GLAXOSMITHKLINE PLC
Form 20-F
March 08, 2013
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As filed with the Securities and Exchange Commission on March 8, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2012**

OR

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

OR

¨ **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)

Victoria Whyte

Company Secretary

GlaxoSmithKline plc

980 Great West Road

Brentford, TW8 9GS

England

+44 20 8047 5000

company.secretary@gsk.com

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

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

Title of Each Class	Name of Each Exchange On Which Registered
American Depositary Shares, each representing	
2 Ordinary Shares, Par value 25 pence	**New York Stock Exchange**
4.850% Notes due 2013	**New York Stock Exchange**
0.750% Notes due 2015	**New York Stock Exchange**
1.500% Notes due 2017	**New York Stock Exchange**
5.650% Notes due 2018	**New York Stock Exchange**
2.850% Notes due 2022	**New York Stock Exchange**
6.375% Notes due 2038	**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	**5,397,595,969.**

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

x 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 x 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.

x 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 x 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 Other ¨

by the International Accounting Standards Board x

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 x No

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Pursuant to Rule 12b-23(a) of the Securities Exchange Act of 1934, as amended, the information for the 2012 Form 20-F of GlaxoSmithKline plc set out below is being incorporated by reference from the GSK Annual Report 2012 included as exhibit 15.2 to this Form 20-F dated and submitted on March 8, 2013 (the GSK Annual Report 2012).

All references in this Form 20-F to GlaxoSmithKline, the Group or GSK mean GlaxoSmithKline plc and its subsidiaries; the company means GlaxoSmithKline plc.

References below to major headings include all information under such major headings, including subheadings, unless such reference is a reference to a subheading, in which case such reference includes only the information contained under such subheading.

In addition to the information set out below, the information set forth under the headings Cautionary statement regarding forward-looking statements on the inside front cover, Directors statement of responsibilities on page 138, Share buy-back programme on page 239, Financial reporting calendar , Results announcements and Financial reports on page 240, Annual General Meeting 2013 and Documents on display on p 241, Registrar on page 245, ADR Depositary , Glaxo Wellcome and SmithKline Beecham Corporate PEPs , ShareGift , Share scam alert , Corporate Responsibility Report and Contacts on page 246 and Glossary of terms on page 247 in each case of the GSK Annual Report 2012 is incorporated by reference.

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 portions of the GSK Annual Report 2012 incorporated by reference herein, which includes a business review on pages 1 to 86 of the GSK Annual Report 2012 incorporated by reference herein. Under English law the Directors would be liable to the company, but not to any third party, if the Report of the Directors described below 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

The portions of pages 1-136 and pages 239-244 of the GSK Annual Report 2012 incorporated by reference herein 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.

Portions of the GSK Annual Report 2012 incorporated by reference herein contain references to our website. Information on our website or any other website referenced in the GSK Annual Report 2012 is not incorporated into this Form 20-F and should not be considered to be part of this Form 20-F. We have included any website as an inactive textual reference only.

PART I

Item 1. **Identity of Directors, Senior Management and Advisers**

Not applicable.

Item 2. **Offer Statistics and Expected Timetable**

Not applicable.

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Item 3. **Key Information**

3.A Selected financial data
The information set forth under the heading:

Five year record on pages 236 to 238
of the GSK Annual Report 2012 is incorporated herein by reference.

3.B Capitalization and indebtedness
Not applicable.

3.C Reasons for the offer and use of proceeds
Not applicable.

3.D Risk factors
Principal risk factors and uncertainties

There are risks and uncertainties relevant to the Group s business, financial condition and results of operations that may affect the Group s performance and ability to achieve its objectives. The factors below are among those that the Group believes could cause its actual results to differ materially from expected and historical results. There are other risks and uncertainties that may affect the Group s performance and ability to achieve its objectives that are not currently known to the Group, or which are deemed immaterial.

The Group reviews and assesses significant risks on a regular basis and has implemented an oversight programme to help ensure that there is a system of internal controls in place. This system includes policies and procedures, communication and training programmes, supervision and monitoring and processes for escalating issues to the appropriate level of senior management. Such a system helps facilitate the Group s ability to respond appropriately to risks and to achieve Group objectives and helps ensure compliance with applicable laws, regulations and internal policies. In addition, the Group s Audit & Assurance function is responsible for independently assessing the adequacy and effectiveness of the management of significant risks and reporting outcomes to business management, the Risk Oversight & Compliance Council, and the Audit & Risk Committee as necessary. The Group s management of risks is further discussed on pages 100 to 102 Corporate governance of the GSK Annual Report 2012.

The principal risks and uncertainties that might affect the Group s business are identified below. However, it is not possible for the Group to implement controls to respond to all the risks that it may face. The principal risk factors and uncertainties are not listed in order of significance. All page and section references in this Item 3.D Risk factors are to pages and sections in the GSK Annual Report 2012.

Delivering commercially successful new products

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

The Group operates in highly competitive markets. In the Pharmaceuticals and Vaccines businesses, it faces competition from proprietary products of large, international manufacturers and from producers of generic pharmaceuticals. The Pharmaceuticals and Vaccines businesses also face increasing competition from manufacturers in emerging markets, with a lower cost manufacturing base than that of the Group.

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Significant product innovations, technical advances or the intensification of price competition by competitors may materially and adversely affect the Group s financial results. The Group cannot always predict the timing or impact of competitive products or their potential impact on sales of the Group s products. In light of the competitive environment in which the Group operates, 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 pharmaceutical and vaccine products is a costly, lengthy and uncertain process. A new product candidate can fail at any stage of the development 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 of Group economic and human resources, may fail to reach the market or may have only limited commercial success. This could be, for example, as a result of efficacy or safety concerns, an inability to obtain necessary regulatory approvals, difficulty manufacturing or excessive manufacturing costs, erosion of patent coverage as a result of a lengthy development period, infringement of patents or other intellectual property rights of others or an inability to differentiate the product adequately from those with which it competes.

Furthermore, health authorities have increased their focus on safety and product differentiation when assessing the benefit/risk balance of drugs, which has made it more difficult for pharmaceutical and vaccine products to gain regulatory approval. There is also increasing pressure on healthcare budgets as a result of the financial crisis, the increase in the average age of the population in developed markets, and the Increase in the absolute population in developing markets. Payers, therefore, increasingly have demanded greater incremental benefit from pharmaceutical and vaccine products before agreeing to reimburse drug manufacturers at prices manufacturers consider appropriate. A failure to develop commercially successful products or to develop additional uses for existing products for any of these reasons could materially and adversely affect the Group s financial results.

Protecting intellectual property rights

Risk description: Risks of failing to secure and protect intellectual property rights

Failure to obtain effective intellectual property protection for our products.

As an innovator Pharmaceutical, Vaccine and Consumer Healthcare company, the Group seeks to obtain appropriate intellectual property protection for our products. Our ability to obtain and enforce patents and other proprietary rights with regard to our products is critical to the Group s business strategy and success.

In a number of markets in which the Group operates, the intellectual property laws and patent offices are still developing, and some markets may be unwilling to extend intellectual property protection to innovative products in a fashion similar to markets in more developed regions such as the EU, Japan and the USA or to enforce previously granted intellectual property rights.

