market information. Advertising and promotion investment based on historical levels adjusted for management's view of support needed for innovation and expansion. Terminal	Growth rates are internal forecasts based on both internal and external market information. Margins reflect past experience, adjusted for expected changes. Discount rate based on Group WACC.

growth rate based on management's estimate of future long-term average growth rates.

Period of specific projected cash flows	5 years	5 years	4 years	5 years
Discount rate	8%	8%	8%	8%
Terminal growth rate	2% p.a.	2% p.a.	3% p.a.	13% p.a. decline.

The terminal growth rates do not exceed the long-term projected growth rates for the relevant markets. The terminal growth rate used in the value in use calculation for the Poland Pharmaceuticals CGU reflects the impact of future generic competition and takes no account of new product launches. The Consumer Healthcare cash generating unit comprises a collection of smaller cash generating units including brands with indefinite lives with a carrying value of £1,794 million (2007 £1,332 million) as detailed in Note 19 Other intangible assets.

In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

Table of Contents**Notes to the financial statements continued****19 Other intangible assets**

	Computer software £m	Licences, patents, etc. £m	Amortised brands £m	Indefinite life brands £m	Total £m
Cost at 1st January 2007	715	2,282	64	1,309	4,370
Exchange adjustments	9	128	(1)	44	180
Capitalised internal development costs	41	6			47
Additions through business combinations	1	670			671
Other additions	44	333	203		580
Disposals and asset write-offs	(8)	(26)			(34)
Transfer to assets held for sale	(1)				(1)
Cost at 31st December 2007	801	3,393	266	1,353	5,813
Exchange adjustments	110	738	65	371	1,284
Capitalised internal development costs	27				27
Additions through business combinations		171			171
Other additions	58	492		99	649
Disposals and asset write-offs	(2)				(2)
Reclassifications	9				9
Cost at 31st December 2008	1,003	4,794	331	1,823	7,951
Amortisation at 1st January 2007	(444)	(475)	(4)		(923)
Exchange adjustments	(8)	(13)	(1)		(22)
Provision for the year	(80)	(141)	(5)		(226)
Disposals and asset write-offs	1	7			8
Transfer to assets held for sale	1				1
Amortisation at 31st December 2007	(530)	(622)	(10)		(1,162)
Exchange adjustments	(75)	(168)	(3)		(246)
Provision for the year	(96)	(204)	(11)		(311)
Disposals and asset write-offs	3	(1)			2
Amortisation at 31st December 2008	(698)	(995)	(24)		(1,717)
Impairment at 1st January 2007	(24)	(109)		(21)	(154)
Exchange adjustments		(6)			(6)
Impairment losses		(54)			(54)

Edgar Filing: GLAXOSMITHKLINE PLC - Form 20-F

Disposals and asset write-offs		19			19
Impairment at 31st December 2007	(24)	(150)		(21)	(195)
Exchange adjustments	(1)	(46)		(8)	(55)
Impairment losses	(7)	(118)			(125)
Impairment reversals		10			10
Impairment at 31st December 2008	(32)	(304)		(29)	(365)
Total amortisation and impairment at 31st December 2007	(554)	(772)	(10)	(21)	(1,357)
Total amortisation and impairment at 31st December 2008	(730)	(1,299)	(24)	(29)	(2,082)
Net book value at 1st January 2007	247	1,698	60	1,288	3,293
Net book value at 31st December 2007	247	2,621	256	1,332	4,456
Net book value at 31st December 2008	273	3,495	307	1,794	5,869

Table of Contents

130 GSK Annual Report 2008

Financial statements**Notes to the financial statements** continued**19 Other intangible assets** continued

Amortisation and impairment losses, net of reversals, have been charged in the income statement as follows:

	2008	Amortisation	Net impairment	
	2007	2008	2007	2007
	£m	£m	£m	£m
Cost of sales	34	32		
Selling, general and administration	181	123	25	3
Research and development	96	71	90	51
	311	226	115	54

The additions through business combinations in the year of £171 million comprise £106 million acquired with the acquisition of Sirtris Pharmaceuticals and £65 million acquired with the acquisition of BMS Egypt (see Note 38, Acquisitions and disposals). At 31st December 2008, the net book value included £795 million arising from the acquisition of Reliant Pharmaceuticals Inc. in 2007 and £654 million arising from the acquisition of ID Biomedical Corporation in 2005. It also included £132 million (2007 £136 million) of internally generated costs of which £125 million (2007 £130 million) related to computer software and £7 million (2007 £6 million) related to compounds in development.

Amortised brands include OTC rights relating to *alli*, with a book value at 31st December 2008 of £294 million (2007 £249 million).

Indefinite life brands comprise a portfolio of Consumer Healthcare products acquired with the acquisitions of Sterling Winthrop, Inc. in 1994, Block Drug Company, Inc. in 2001 and CNS, Inc. in 2006. The book values of the major brands are as follows:

	2008	2007
	£m	£m
<i>Panadol</i>	411	330
<i>Sensodyne</i>	289	231
<i>Breathe Right</i>	216	165
<i>Polident</i>	123	98
<i>Corega</i>	109	87
<i>Biotene</i>	99	
<i>Poligrip</i>	75	60
<i>Solpadeine</i>	60	57
Others	412	304
	1,794	1,332

Each of these brands is considered to have an indefinite life, given the strength and durability of the brand and the level of marketing support. The brands are in relatively similar stable and profitable market sectors, with similar risk profiles, and their size, diversification and market shares mean that the risk of market-related factors causing a reduction in the lives of the brands is considered to be relatively low. The Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factor which could limit their useful lives. Accordingly, they are not amortised.

Each brand is tested annually for impairment applying a fair value less costs to sell methodology, generally using four year post-tax cash flow forecasts with a terminal value calculation and a discount rate equal to the Group post-tax weighted average cost of capital of 8%, adjusted where appropriate for country-specific risks. The main assumptions include future sales price and volume growth, product contribution and the future expenditure required to maintain the product's marketability and registration in the relevant jurisdictions. These assumptions are based on past experience and are reviewed as part of management's budgeting and strategic planning cycle for changes in market conditions and sales erosion through competition. The terminal growth rates applied of between 2% and 3% are management's estimates of future long-term average growth rates of the relevant markets. In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of these brands.

Table of ContentsGSK Annual Report 2008 **131**
Financial statements**Notes to the financial statements** continued**20 Investments in associates and joint ventures**

	Joint ventures £m	Associated undertakings £m	2008 Total £m	Joint ventures £m	Associated undertakings £m	2007 Total £m
At 1st January	15	314	329	16	279	295
Exchange adjustments	6					