



# Our mission

At GSK our mission is to improve the quality of human life by enabling people to do more, feel better and live longer.

Front cover image



Alex Szabzon

A child being seen by a doctor working for Brazil's unified health system, which provides 95% of scheduled vaccinations in the country. We have a long-standing relationship with the government-funded science institution, Oswaldo Cruz Foundation, to manufacture vaccines for public health priorities in Brazil. This began with our first alliance in the 1980s on polio vaccines and continues through to recent technology transfers for products like our pneumococcal vaccine. Brazil is one of a number of large emerging market countries in which we are present and more than a quarter of the Group's total revenues are now generated in these countries.

#### 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 1-136 and 239-244 which includes a business review on pages 1 to 86. 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 1-136 and 239-244 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.

#### Website

GlaxoSmithKline's website [www.gsk.com](http://www.gsk.com) gives additional information on the Group. Notwithstanding the references we make in this Annual Report to GlaxoSmithKline's website, none of the information made available on the website constitutes part of this Annual Report or shall be deemed to be incorporated by reference herein.

#### 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', 'believe' and 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 78-86 of this Annual Report.

A number of adjusted measures are used to report the performance of our business. These measures are defined on page 56.

#### 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 *Boniva/Bonviva*, a trademark of Roche, *NicoDerm*, a trademark of Johnson & Johnson, Merrell, Novartis, Sanofi or GlaxoSmithKline, *Potiga*, a trademark of Valeant, *Prolia* and *Xgeva*, trademarks of Amgen, *Vesicare*, a trademark of Astellas Pharmaceuticals in

## Overview

## GSK in 2012

As a global healthcare company, our commercial success depends on us creating innovative new medicines, vaccines and healthcare products and making these accessible to as many people who need them as possible.

2012 was characterised by a challenging global economic climate. Despite this, we have continued to make good progress in our strategy to grow our business in a sustainable way, deliver new medicines and healthcare products that are valued by those who use them, and simplify our operations.

All of this has allowed us to deliver significant returns to our shareholders.

▶ Read more at [www.gsk.com](http://www.gsk.com)

## Highlights

**£26.4<sup>bn</sup>**

Total Group turnover

**£8.3<sup>bn</sup>**

Core\* operating profit

**£7.4<sup>bn</sup>**

Total operating profit

**£6.3<sup>bn</sup>**

Returned to shareholders

**112.7<sub>p</sub>**

Core\* earnings per share

**92.9<sub>p</sub>**

Total earnings per share

**6**

Key medicines submitted

**1<sup>st</sup>**

in Access to



## Strategic review

Chairman's statement	2
CEO's review	3
Strategic review	5
How we performed	6
What we do, Where we do it	8
Our market	12
How we deliver	16
Responsible business	49

2-54 Strategic review



## Financial review &amp; risk

Financial review	55
Financial position and resources	66
Financial review 2011	72
Risk factors	78

55-86 Financial review & risk



## Governance &amp; remuneration

Our Board	88
Our Corporate Executive Team	92
Chairman's letter	94
Board report to shareholders	95
Committee reports	103
Remuneration Committee Chairman's letter	109
Total remuneration for 2012	110
Pay for performance for 2012	111
Remuneration policy for 2013	113
Directors' emoluments and total remuneration	127
Directors and Senior Management	136

87-136 Governance & remuneration



## Financial statements

Directors' statement of responsibilities	138
Independent Auditors' report	139
Financial statements	140
Notes to the financial statements	144
Financial statements of GlaxoSmithKline plc prepared under UK GAAP	218

137-223 Financial statements



## Investor information

Product development pipeline	225
Products, competition and intellectual property	229
Quarterly trend	232
Five year record	236
Share capital and share price	239
Dividends	240
Annual General Meeting 2013	241
US law and regulation	242
Tax information for shareholders	243
Analysis of shareholdings	244
Shareholder services and contacts	245

224-248 Investor information

# Chairman's statement

Despite a challenging environment, I believe 2012 marked another year of progress for GSK in the delivery of our strategy and in generating more sustainable returns to shareholders



Over the past five years, under Sir Andrew's leadership, the Group has been fundamentally changing to improve growth prospects, reduce risk and deliver enhanced returns to shareholders.

The benefits of this strategy were evident during the year, with strong performances in our emerging markets, and other growth businesses offsetting much of the impact of the significantly worsening outlook in Europe. At the same time, GSK's R&D organisation delivered unparalleled output with six key new products submitted for approval and there is growing evidence that we can replenish the late stage pipeline on a sustainable basis. This is clearly of critical importance to the longer-term prospects of the Group.

Ultimately the aim of our strategy is to deliver sustainable earnings per share growth (EPS) and improved returns to shareholders. GSK delivered flat core EPS of 112.7p but returned £6.3 billion to shareholders via dividends and buybacks in 2012. This brings to nearly £25 billion the amount returned to shareholders since Sir Andrew joined the Board at the start of 2008.