The Group s inability to obtain and enforce effective intellectual property protection for our products in certain markets could have a material adverse result on the Group s financial results.

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In some of the countries in which the Group operates, patent protection and data exclusivity may be significantly weaker than in the USA or the EU. Some developing countries have reduced, or threatened to reduce, effective patent protection for pharmaceutical products generally, or in particular therapeutic areas, to facilitate early competition within their markets from generic manufacturers. Any loss of patent protection, including reducing the scope of patent rights or compulsory licensing (in which a government forces a manufacturer to license its patents to a competitor), could materially and adversely affect the Group s financial results in those markets. Absence of adequate patent or data exclusivity protection could limit the opportunity to rely on such markets for future sales growth for the Group s products.

Expiry of intellectual property rights protection on the Group s products and on competitive products; Competition from generic manufacturers.

Pharmaceutical and vaccine products are usually only protected from being copied by generic manufacturers during the period of exclusivity provided by an issued patent or related intellectual property rights such as Regulatory Data Protection or Orphan Drug status. Following expiry of intellectual property rights protection, a generic manufacturer may produce a generic version of the product.

The Group faces intense competition from manufacturers of generic pharmaceutical products in all of its major markets. Introduction of generic products, particularly in the USA where the Group has its highest turnover and margins, typically leads to a dramatic loss of sales and reduces the Group s revenues and margins for its proprietary products. The Group had 10 pharmaceutical and vaccine products with over £500 million in annual global sales in 2012. For certain of these products, there is generic competition in the USA and some markets in Europe.

The timing and impact of entry in the USA and major markets in Europe for a follow-on product to *Seretide/Advair* that contains the same active ingredients is uncertain. The US patent for compositions containing the combination of active substances in *Seretide/Advair* expired during 2010. The Group has not been notified of any acceptance by the US Food & Drug Administration (FDA) of an application for a follow-on product that refers to *Seretide/Advair* and contains the same active ingredients and is not able to predict when this may occur or when any such follow-on product may enter the US market.

Generic drug manufacturers have also exhibited a readiness to market generic versions of many of the Group s most important products prior to the expiration of the Group s patents. Their efforts may involve challenges to the validity or enforceability of a Group patent or assertions that their generic product does not infringe the Group s patents. If the Group 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 and Europe, the Group s financial results would be adversely affected. 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 pages 229 to 230. Legal proceedings involving patent challenges are set out in Note 44 to the financial statements, Legal proceedings .

The Group may also experience an impact on sales of one of its products due to the expiry or loss of patent protection for a product marketed by a competitor in a similar product class or for treatment of a similar disease condition. The availability of generic products in the same or similar product class in which one of the Group s products competes could have a material adverse impact on sales of the Group s products.

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Regulations outlining the requirements for establishing biosimilars and interchangeable products, as well as the operation of complicated patent litigation provisions, have not yet been proposed by the FDA, although the FDA currently is implementing the biosimilar pathway without such regulations, based on the statute and guidance documents. In Europe, the European Medicines Agency (EMA) has finalised guidelines for similar biological medicinal products containing monoclonal antibodies (mAbs). Such new regulations for establishing biosimilars and interchangeable products could allow for earlier competition for certain of the Group s products.

The loss of patent or data exclusivity protection for some or all of the Group s products could have a material adverse impact on sales of the Group s products.

Ensuring product quality

Risk description: Risk to the patient or consumer as a result of the failure by GSK, its contractors or suppliers to comply with good manufacturing practice regulations in commercial manufacturing or through inadequate governance of quality through product development

Patients, consumers and healthcare professionals trust the quality of our products at the point of use. A failure to ensure product quality is an enterprise risk which is applicable across all of the Group.

A failure to ensure product quality could have far reaching implications in terms of the health of our patients and customers, reputation, regulatory, legal, and financial consequences for the Group.

Product quality may be influenced by many factors including product and process understanding, consistency of manufacturing components, compliance with current Good Manufacturing Practice (cGMP), accuracy of labelling, reliability and security of the supply chain, and the embodiment of an overarching quality culture. The internal and external environment continues to evolve as new products, new markets and new legislation are introduced. Particular attention is currently being focused on global supply. In the EU, the new Falsified Medicines Directive is focused on security of supply. In the USA, the passage of the Food Drug and Administration Safety and Innovation Act (FDASIA) will focus attention on reducing current levels of drug shortages in the marketplace, and new cGMP legislation is being introduced in many emerging markets including China and Brazil. On the inspection front, pharmaceutical inspectors are increasingly looking for global application of corrective actions beyond the original site of inspection.

Maintaining product supply

Risk description: Risk of interruption of product supply

The manufacture of pharmaceutical and vaccine 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.

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Compliance failure by the Group s manufacturing facilities or by suppliers of key services and materials could lead to product recalls and seizures, interruption of production, delays in the approval of new products, and revoking of license to operate pending resolution of manufacturing issues. For example, non-compliance with cGMP requirements for US supply could ultimately result, in the most severe circumstances, in fines and disgorgement of profits. Any interruption of supply or the incurring of fines or disgorgement impacting significant products or markets could materially and adversely affect the Group s financial results.

Materials and services provided by third-party suppliers are necessary for the commercial production of our products, including specialty chemicals, commodities and components necessary for the manufacture and packaging of many of the Group s pharmaceutical, vaccine and consumer healthcare products. Some of the third-party services procured, for example, services provided by clinical research organisations to support development of key products, are very important to the operation of the Group s businesses. Although the Group undertakes business continuity planning, single sourcing for certain components, bulk active materials, finished products, and services creates a risk of failure of supply in the event of regulatory non-compliance or physical disruption at the manufacturing sites. The failure of a small number of single-source, third-party suppliers or service providers to fulfil their contractual obligations in a timely manner or as a result of regulatory non-compliance or physical disruption at the manufacturing sites may result in delays or service interruptions, which may materially and adversely affect the Group s financial results.

Securing adequate pricing and reimbursement

Risk description: Risk that the Group may fail to secure adequate pricing/reimbursement for its products or existing regimes of pricing laws and regulations become more unfavourable.

Pharmaceutical and vaccine products are subject to price controls or pressures and other restrictions in many markets, around the world. Some governments intervene directly in setting prices. In addition, in some markets, major purchasers of pharmaceutical or vaccine 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. Difficult economic conditions, particularly in the major markets in Europe, could increase the pricing pressures on the Group s pharmaceutical and vaccine products. The Group cannot accurately predict whether existing controls, pressures or restrictions will increase or whether new controls, pressures or restrictions will be introduced. Such measures may materially and adversely affect the Group s ability to introduce new products profitably and its financial results.

In the USA, where the Group has its highest margins and the most sales of any country, there are no direct government price controls over private sector purchases, but federal law requires pharmaceutical manufacturers to pay prescribed rebates on certain drugs to be eligible for reimbursement under several state and federal healthcare programmes, primarily Medicare and Medicaid. Pricing pressures are likely to increase as the US Government s share of national health spending continues to increase.

Additionally, due to passage of comprehensive health care reform in 2010, the US Government s role in providing or subsidising health insurance is expected to significantly expand in 2014, which indicates the growing role and leverage the government will bring to bear on the Group s rebate liability with respect to US federal programs.

