

GLAXOSMITHKLINE PLC  
Form 20-F  
March 01, 2010

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

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

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

**OR**

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

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

**OR**

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

**OR**

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

**Commission file number 1-15170**

**GlaxoSmithKline plc**

(Exact name of Registrant as specified in its charter)

**England**

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Simon Bicknell

Company Secretary

GlaxoSmithKline plc

980 Great West Road

Brentford, TW8 9GS

England

+44 20 8047 5000

company.secretary@gsk.com

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

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

<b>Title of Each Class</b>	<b>Name of Each Exchange On Which Registered</b>
American Depositary Shares, each representing 2 Ordinary Shares, Par value 25 pence	New York Stock Exchange
4.850% Notes due 2013	New York Stock Exchange
5.650% Notes due 2018	New York Stock Exchange
6.375% Notes due 2038	New York Stock Exchange

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Floating Rate Notes due 2010  
Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

(Title of class)

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

**None**

(Title of class)

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

Ordinary Shares of Par value 25 pence each

5,190,934,201

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17  Item 18

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

Yes  No



**Cautionary statement regarding forward-looking statements**

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

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

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**Contents****Business review**

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

**Governance and remuneration**

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

**Financial statements**

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

**Shareholder information**

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

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

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

**Report of the Directors**

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

**Business review**

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**Chairman & CEO summary**

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

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

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

**Return to sales growth**

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

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

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

**New product momentum sustained**

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

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

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

**Improving return on investment**

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

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

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

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

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

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

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

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

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

**Progressive dividend**

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

**Improving long-term prospects**

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

Sir Christopher Gent  
Chairman

Andrew Witty  
Chief Executive Officer

GSK Annual Report 2009

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## Our strategy

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

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

### Strategic priorities

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

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

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



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## 2009 performance overview

### Key performance indicators

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

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

The calculation of CER growth is described on page 10.

### Our strategies

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

#### Grow a diversified global business

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

#### Deliver more products of value

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

#### Simplifying the operating model

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

GSK Annual Report 2009

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

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

Performance of core pharmaceuticals and vaccines businesses

**Our progress in 2009**

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

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

Diversification of sales

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

Contribution of Emerging Markets to our overall sales and growth

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

We completed 10 bolt-on acquisitions in 2009.

Growth of Consumer Healthcare market share

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

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

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

Delivery of major restructuring programme

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

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**Report of the Directors**

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

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EX-4.5

EX-12.1

EX-12.2

EX-13.1

EX-15.1

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

**Business review**

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

**Corporate governance**

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

**Remuneration Report**

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

**Financial trends**

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

**Results before major restructuring**

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

**Research and development total**

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

**Net finance cost cover total**

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

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

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

**Borrowings**

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

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

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

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**History and development of the company**

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