Operating in a responsible and ethical way is essential for the commercial success of GSK. As Chairman of the Corporate Responsibility Committee, I was pleased to see the continued progress during the year in our efforts to improve global access to our medicines, with further agreements reached to supply our vaccines to the world's poorest countries at low prices and to encourage research into neglected diseases. The Group also took industry-leading steps to improve transparency of its clinical trial research.

Oversight and management of risk remains a key focus for the Board. In July 2012, the Group successfully resolved a series of long-standing legal matters with the US Government. These primarily related to historical sales and marketing practices.

The Board recognises that these matters do not reflect the company that GSK is today. Fundamental changes have been made to compliance, marketing and selling procedures in recent years and significant progress made to embed a culture in the company that puts

We continue to make changes to the Board as we plan for the future and implement proactive succession planning. I would like to thank both Sir Crispin Davis, who is standing down at this year's AGM, and Larry Culp, who retired from the Board in September, for their outstanding contributions over recent years.

In April, we appointed Lynn Elsenhans and Jing Ulrich as Non-Executive Directors. Respectively Lynn and Jing have brought experience running global companies and deep knowledge of emerging markets to Board discussions. Additionally in January, we announced that Hans Wijers, currently chairman designate of Heineken and previously CEO of Akzo Nobel, will join GSK as a Non-Executive Director from this year's AGM.

I would also like to thank Sir Robert Wilson for agreeing to remain on the Board for an additional year to provide continuity and advice as new Board members settle into their roles.

We have now met our original aspiration to have more than 25% female representation on the Board by 2013, and we remain committed to continuing to improve geographic and gender diversity at Board level.

In summary, while our operating environment remains challenging, it is also not without substantial opportunity for companies that deliver innovation and act with responsibility. The Board has every confidence in the strength and resilience of Sir Andrew and his senior management team, and believes the Group is taking all the necessary steps to build a stronger GSK that can generate sustainable value for shareholders and society.

Sir Christopher Gent  
Chairman

# CEO's review

We have diversified our sources of growth, our R&D productivity has significantly improved and our processes are simpler and more efficient. We are confident that our strategy is delivering



Five years ago we set out a strategy to re-shape GSK to increase growth, reduce risk and improve our long-term financial performance. We have made good progress and 2012 provided further evidence of this.

However, there is no doubt that we are operating in a very challenging environment and in 2012 this was particularly evident in Europe. Despite this, we were able to maintain core earnings per share (CER), generate net cash inflows from operating activities of £7 billion (before legal settlements) and return over £6.3 billion to shareholders.

We also made outstanding progress in research and development during the year to advance potential new medicines across multiple disease areas including respiratory, oncology, diabetes and HIV.

## Investment in growth markets

Although reported sales for the year were down 1% (CER), sales were flat adjusting for the disposal of our non-core Consumer Healthcare brands. This reflects continued strong performance from our 'growth' businesses, helping to offset pressure in Western markets.

In emerging markets, the benefits of investments made to increase our exposure in Pharmaceuticals and Vaccines, as well as Consumer Healthcare, were very evident. Total sales in emerging markets now account for 26% of our business and grew 10% during the year. At a divisional level, Consumer Healthcare sales were flat, but grew 5%, excluding divested OTC products.

In Pharmaceutical and Vaccines, Japan's sales fell 6%, reflecting the impact of the *Cervarix* vaccine sales for the catch up programme in the prior year. Excluding *Cervarix*, sales grew 5%. Sales in the USA were down 2%; this was an improvement over 2011 when sales declined 5%. We have been re-shaping our US business to reflect changing market dynamics and to prepare for the launch of multiple new products. We continue to view the USA and Japan very positively, as markets that reward and are willing to pay for healthcare innovation.

The clear adverse impact to our performance in 2012 was weaker than expected sales from our European business, down 7%. Here, government austerity measures adversely impacted growth by approximately 6 percentage points during the year.

## R&D productivity provides platform for growth

In R&D, the Group made significant progress in 2012. We now have six key new products under regulatory review and expect Phase III data on 14 assets in 2013 and 2014. In total, over the next three years, GSK has the potential to launch around 15 new medicines and vaccines globally.

We are also confident that we can sustain this level of productivity and that we can deliver our long-term goal of improving returns on R&D investment to around 14%.

## Simplifying and changing our business

We continue to make changes to simplify our operating model. Our Operational Excellence programme has now delivered annual savings of £2.5 billion and remains on track to hit the target we set of £2.8 billion of annual savings by 2014. In February 2013 we announced a new major change programme, which we expect to produce incremental annual cost savings of at least £1 billion by 2016.

This programme will include a series of technological advances and opportunities to eliminate complexity, which we believe can transform our long-term cost competitiveness in both manufacturing and R&D. The programme will help us simplify our supply chain processes, shorten cycle times, lower inventory levels and reduce our carbon footprint.

# Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

## Real-Time Litigation Alerts



Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

## Advanced Docket Research



With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

## Analytics At Your Fingertips



Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

## API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

## LAW FIRMS

Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

## FINANCIAL INSTITUTIONS

Litigation and bankruptcy checks for companies and debtors.

## E-DISCOVERY AND LEGAL VENDORS

Sync your system to PACER to automate legal marketing.