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As part of ongoing deficit reduction discussions in the USA, the Obama administration recently has suggested that pharmaceutical manufacturers be required to offer federally mandated rebates to the government on drugs for people who are elderly and disabled and who qualify for both Medicare and Medicaid (known as dual eligibles). These individuals currently receive drug benefits through Medicare Part D. A manufacturer s Medicare Part D rebates are negotiated with health plans and typically are lower than the federally mandated Medicaid rebates. If legislation passes requiring manufacturers to pay mandated Medicaid level rebates for the dual eligibles, there would be a significant additional rebate liability for pharmaceutical companies such as the Group.

In recent years, a number of states have also proposed or implemented various schemes to control the pharmacy budget for drugs used by their low-income and senior citizens programmes, including increasing the rebate liability of pharmaceutical companies, importation from other countries and bulk purchases of drugs.

Given the possible expansion of Medicaid under the US health care reform law and the economic pressures on state government budgets, pricing pressures on the Group s pharmaceutical and vaccine products are likely to increase. Any of these trends may materially and adversely affect the Group s financial results.

Compliance with relevant laws and regulations

Risk description: Risks arising from non-compliance with laws and regulations affecting the Group

The Group operates on a global basis and must comply with a broad range of laws and regulatory controls on the development, manufacturing, testing, approval, distribution and marketing of many of its pharmaceutical, vaccine and consumer healthcare products 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. The Group operates globally in complex legal and regulatory environments that often vary among jurisdictions.

As those rules and regulations change or as governmental interpretation of those rules and regulations evolve, the potential exists for conduct of the Group to be called into question.

Historically, there have been more stringent regulatory requirements in developed markets. However, in recent years, emerging markets have been increasing their regulatory expectations based on their own national interpretations of US and EU standards. Stricter regulatory controls 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 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.

Furthermore, interaction and exchange of information between the Group and external communities in order to advance scientific and medical understanding may be, or may be perceived to be, promotional in intent by regulators, potentially resulting in a loss of credibility with authorities, prescribers, and patients. Such an interpretation could result in a regulatory action or a government investigation which could have far-reaching effects including impacting product liability actions, the regulatory pathway for assets, significant fines, exclusion from government programs, and even individual criminal liability.

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Additionally, the development of the post-approval adverse event profile for a product or the product class may materially and adversely affect the Group s financial results.

The Group is also subject to laws of the USA, the EU and other jurisdictions regulating the export of its products to certain countries. For instance, Iran is subject to wide-ranging sanctions under the laws of the USA, the EU, and other jurisdictions. The Group has exported certain pharmaceutical and vaccine products from its Pharmaceuticals and Vaccines businesses, and certain healthcare products including over-the counter-medicines and medical devices from its Consumer Healthcare business, to Iran via sales by non-US entities to three privately held Iranian distributors. The Group also does business, via non-US entities, in other jurisdictions targeted by sanctions laws, including Cuba, Syria, and Sudan. Failure to comply with these laws could expose the Group to civil and criminal penalties, including fines, prosecution, the imposition of export or economic sanctions against the Group and reputational damage, all of which could materially and adversely affect the Group s financial results.

U.S. law requires specific disclosure of certain dealings with Iran, including transactions or dealings with government-owned entities and entities sanctioned for activities related to terrorism or proliferation of weapons of mass destruction. We do not believe that our Iranian distributors fall within any of the relevant categories. However, while the Group has no direct knowledge of the identity of its distributors downstream customers, it is possible that these customers include entities, such as government-owned hospitals and pharmacies, that are owned or controlled directly or indirectly by the Iranian government or by persons or entities sanctioned in connection with terrorism or proliferation activities. The entire gross revenues from the Group s sales to Iran in 2012 were £19.7 million and the net profits were £2.8 million; the Group is unable to ascertain the proportion of gross revenue or sales potentially attributable to entities affiliated with the Iranian government or persons sanctioned for terrorism or proliferation activities. Following a review of its business with Iran, the Group has ceased sales of products from its Consumer Healthcare business and intends to supply only products of high medical/public health need (as determined using criteria set by the World Health Organization) from its Pharmaceuticals and Vaccines businesses.

Changing global political and economic conditions

Risk description: Risk of exposure to various external political and economic conditions, as well as natural disaster that may impact the Group s performance and ability to achieve its objectives

Many of the world s largest economies, including the major markets in which the Group operates, and financial institutions have recently faced extreme financial difficulty, including a decline in asset prices, liquidity problems and limited availability of credit. In addition, the Group operates across a wide range of markets and these markets have the potential to encounter natural disasters that could impact business operations.

The economic uncertainty of 2011 continued into 2012, particularly in Europe. It is uncertain how long these effects will last, or whether economic and financial trends will worsen or improve.

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The austerity measures in certain countries in Europe have increased pressures on the payers in those countries to force healthcare companies such as the Group to decrease the price of its products. The debt crisis has given rise to concerns that some countries may not be able to pay for our products. Current economic conditions may also adversely affect the ability of our distributors, customers, suppliers and service providers to pay for our products, or otherwise to buy necessary inventory or raw materials, and to perform their obligations under agreements with the Group, which could disrupt our operations, and negatively impact our business and cash flow. Some of our distributors, customers, suppliers and service providers may be unable to pay their bills in a timely manner, or may even become insolvent, which could also negatively impact our business and results of operations. These risks may be elevated with respect to our interactions with third parties with substantial operations in countries where current economic conditions are the most severe, particularly where such third parties are themselves exposed to risk from business interactions directly with fiscally-challenged government payers.

Such continued economic weakness and uncertainty could materially and adversely affect the Group s revenues, results of operations and financial condition. The Group s businesses, including Pharmaceuticals, Vaccines and Consumer Healthcare, may be particularly sensitive to declines in consumer or government spending. In addition, further or renewed declines in asset prices may result in a lower return on the Group s financial investments and may cause the value of the Group s investments in its pension plans to decrease, requiring the Group to increase its funding of those pension plans. See Note 28 to the financial statements, Pensions and other post-employment benefits for a discussion of the investment strategy and general pension overview.

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.

Managing alliances and acquisitions

Risk description: Risks from alliances and acquisitions

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

The assumption of debt or unknown or contingent liabilities or the failure to realise the expected benefits may materially and adversely affect the Group s financial results.

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

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Compliance with financial reporting and disclosure requirements

Risk description: Risk associated with financial reporting and disclosure and changes to accounting standards

New or revised accounting standards, rules and interpretations issued from time to time by the International Accounting Standards Board could result in changes to the recognition of income and expense that may materially and adversely affect the Group s financial results.

Under International Financial Reporting Standards, changes in the market valuation of certain financial instruments are required to be reflected in the Group s reported results before those gains or losses are actually realised. This 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 Group entity that owns 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. Any such investigation and required restatement could materially and adversely affect the Group s financial results.

Compliance with tax law and managing treasury investments

Risk description: Risk that as the Group s business models and tax law and practice change over time, the Group s existing tax policies and operating models are no longer appropriate, or that significant losses arise from treasury investments

The Group s effective tax rate is driven by rates of tax in jurisdictions that are both higher and lower than that applied in the UK. In addition, many jurisdictions such as the UK, Belgium and the USA currently offer regimes that encourage innovation and new scientific endeavours by providing tax incentives, for example R&D tax credits, and lower tax rates on income derived from patents.

