GLAXOSMITHKLINE PLC
Form 20-F
March 18, 2016
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As filed with the Securities and Exchange Commission on March 18, 2016

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, 2015

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
0.700% Notes due 2016	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
2.800% Notes due 2023	New York Stock Exchange
5.375% Notes due 2034	London Stock Exchange
6.375% Notes due 2038	New York Stock Exchange
4.200% Notes due 2043	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 **5,361,307,647**

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 2015 Form 20-F of GlaxoSmithKline plc set out below is being incorporated by reference from the GSK Annual Report 2015 included as exhibit 15.2 to this Form 20-F dated and submitted on March 18, 2016 (the GSK Annual Report 2015).

All references in this Form 20-F to GlaxoSmithKline, the Group, GSK, we or our mean GlaxoSmithKline plc an 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 on page 1 and the inside back cover, Directors Report on page 101, Directors statement of responsibilities on page 130, Directors statement of responsibilities in relation to the company s financial statements on page 211, Share capital and control on pages 241 to 242, Financial calendar , Results announcements ; Financial reports and Annual General Meeting 2016 on page 243, Registrar on page 246, ADR Depositary , Glaxo Wellcome and SmithKline Beecham Corporate PEPs , Donating shares to Save the Children , Contacts , Share scam alert and Responsible Business Supplement on page 247, Section 13(r) of the US Securities Exchange Act on page 249 and Glossary of terms on page 259 in each case of the GSK Annual Report 2015 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 certain portions of the GSK Annual Report 2015 incorporated by reference herein, namely the Directors Report (for which see page 101 thereof), the Strategic Report (pages 2 to 72 thereof, portions of which are incorporated by reference as described below) and the Remuneration Report (pages 102 to 126, portions of which are incorporated by reference as described below). These reports have been drawn up and presented in accordance with, and in reliance upon, English company law. Under English law, the Directors would be liable to the company, but not to any third party, if these sections of the GSK Annual Report 2015 contain errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

Portions of the GSK Annual Report 2015 incorporated by reference herein contain references to our website. Information on our website or any other website referenced in the GSK Annual Report 2015 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.

Item 3. **Key Information**

3.A Selected financial data

The information set forth under the heading:

Five year record on pages 222 to 224; and
Dividends on page 243

of the GSK Annual Report 2015 is incorporated herein by reference.

3.B Capitalization and indebtedness

Not applicable.

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3.C Reasons for the offer and use of proceeds

Not applicable.

3.D Risk factors

Principal risks and uncertainties

The principal risks discussed below are the risks and uncertainties relevant to our business, financial condition and results of operations that may affect our performance and ability to achieve our objectives. The factors below are those that we believe could cause our actual results to differ materially from expected and historical results.

We must adapt to and comply with a broad range of laws and regulations. These requirements apply to research and development, manufacturing, testing, approval, distribution, sales and marketing of Pharmaceutical, Vaccine and Consumer Healthcare products, and affect not only the cost of product development but also the time required to reach the market and the likelihood of doing so successfully.

Moreover, as rules and regulations change, and governmental interpretation of those rules and regulations evolves, the nature of a particular risk may change. Changes to certain regulatory regimes may be substantial. Any change in, and any failure to comply with, applicable law and regulation could materially and adversely affect our financial results.

Similarly, our business exposes us to litigation and government investigations, including but not limited to product liability litigation, patent and antitrust litigation and sales and marketing litigation. Litigation and government investigations, including related provisions we may make for unfavourable outcomes and increases in related costs such as insurance premiums, could materially and adversely affect our financial results.

More detail on the status and various uncertainties involved in our significant unresolved disputes and potential litigation is set out in Note 45, Legal proceedings , on pages 206 to 210 of the GSK Annual Report 2015.

Patient safety

Risk definition

Failure to appropriately collect, review, follow up, or report adverse events from all potential sources, and to act on any relevant findings in a timely manner.

Risk impact

The impact of this risk is potentially to compromise our ability to conduct robust safety signal detection and interpretation and to ensure that appropriate decisions are taken with respect to the risk/benefit profile of our products, including the completeness and accuracy of product labels and the pursuit of additional studies/analyses, as appropriate. This could lead to potential harm to patients, reputational damage, product liability claims or other litigation, governmental investigation, regulatory action such as fines, penalties or loss of product authorisation.

Context

Pre-clinical and clinical trials are conducted during the development of investigational Pharmaceutical, Vaccine and Consumer Healthcare Products to determine the safety and efficacy of the products for use by humans.

Notwithstanding the efforts we make to determine the safety of our products through appropriate pre-clinical and clinical trials, unanticipated side effects may become evident only when products are widely introduced into the marketplace. Questions may be raised not only by our ongoing safety surveillance and post-marketing studies but also by governmental agencies and third-parties that may analyse publicly available clinical trial results.