Furthermore, given the scale and international nature of the Group s business, intra-group transfer pricing is an inherent tax risk as it is for other international businesses. Changes in tax laws or in their application with respect to matters such as transfer pricing, foreign dividends, controlled companies, R&D tax credits, taxation of intellectual property or a restriction in tax relief allowed on the interest on intra-group debt, could impact the Group s effective tax rate and materially and adversely affect its financial results.

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

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For example, in October 2012, the Supreme Court of Canada delivered its decision on an appeal in respect of the Group s transfer pricing, as discussed in Note 14 to the financial statements, Taxation . The Group, like other international businesses, is also subject to a range of other duties and taxes for which it incurs similar types of risk.

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

Compliance with anti-bribery and corruption legislation

Risk description: Risk of failing to create a corporate environment opposed to corruption or failing to instil business practices that prevent corruption and comply with anti-corruption legislation

The Group s extensive and increasingly international operations may give rise to possible claims of bribery and corruption. The Group operates in a number of markets where the corruption risk has been identified as high by groups such as Transparency International. Failure to comply with applicable legislation such as the US Foreign Corrupt Practices Act and the UK Bribery Act, or similar legislation in other countries, could expose the Group and senior officers to civil and criminal sanction.

This could potentially include fines, prosecution, debarment from public procurement and reputational damage, all of which could materially and adversely affect the Group s financial results.

Potential litigation

Risk description: Risk of substantial adverse outcome of litigation and government investigations

Note 44 to the financial statements, Legal proceedings , contains a discussion of material proceedings and governmental investigations currently involving the Group which, if proven, could give rise to civil and/or criminal liabilities. 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. As an example, in 2012, the Group entered into a settlement agreement with the US federal government resulting in a payment of US$3 billion by the Group. The Group has made provisions related to such legal proceedings and investigations, which have reduced its earnings.

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

Recent insurance loss experience, including pharmaceutical product liability exposures, has increased the cost, and reduced the capacity, of insurers to provide coverage for pharmaceutical companies generally, including the Group.

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Product liability litigation

Pre-clinical and clinical trials are conducted during the development of potential pharmaceutical, vaccine and consumer healthcare products to determine the safety and efficacy of the products for use by humans following approval by regulatory authorities. Notwithstanding the efforts the Group makes to determine the safety of its products through regulated clinical trials, unanticipated side effects may become evident only when drugs and vaccines are widely introduced into the marketplace.

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

In some cases, the Group may voluntarily cease marketing a product or face declining sales based on concerns about efficacy or safety, even in the absence of regulatory action.

Anti-trust litigation

In the USA, it has become increasingly common for patent infringement actions to prompt claims that anti-trust laws have been violated during the prosecution of the patent or during litigation involving the defence of that patent. Such claims by direct and indirect purchasers and other payers are typically filed as class actions. The relief sought may include treble damages and restitution claims. Similarly, anti-trust claims may be brought by government entities or private parties following settlement of patent litigation, alleging that such settlements are anti-competitive and in violation of anti-trust laws. In the USA and Europe, regulatory authorities have continued to challenge as anti-competitive so-called reverse payment settlements between innovator (branded) and generic drug manufacturers. The US Supreme Court is currently reviewing the legality of such settlement agreements. The Group may also be subject to other anti-trust litigation involving competition claims unrelated to patent infringement and prosecution. A successful anti-trust claim by a private party or government entity against the Group could materially and adversely affect the Group s financial results.

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Sales and marketing litigation

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 brought against the Group by governmental entities at the federal and state levels and by private plaintiffs. As those rules and regulations change or as governmental interpretation of those rules and regulations evolve, conduct of the Group may be called into question.

In the USA, for example, the Group settled a number of federal and state investigations into the marketing of certain of its products and entered into a CIA with the federal government relating to the Group s marketing and promotion of its products in the USA.

While the Group reached agreement in 2012 to resolve certain federal and state governmental investigations into the pricing, marketing and reimbursement of its prescription drug products, as detailed in Note 44 to the financial statements, Legal proceedings , additional related state investigations that have been initiated on the basis of the same factual claims could result in restitution or civil litigation on behalf of state governments, and could also result in 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 to each violation of law. The conduct of the Group could result in additional investigations in the future by the US federal and state governments and similar civil litigation. Any of these consequences could materially and adversely affect the Group s financial results.

Managing environmental, health, safety and sustainability compliance

Risk description: Risk of ineffectively managing environment, health, safety, and sustainability (EHSS) objectives and requirements

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

Failure to manage properly the environmental risks could result in additional remedial costs that may materially and adversely affect the Group s financial results. See Note 44 to the financial statements, Legal proceedings , for a discussion of environmental related proceedings in which the Group is involved. The Group routinely accrues amounts related to its liabilities for such matters.

The impact of this risk, should the risk occur, could lead to significant harm to people, the environment and communities in which the Group operates and the failure to meet stakeholder expectations and regulatory requirements.

Concentration of sales to wholesalers

Risk description: Risk from the Group s sale of products to a small number of wholesalers

In the USA, similar to other pharmaceutical and vaccine 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 81 % of the Group s US Pharmaceuticals and Vaccines turnover in 2012.

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At 31 December 2012, the Group had trade receivables due from these three wholesalers totalling £815 million (31 December 2011 - £934 million). The Group is exposed to a concentration of credit risk in respect of these wholesalers such that, if one or more are affected by financial difficulty, it could materially and adversely affect the Group s financial results.

Protecting our information

Risk description: Risk of exposing business critical or sensitive data due to inadequate data governance or information systems security

The Group relies on critical and sensitive data, such as corporate strategic plans, personally identifiable information, trade secrets and intellectual property, to drive planning and operations. Security of this type of data is exposed to escalating external threats that are increasing in sophistication and changing from a goal of disruption to being financially or politically motivated.

Failure to implement appropriate safeguards to adequately protect against any unauthorised or unintentional access, acquisition, use, modification, loss or disclosure of this critical or sensitive data may adversely impact the Group s ability to maintain patent rights and competitive advantages and may result in legal non-compliance resulting in fines and penalties or inability to sell product in a particular market.

Item 4. **Information on the Company**

4.A History and development of the company
The information set forth under the heading:

About GSK on the inside back cover;

Head Office and Registered Office on the outside back cover; and

Acquisitions and disposals on pages 188 to 192
of the GSK Annual Report 2012 is incorporated herein by reference.

4.B Business overview

See Item 3D Risk factors above;
In addition, the information set forth under the headings:

GSK in 2012 on page 1;

Chairman s statement on page 2;

CEO s review on pages 3 to 4 (excluding the information in the second paragraph under the heading Outlook on page 4);

How we performed on pages 6 to 7;

What we do on page 8;

Where we do it on page 9;

How we create value on pages 10 to 11;

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Our market on pages 12 to 15 (excluding the information in the second paragraph under the heading Outlook on page 15);

How we deliver on pages 16 to 17;

Deliver more products of value on pages 30 to 31;

Investment in R&D on page 32;

Pharmaceuticals R&D on pages 33 to 36;

Vaccines R&D on pages 37 to 38;

Consumer Healthcare R&D on page 39;

Late stage pipeline summary on pages 40 to 41;

Simplify the operating model on pages 42 to 47 (excluding the information in the third sentence in the paragraph under the heading Sales growth on page 46 and the second sentence in the paragraph under the heading Earnings per share on page 46);

Responsible business on pages 49 to 54

Acquisitions and disposals on pages 188 to 192;

Pharmaceutical products, competition and intellectual property on pages 229 to 230; and

Consumer Healthcare products and competition on page 231

of the GSK Annual Report 2012 is incorporated herein by reference.