The Group is currently a defendant in a number of product liability lawsuits, including class actions, that involve significant claims for damages related to our products. Litigation, particularly in the US, is inherently unpredictable. Class actions that seek to sweep together all persons who were prescribed our products increase the potential liability. 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.

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Intellectual property

Risk definition

Failure to appropriately secure and protect intellectual property rights.

Risk impact

Any failure to obtain or subsequent loss of patent protection, including reducing the availability or scope of patent rights or compulsory licensing (in which a government forces a manufacturer to license its patents for specific products to a competitor), could materially and adversely affect our 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 our products, which could also materially and adversely affect our financial results.

Context

As an innovative Pharmaceutical, Vaccine and Consumer Healthcare Products company, we seek 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 our business strategy and success. 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 expiration of certain intellectual property rights, a generic manufacturer may lawfully produce a generic version of the product.

We operate in markets where intellectual property laws and patent offices are still developing and where governments may be unwilling to grant or enforce intellectual property rights in a fashion similar to more developed regions such as the EU, Japan and the US. Some developing countries have limited, or threatened to limit, effective patent protection for pharmaceutical products in order to facilitate early competition within their markets from generic manufacturers.

We face competition from manufacturers of proprietary and generic pharmaceutical products in all of our major markets. Introduction of generic products, particularly in the US where we have our highest turnover and margins, typically leads to a rapid and dramatic loss of sales and reduces our revenues and margins for our proprietary products.

We depend on certain key products for a significant portion of our sales. One such product is our respiratory pharmaceutical product *Seretide/Advair* which accounts for significant Group sales worldwide. The timing and impact of entry in the US for a generic product containing the same combination of active substances as *Seretide/Advair* is uncertain. The US patent for compositions containing the combination of active substances in *Seretide/Advair* expired during 2010 although the US patent on a component of the *Advair* Diskus device continues until August 2016. Generic products containing the same combination of active substances as *Seretide/Advair* (in both metered dose inhalers and dry powder inhalers) have been launched by several manufacturers in a number of European markets. The timing and impact of entry in the US and major markets in Europe for a follow-on product to *Seretide/Advair* is uncertain.

Generic drug manufacturers have also exhibited a readiness to market generic versions of many of our most important products prior to the expiration of our patents. Their efforts may involve challenges to the validity or enforceability of a patent or assertions that their generic product does not infringe our patents. As a result, we are and may continue to be involved in legal proceedings involving patent challenges, which may materially and adversely affect our financial results. Moreover, in the US, 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. A successful anti-trust claim by a private party or government entity could materially and adversely affect our financial results.

The expiration dates for patents for our major products which may affect the dates on which generic versions of our products may be introduced are set out on pages 228 to 229 of the GSK Annual Report 2015. Legal proceedings involving patent challenges are set out in Note 45 to the financial statements, Legal proceedings on pages 206 to 210 of the GSK Annual Report 2015.

Product quality

Risk definition

Failure to comply with current Good Manufacturing Practices (cGMP) or inadequate controls and governance of quality in the supply chain covering supplier standards, manufacturing and distribution of products.

Risk impact

A failure to ensure product quality could have far reaching implications in terms of patient and consumer safety resulting in product launch delays, supply interruptions and product recalls which would have the potential to do damage to our reputation. Associated regulatory, legal, and financial consequences could materially and adversely affect our reputation and financial results.

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Context

Patients, consumers and healthcare professionals trust the quality of our products. A failure to ensure product quality is an enterprise risk which is applicable across all of our business activities. Product quality may be influenced by many factors including product and process understanding, consistency of manufacturing components, compliance with GMP, accuracy of labelling, reliability of the external 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, with increasing scrutiny of supply continuity, a focus on improved distribution practice and the introduction of novel cell and gene based therapies. Review of inspections conducted across the industry by national regulatory authorities during 2015 highlighted an ongoing focus on data integrity, contamination prevention and the rigour of quality investigations including the robustness of decision making and the timely escalation of pertinent issues to regulatory authorities.

Financial control and reporting

Risk definition

Failure to comply with current tax law or incurring significant losses due to treasury activities; failure to report accurate financial information in compliance with accounting standards and applicable legislation; failure to maintain adequate governance and oversight over third-party relationships.

Risk impact

Non-compliance with existing or new financial reporting and disclosure requirements, or changes to the recognition of income and expenses, could expose us to litigation and regulatory action and could materially and adversely affect our financial results. 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 our effective tax rate. Significant losses may arise from inconsistent application of treasury policies, transactional or settlement errors, or counterparty defaults. Any changes in the substance or application of the governing tax laws, failure to comply with such tax laws or significant losses due to treasury activities could materially and adversely affect our financial results.

Failure to adequately manage third-party relationships could result in business interruption and exposure to risk ranging from sub-optimal contractual terms and conditions, to severe business sanctions and/or significant reputational damage. Any of these consequences could materially and adversely affect our business operations and financial results.