4.C Organizational structure

The information set forth under the heading:

Note 43 Principal Group companies on pages 207 to 209

of the GSK Annual Report 2012 is incorporated herein by reference.

4.D Property, plants and equipment
The information set forth under the headings:

Note 6 Segment information on pages 151 to 155; and

Note 17 Property, plant and equipment on pages 163 to 164
of the GSK Annual Report 2012 is incorporated herein by reference.

Item 4A. **Unresolved Staff Comments**

Not applicable.

Item 5. **Operating and Financial Review and Prospects**

5.A Operating results
The information set forth under the headings:

Grow a diversified global business on pages 18 to 29;

Financial review 2012 on pages 55 to 61 and 63 to 65;

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Financial review 2011 on pages 72 to 74 and 76 to 77; and

Financial record - Quarterly trend on pages 232 to 236

of the GSK Annual Report 2012 is incorporated herein by reference.

The following tables reconcile total results to core results. References in the GSK Annual Report 2012 to the reconciliations on page 62 or page 75 of that report should be read to refer to the information in these tables.

2012, 2011 AND 2010 RECONCILIATION OF TOTAL RESULTS TO CORE RESULTS

Core results reconciliation

Year ended 31 December 2012

	Core results £m	Intangible amortisation £m	Intangible impairment £m	Major restructuring £m	Legal costs £m	Other operating income £m	Acquisition adjust-ments £m	**Total results £m**
Gross profit	19,353	(378)	(309)	(128)			(1)	**18,537**
Operating profit	8,330	(477)	(693)	(557)	(436)	1,254	(29)	**7,392**
Profit before taxation	7,635	(477)	(693)	(558)	(436)	1,254	(33)	**6,692**
Profit after taxation	5,771	(332)	(497)	(843)	(286)	964	(33)	**4,744**
Earnings per share	112.7p	(6.8)p	(7.3)p	(17.4)p	(5.8)p	18.2p	(0.7)p	**92.9p**
Weighted average number of shares (millions)	4,912							**4,912**
The following adjustments are made in arriving at core gross profit								
Cost of sales	(7,078)	(378)	(309)	(128)			(1)	**(7,894)**
The following adjustments are made in arriving at core operating profit								
Selling, general and administration	(7,855)			(418)	(436)	(2)	(28)	**(8,739)**
Research and development	(3,474)	(99)	(384)	(11)				**(3,968)**
Other operating income						1,256		**1,256**
The following adjustments are made in arriving at core profit before taxation								
Net finance costs	(724)			(1)			(4)	**(729)**
The following adjustments are made in arriving at core profit after taxation								
Taxation	(1,864)	145	196	(285)	150	(290)		**(1,948)**

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Core results reconciliation

Year ended 31 December 2011

	Core results £m	Intangible amortisation £m	Intangible impairment £m	Major restructuring £m	Legal costs £m	Other operating income £m	**Total results (restated) £m**
Gross profit	20,128	(304)	(12)	(73)			**19,739**
Operating profit	8,803	(441)	(109)	(590)	(157)	301	**7,807**
Profit before taxation	8,111	(441)	(109)	(592)	(157)	886	**7,698**
Profit after taxation	6,007	(304)	(68)	(478)	(135)	436	**5,458**
Earnings per share	115.5p	(6.0)p	(1.4)p	(9.5)p	(2.7)p	8.7p	**104.6p**
Weighted average number of shares (millions)	5,028						**5,028**
The following adjustments are made in arriving at core gross profit							
Cost of sales	(7,259)	(304)	(12)	(73)			**(7,648)**
The following adjustments are made in arriving at core operating profit							
Selling, general and administration	(7,956)			(397)	(157)		**(8,510)**
Research and development	(3,678)	(137)	(97)	(97)			**(4,009)**
Other operating income				(23)		301	**278**
The following adjustments are made in arriving at core profit before taxation							
Net finance costs	(707)			(2)			**(709)**
Profit on disposal of interests in associates						585	**585**
The following adjustments are made in arriving at core profit after taxation							
Taxation	(2,104)	137	41	114	22	(450)	**(2,240)**

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Core results reconciliation

Year ended 31 December 2010

	Core results £m	Intangible amortisation £m	Intangible impairment £m	Major restructuring £m	Legal costs £m	Other operating income £m	**Total results (restated) £m**
Gross profit	20,987	(295)	(11)	(187)			**20,494**
Operating profit	9,497	(428)	(137)	(1,345)	(4,001)	197	**3,783**
Profit before taxation	8,866	(428)	(137)	(1,348)	(4,001)	205	**3,157**
Profit after taxation	6,600	(292)	(98)	(1,108)	(3,401)	152	**1,853**
Earnings per share	125.5p	(5.7)p	(1.9)p	(21.8)p	(66.9)p	2.9p	**32.1p**
Weighted average number of shares (millions)	5,085						**5,085**
The following adjustments are made in arriving at core gross profit							
Cost of sales	(7,405)	(295)	(11)	(187)			**(7,898)**
The following adjustments are made in arriving at core operating profit							
Selling, general and administration	(8,081)			(665)	(4,001)		**(12,747)**
Research and development	(3,705)	(133)	(126)	(493)			**(4,457)**
Other operating income						197	**197**
The following adjustments are made in arriving at core profit before taxation							
Net finance costs	(712)			(3)			**(715)**
Profit on disposal of interests in associates						8	**8**
The following adjustments are made in arriving at core profit after taxation							
Taxation	(2,266)	136	39	240	600	(53)	**(1,304)**

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5.B Liquidity and capital resources
The information set forth under the heading:

Financial position and resources on pages 66 to 71;
of the GSK Annual Report 2012 is incorporated herein by reference.

5.C Research and development, patents and licenses, etc.
The information set forth under the headings:

Our market-Intellectual property and trademarks on page 15;

Our market-Competition on page 15;

Deliver more products of value on pages 30 to 31;

Investment in R&D on page 32;

Pharmaceuticals R&D on pages 33 to 36;

Vaccines R&D on pages 37 to 38;

Consumer Healthcare R&D on page 39;

Late stage pipeline summary on pages 40 to 41;

Pharmaceuticals and Vaccines product development pipeline on pages 225 to 228;

Pharmaceutical products, competition and intellectual property on pages 229 to 230; and

Consumer Healthcare products and competition on page 231
of the GSK Annual Report 2012 is incorporated herein by reference.

5.D Trend information

The information set forth under the heading:

Financial review 2012 on pages 55 to 61 and 63 to 65; and

Financial record - Quarterly trend on pages 232 to 236

of the GSK Annual Report 2012 is incorporated herein by reference.

5.E Off-balance sheet arrangements

Not applicable.

5.F Tabular disclosure of contractual obligations

The information set forth under the heading:

Contractual obligations and commitments on page 68

of the GSK Annual Report 2012 is incorporated herein by reference.

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Item 6. **Directors, Senior Management and Employees**

6.A Directors and senior management
The information set forth under the headings:

- Our Board on pages 88 to 91; and
- Our Corporate Executive Team on pages 92 to 93

of the GSK Annual Report 2012 is incorporated herein by reference.

6.B Compensation
The information set forth under the heading:

- Remuneration report on pages 109 to 136

of the GSK Annual Report 2012 is incorporated herein by reference.

6.C Board practices
The information set forth under the heading:

- Corporate governance on pages 94 to 108;
- Directors on page 241;
- Directors conflicts of interest on page 241;
- Independent advice on page 241;
- Indemnification of Directors on page 241; and
- Donations to political organisations and political expenditure on page 242

of the GSK Annual Report 2012 is incorporated herein by reference.

6.D Employees

The information set forth under the headings:

Note 9 Employee costs on page 157;

Note 28 Pensions and other post-employment benefits on pages 172 to 179; and

Five year record, Number of employees on page 238

of the GSK Annual Report 2012 is incorporated herein by reference.

6.E Share ownership

The information set forth under the headings:

Note 42 Employee share schemes on pages 203 to 206;

Value earned from long term-term incentive awards on page 112;

Long-term incentive plans on pages 117 to 119;

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Update on performance of ongoing awards on pages 121 to 122;

Directors interests on page 129; and

Long-Term Incentive plans on pages 130 to 135;
of the GSK Annual Report 2012 is incorporated herein by reference.

Item 7. **Major Shareholders and Related Party Transactions**

7.A Major shareholders
The information set forth under the headings:

Share capital and control on page 239;

Interests in voting rights on page 239;

Change of control and essential contracts on page 241; and

Analysis of shareholdings at 31 December 2012 on page 244
of the GSK Annual Report 2012 is incorporated herein by reference.

7.B Related party transactions
The information set forth under the heading:

Note 35 Related party transactions on page 186
of the GSK Annual Report 2012 is incorporated herein by reference.

7.C Interests of experts and counsel
Not applicable.

Item 8. **Financial Information**

8.A Consolidated Statements and Other Financial Information
See item 18 below

In addition, the information set forth under the headings:

Dividends on page 240;

Dividends per share on page 240;

Dividend calendar on page 240; and

Note 44 Legal proceedings on pages 210 to 217

of the GSK Annual Report 2012 is incorporated herein by reference.

8.B Significant Changes

The information set forth under the heading:

Note 40 Post balance sheet event on page 193

of the GSK Annual Report 2012 is incorporated herein by reference.

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Item 9. **The Offer and Listing**

9.A Offer and listing details
The information set forth under the headings:

Market capitalisation on page 239;

Share price on page 239; and

Nature of trading market on page 240
of the GSK Annual Report 2012 is incorporated herein by reference.

9.B Plan of distribution
Not applicable.

9.C Markets
The information set forth under the heading:

Nature of trading market on page 240
of the GSK Annual Report 2012 is incorporated herein by reference.

9.D Selling shareholders
Not applicable.

9.E Dilution
Not applicable.

9.F Expenses of the issue
Not applicable.

Item 10. **Additional Information**

10.A Share Capital
Not applicable.

10.B Memorandum and articles of association
Articles of Association of GlaxoSmithKline plc

The following is a summary of the principal provisions of the company s Articles of Association (the Articles). Shareholders should not rely on this summary, but should instead refer to the current Articles which are filed with the Registrar of Companies in the UK and can be viewed on the company s website. The Articles contain the fundamental provisions of the company s constitution, and the rules for the internal management and control of the company. The company has no statement of objects in its Articles of Association and accordingly its objects are unrestricted in accordance with the provisions of the Companies Act 2006.

Articles of Association

(a) Voting

All resolutions put to the vote at general meetings will be decided by poll. On a poll, every shareholder who is present in person or by proxy shall have one vote for every Ordinary Share of which he or she is the holder. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names stand on the register.

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Unless the Directors otherwise decide, the right to attend a general meeting and voting rights may not be exercised by a shareholder who has not paid to the company all calls and other sums then payable by him or her in respect of his or her Ordinary Shares. The right to attend a general meeting and voting rights may not be exercised by a shareholder who is subject to an order under Section 794 of the Companies Act 2006 because he or she has failed to provide the company with information concerning his or her interests in Ordinary Shares within the prescribed period, as required by Section 793 of the Companies Act 2006.

(b) Transfer of Ordinary Shares

Any shareholder may transfer his or her Ordinary Shares which are in certificated form by an instrument of transfer in any usual form or in any other form which the Directors may approve. Such instrument must be properly signed and stamped or certified (or otherwise shown to the satisfaction of the Directors as being exempt from stamp duty) and lodged with the company together with the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.

Any member may transfer title to his or her uncertificated Ordinary Shares by means of a relevant system, such as CREST.

The transferor of a share is deemed to remain the holder until the transferee s name is entered on the register.

The Directors may decline to register any transfer of any Ordinary Share which is not fully paid.

Registration of a transfer of uncertificated Ordinary Shares may be refused in the circumstances set out in the uncertificated securities rules, and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated Ordinary Share is to be transferred exceeds four.

The Articles contain no other restrictions on the transfer of fully paid certificated Ordinary Shares provided: (i) the instrument of transfer is duly stamped or certified or otherwise shown to the satisfaction of the Directors to be exempt from stamp duty and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Directors may reasonably require; (ii) the transfer, if to joint transferees, is in favour of not more than four transferees; (iii) the instrument of transfer is in respect of only one class of shares; and (iv) the holder of the Ordinary Shares is not subject to an order under Section 794 of the Companies Act 2006. Notice of refusal to register a transfer must be sent to the transferee within two months of the instrument of transfer being lodged. The Directors may decline to register a transfer of Ordinary Shares by a person holding 0.25 per cent. or more of the existing Ordinary Shares if such person is subject to an order under Section 794 Companies Act 2006, after failure to provide the company with information concerning interests in those Ordinary Shares required to be provided under Section 793 of the Companies Act 2006, unless the transfer is carried out pursuant to an arm s length sale.

Provisions in the Articles will not apply to uncertificated Ordinary Shares to the extent that they are inconsistent with:

(i) the holding of Ordinary Shares in uncertificated form;

(ii) the transfer of title to Ordinary Shares by means of a system such as CREST; and

(iii) any provisions of the relevant regulations.

(c) Dividends and distribution of assets on liquidation

The profits of the company which are available for distribution and permitted by law to be distributed and which the company may by ordinary resolution from time to time declare, upon the recommendation of the Directors to distribute by way of dividend, in respect of any accounting reference period shall be distributed by way of dividend among holders of Ordinary Shares.

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If in their opinion the company s financial position justifies such payments, the Directors may, as far as any applicable legislation allows, pay interim dividends on shares of any class of such amounts and in respect of such periods as they think fit. Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends will be declared, apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid. As the company has only one class of Ordinary Shares, the holders of such Ordinary Shares will be entitled to participate in any surplus assets in a winding-up in proportion to their shareholdings.

(d) Variation of rights and changes in capital

Subject to the provisions of any statute (including any orders, regulations or other subordinate legislation made under it) from time to time in force concerning companies in so far as it applies to the company (the Companies Acts), the rights attached to any class of shares may be varied with the written consent of the holders of three-quarters in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate meeting of the holders of shares of that class. At every such separate meeting, the provisions of the Articles relating to general meetings shall apply, except the necessary quorum shall be at least two persons holding or representing as proxy at least one-third in nominal value of the issued shares of the relevant class (but provided that at any adjourned meeting any holder of shares of the relevant class present in person or by proxy shall be a quorum).

The rights conferred upon the holders of any Ordinary Shares shall not, unless otherwise expressly provided in the rights attaching to those Ordinary Shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

(e) Unclaimed dividends

All dividends or other sums payable on or in respect of any Ordinary Shares which remain unclaimed may be invested or otherwise made use of by the Directors for the benefit of the company until claimed. Unless the Directors decide otherwise, any dividend or other sums payable on or in respect of any Ordinary Shares unclaimed after a period of 12 years from the date when declared or became due for payment will be forfeited and revert to the company. The company may stop sending dividend cheques or warrants by post, or employ such other means of payment in respect of any Ordinary Shares, if at least two consecutive payments have remained uncashed or are returned undelivered or if one payment has remained uncashed or is returned undelivered and the company cannot establish a new address for the holder after making reasonable enquiries; however, in either case, the company must resume sending cheques or warrants or employ such other means of payment if the holder or any person entitled to the Ordinary Shares by transmission requests the resumption in writing.

(f) Untraced shareholders

The company may sell any Ordinary Shares in the company after advertising its intention and waiting for three months if the Ordinary Shares have been in issue for at least ten years and during that period at least three dividends have become payable on them and have not been claimed and, so far as any Director is aware, the company has not received any communication from the holder of the Ordinary Shares or any person entitled to them by transmission. Upon any such sale, the company will become indebted to the former holder of the Ordinary Shares or the person entitled to them by transmission for an amount equal to the net proceeds of sale unless forfeited.

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(g) Limitations on rights of non-resident or foreign shareholders

There are no limitations imposed by the Articles on the rights of non-resident or foreign shareholders except that there is no requirement for the company to serve notices on shareholders outside the United Kingdom and the United States, if no postal address in the United States or United Kingdom has been provided to the company.

(h) General meetings of shareholders

The Articles rely on the Companies Act 2006 provisions dealing with the calling of general meeting. The company is required by the Companies Act 2006 to hold an annual general meeting each year. General meetings of shareholders may be called as necessary by the Directors and must be called promptly upon receipt of a requisition from shareholders. Under the Companies Act 2006, an annual general meeting must be called by notice of at least 21 days. A general meeting other than an annual general meeting may be called on not less than 14 clear days notice provided a special resolution reducing the notice period to 14 clear days has been passed at the immediately preceding annual general meeting or a general meeting held since that annual general meeting.

(i) Conflicts of interest

The Directors may, subject to the provisions of the Articles, authorise any matter which would otherwise involve a Director breaching his or her duty under the Companies Acts to avoid conflicts of interest (each a Conflict). A Director seeking authorisation in respect of a Conflict shall declare to the other Directors the nature and extent of his or her Conflict as soon as is reasonably practicable and shall provide the other Directors with such details of the matter as are necessary to decide how to address the Conflict. The board may resolve to authorise the relevant Director in relation to any matter the subject of a Conflict, save that the relevant Director and any other Director with a similar interest shall not count towards the quorum nor vote on any resolution giving such authority, and, if the other Directors so decide, shall be excluded from any meeting of the Directors while the Conflict is under consideration.

(j) Other Conflicts of Interest

Subject to the provisions of the Companies Acts, and provided the nature and extent of a Director s interest has been declared to the Directors, a Director may:

(i) be party to, or otherwise interested in, any contract with the company, or in which the company has a director or indirect interest,

(ii) hold any other office or place of profit with the company (except that of auditor) in conjunction with his office of director for such period and upon such terms, including remuneration, as the Directors may decide;

(iii) act by himself or through a firm with which he is associated in a professional capacity for the company or any other company in which the company may be interested (otherwise than as auditor);

(iv) be or become a director of, or employed by, or otherwise be interested in any holding company or subsidiary company of the company or any other company in which the company may be interested; and;

(v) be or become a director of any other company in which the company does not have an interest and which cannot reasonably be regarded as giving rise to a conflict of interest at the time of his appointment as director of that other company.

No contract in which a Director is interested shall be liable to be avoided, and any Director who is so interested is not liable to account to the company or its shareholders for any benefit realised by the contract by reason of the Director holding that office or of the fiduciary relationship thereby established. However, no Director may vote on, or be counted in the quorum in relation to any resolution of the board relating specifically to his or her own appointment (including remuneration) or the terms of his or her termination of appointment or relating to any

contract in which he or she has an interest (subject to certain exceptions).

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Subject to the Companies Acts, the company may by ordinary resolution suspend or relax to any extent the provisions relating to directors interests or restrictions on voting or ratify any transaction not duly authorised by reason of a contravention of such provisions.

(k) Directors remuneration

Each of the Directors will be paid a fee at such rate as may from time to time be determined by the Directors, but the total fees paid to all of the directors for acting as directors (including amounts paid to any director who acts as chairman or is chairman of, or serves on any committee of the board of directors but excluding any amounts paid under any other provision of the Articles) shall not exceed the higher of:

(i) £3 million a year; and

(ii) any higher amount as the company may by ordinary resolution decide. Such fees may be satisfied in cash or in shares or any other non-cash form. Any Director who is appointed to any executive office, acts as Chairman, acts as senior independent director, acts as a scientific/medical expert on the board, serves on any committee of the Directors or performs any other services which the Directors consider to extend beyond the ordinary services of a Director shall be entitled to receive such remuneration (whether by way of salary, commission or otherwise) as the Directors may decide. Each Director may be paid reasonable travelling, hotel and other incidental expenses he or she incurs in attending and returning from meetings of the Directors or committees of the Directors, or general meetings of the company, or otherwise incurred in connection with the performance of his or her duties for the company.

(l) Pensions and gratuities for Directors

The Directors or any committee authorised by the Directors may provide benefits by the payment of gratuities, pensions or insurance or in any other manner for any Director or former Director or their relations, connected persons or dependants, but no benefits (except those provided for by the Articles) may be granted to or in respect of a Director or former Director who has not been employed by or held an executive office or place of profit under the company or any of its subsidiary undertakings or their respective predecessors in business without the approval of an ordinary resolution of the company.

(m) Borrowing powers

Subject to the provisions of the Companies Act 2006, the Directors may exercise all the company s powers to borrow money; to mortgage or charge all or any of the company s undertaking, property (present and future), and uncalled capital; to issue debentures and other securities; and to give security either outright or as collateral security for any debt, liability or obligation of the company or of any third party.

(n) Retirement and removal of Directors

A Director is subject to re-election at every annual general meeting of the company if he or she:

(i) held office at the time of the two previous annual general meetings and did not retire by rotation at either of them;

(ii) has held office for a continuous period of nine years or more; or

(iii) he or she has been appointed by the Directors since the last annual general meeting.

The company may by special resolution remove any Director before the expiration of his or her period of office. No Director is required to retire by reason of his or her age, nor do any special formalities apply to the appointment or re-election of any Director who is over any age limit. No shareholding qualification for Directors shall be required.

(o) Vacation of office

The office of a director shall be vacated if:

(i) he resigns or offers to resign and the board resolves to accept such offer;

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(ii) his resignation is requested by all of the other directors and all of the other directors are not less than three in number;

(iii) he is or has been suffering from mental or physical ill health and the board resolves that his office be vacated;

(iv) he is absent without permission of the board from meetings of the board (whether or not an alternate director appointed by him attends) for six consecutive months and the board resolves that his office is vacated;

(v) he becomes bankrupt or compounds with his creditors generally;

(vi) he is prohibited by law from being a director;

(vii) he is removed from office pursuant to the Articles or the Companies Acts.

(p) Share rights

Subject to any rights attached to existing shares, shares may be issued with such rights and restrictions as the company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the board may decide. Such rights and restrictions shall apply as if they were set out in the Articles. Redeemable shares may be issued, subject to any rights attached to existing shares. The board may determine the terms, conditions and manner of redemption of any redeemable share so issued. Such terms and conditions shall apply to the relevant shares as if they were set out in the Articles. Subject to the articles, any resolution passed by the shareholders and other shareholders rights, the Board may decide how to deal with any shares in the company.

10.C Material contracts

Not applicable.

10.D Exchange controls

The information set forth under the heading:

Exchange controls and other limitations affecting security holders on page 239

of the GSK Annual Report 2012 is incorporated herein by reference.

10.E Taxation

The information set forth under the heading:

Tax information for shareholders on pages 243 to 244

of the GSK Annual Report 2012 is incorporated herein by reference.

10.F Dividends and paying agents
Not applicable.

10.G Statement by experts
Not applicable.

10.H Documents on display
The information set forth under the heading:

Documents on display on page 241
of the GSK Annual Report 2012 is incorporated herein by reference.

10.I Subsidiary information
Not applicable.

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Item 11. **Quantitative and Qualitative Disclosures About Market Risk**

The information set forth under the headings:

Treasury policies on pages 70 to 71; and

Note 41 Financial instruments and related disclosures on pages 194 to 203

of the GSK Annual Report 2012 is incorporated herein by reference.

Item 12. **Description of Securities Other than Equity Securities**

12.A Debt Securities
Not applicable.

12.B Warrants and Rights
Not applicable.

12.C Other Securities
Not applicable.

12.D American Depositary Shares
Fees and charges payable by ADR holders

The Bank of New York Mellon serves as the depositary (the Depositary) for GlaxoSmithKline plc s American Depositary Receipt (ADR) programme. Pursuant to the deposit agreement between GSK, the Depositary and owners and holders of ADRs (the Deposit Agreement), ADR holders may be required to pay various fees to the Depositary, and the Depositary may refuse to provide any service for which a fee is assessed until the applicable fee has been paid. In particular, the Depositary, under the terms of the Deposit Agreement, shall charge a fee of $0.05 or less per ADR (or portion thereof) for (i) the issuance, execution and delivery of ADRs or (ii) the withdrawal of shares underlying the ADRs. In addition, ADR holders may be required under the Deposit Agreement to pay the Depositary (i) any tax, duty, governmental charge or fee or stock transfer or registration fee arising in connection with the foregoing transactions or otherwise, (ii) any expense resulting from the conversion of a foreign currency into U.S. dollars and (iii) the expense of certain communications made, at the request of the ADR holder, by cable, telex or facsimile. The Depositary may (i) withhold dividends or other distributions or sell any or all of the shares underlying the ADRs in order to satisfy any tax or governmental charge and (ii) deduct from any cash distribution any tax payable thereon or the cost of any currency conversion.

Direct and indirect payments by the Depositary

The Depositary reimburses GSK for certain expenses it incurs in connection with the ADR programme, subject to a ceiling agreed between GSK and the Depositary from time to time. The Depositary has also agreed to waive certain standard fees associated with the administration of the programme.

The table below sets forth the amount of such payments received during 2012 and 2013 in respect of the year ended 31 December 2012 and such payments claimed but not yet received in respect of the year ended 31 December 2012 as well as such payments received during 2012 in respect of the year ended 31 December 2011.

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Direct and indirect payments by the depositary	Received in Respect of 2011	Received in Respect of 2012	Claimed in Respect of 2012 But Not Yet Received
Reimbursement of NYSE listing fees		$ 357,807.00	
Reimbursement of legal fees claimed in U.S. dollars	$ 240,000.00	$ 210,000.00	
Reimbursement of legal fees claimed in Sterling	£ 23,322.20	£ 17,478.00	£ 22,040.54
Reimbursement of PCAOB fees			$ 163,600.00
Reimbursement of Annual Report production costs[1]	£ 36,410.00	£ 212,032.21	
Reimbursement of investor relations expenses[2]	$ 138,683.26	$ 612,000.00	$ 355,523.07
Distribution of annual general meeting materials		$ 530,034.27	
Tabulation of voting instructions cards		$ 591.24	
Reimbursement of other programme-related expenditures claimed in U.S. Dollars		$ 10,735.93	
Reimbursement of other programme-related expenditures claimed in Sterling			

(1) Annual Report production costs include SEC filing fees.

(2) Investor relations expenses include travel expenses, fees of investor relations consultants, expenses involved in arranging investor relations meetings and telephone expenses.

PART II

Item 13. **Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

Item 14. **Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable.

Item 15. **Controls and Procedures**

The information set forth under the heading:

Accountability on pages 100 to 102

of the GSK Annual Report 2012 is incorporated herein by reference.

US law and regulation

A number of provisions of US law and regulation apply to the company because the our shares are quoted on the New York Stock Exchange (the NYSE) in the form of American Depositary Shares.

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 we explain any significant variations. This explanation is contained in our Form 20-F filing, which can be accessed from the Securities and Exchange Commission s (SEC) EDGAR database or via our website. NYSE rules that came into effect in 2005 require us to file annual and interim written affirmations concerning the Audit & Risk Committee and our 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, the company has established a Disclosure Committee. The Committee reports to the CEO, the CFO and to the Audit & Risk Committee. It is chaired by the Company Secretary and the members consist of senior managers from finance, legal, corporate communications and investor relations.

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External legal counsel, the external auditors and internal experts 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 2012, the Committee met 10 times.

Sarbanes-Oxley requires that the Annual Report contains a statement as to whether a member of our Audit & Risk Committee (ARC) is an audit committee financial expert as defined by Sarbanes-Oxley. For a summary regarding the Board s judgement on this matter, please refer to pages 90 and 91 of the GSK Annual Report 2012. Additional disclosure requirements arise under section 302 and section 404 of Sarbanes-Oxley in respect of disclosure controls and procedures and internal control over financial reporting.

Section 302: Corporate responsibility for financial reports

Sarbanes-Oxley also introduced a requirement for the CEO and the CFO to complete formal certifications, confirming that:

- they have each reviewed the Annual Report and Form 20-F;
- based on their knowledge, the Annual Report and Form 20-F contain 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;