Context

The Group is required by the laws of various jurisdictions to disclose publicly its financial results and events that could materially affect the financial results of the Group. Regulators routinely review the financial statements of listed companies for compliance with new, revised or existing accounting and regulatory requirements. The Group believes that it complies with the appropriate regulatory requirements concerning our financial statements and disclosure of material information including any transactions relating to business restructuring such as acquisitions and divestitures. However, should we be subject to an investigation into potential non-compliance with accounting and disclosure requirements, this may lead to restatements of previously reported results and significant penalties.

Our Treasury group deals in high value transactions, mostly foreign exchange and cash management transactions, on a daily basis.

The Group s effective tax rate reflects rates of tax in the jurisdictions in which the Group operates that are both higher and lower than the UK rate and take into account regimes that encourage innovation and investment in science by providing tax incentives which, if changed, could affect the Group s tax rate.

The tax charge included in our financial statements is our best estimate of tax liability pending audits by tax authorities. The worldwide nature of our operations and cross-border supply routes can be complex and can lead to questions on tax audit.

There continues to be a significant international focus on tax reform, including the OECD s BEPS project and European Commission initiatives such as the proposed anti-BEPS Directive and the increased use of fiscal state aid investigations. Together with domestic initiatives around the world, these may result in significant changes to established tax principals and an increase in tax authority disputes. These, regardless of their merit or outcomes, can be costly, divert management attention and may adversely impact our reputation.

Third parties are critical to our business delivery and are an integral part of the solution to improve our productivity, quality, service and innovation. We rely on third-parties, including suppliers, distributors, individual contractors, licensees, and other pharmaceutical and biotechnology collaboration partners for discovery, manufacture, and marketing of our products and important business processes.

Third party business relationships present a material risk. For example, we share critical and sensitive information such as marketing plans, clinical data, and employee data with specific third parties who are conducting the relevant outsourced business operations. Inadequate protection or misuse of this information by third parties could have significant business impact. Similarly, we use distributors and agents in a range of activities such as promotion and tendering which have inherent risks such as inappropriate promotion or corruption. Insufficient internal compliance and controls by the distributors could affect our reputation. These risks are further increased by the complexities of working with large numbers of third parties.

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Anti-Bribery and Corruption (ABAC)

Risk definition

Failure to prevent GSK employees and third parties not complying with our ABAC principles and standards, as well as with all applicable legislation.

Risk impact

Failure to mitigate this risk could expose the Group and associated persons to governmental investigation, regulatory action and civil and criminal liability, as well as damage the Group s reputation, shareholder value, and our licence to operate in particular jurisdictions, all of which could materially and adversely affect our financial results.

Context

We are exposed to bribery and corruption risk through our global business operations. In some markets, the government structure and the rule of law are less developed, and this has a bearing on our bribery and corruption risk exposure. In addition to the global nature of our business, the healthcare sector is highly competitive and subject to regulation. This increases the instances where we are exposed to activities and interactions with bribery and corruption risk.

The US and UK authorities are leading extra-territorial ABAC enquiries into certain of the Group s operations. These investigations are discussed further in Note 45 Legal proceedings on pages 206 to 210 of the GSK Annual Report 2015.

Commercialisation

Risk definition

Failure to execute business strategies, or manage competitive opportunities or threats effectively and in accordance with the letter and spirit of legal, industry or company requirements.

Risk impact

Failure to manage risks related to commercialisation could materially and adversely affect our ability to grow a diversified global business and deliver more products of value.

Failure to comply with applicable laws, rules and regulations may result in governmental investigation, regulatory action and legal proceedings brought against the Group by governmental and private plaintiffs. Failure to provide accurate and complete information related to our products may result in incomplete awareness of the benefit:risk profile of our products and possibly suboptimal treatment of patients and consumers. Any of these consequences could materially and adversely affect the Group. Any practices that are found to be misaligned with our values could also result in reputational damage and dilute trust established with key stakeholders.

Context

We operate on a global basis in an industry that is both highly competitive and highly regulated. Our competitors may make significant product innovations and technical advances and may intensify price competition. In light of this

competitive environment, continued development of commercially viable new products and the development of additional uses for existing products are critical to achieve our strategic objectives.

Developing new pharmaceutical, vaccine and consumer healthcare products is a costly, lengthy and uncertain process, however, and a product candidate may fail at any stage, including after significant Group economic and human resources have been invested. Our competitors products or pricing strategies or any failure on our part to develop commercially successful products, or to develop additional uses for existing products, could materially and adversely affect our ability to achieve our strategic objectives.

We are committed to the ethical and responsible commercialisation of our products to support our mission to improve the quality of human life by enabling people to do more, feel better, and live longer. To accomplish this mission, we engage the healthcare community in various ways to provide important information about our medicines.

Promotion of approved products seeks to ensure that Healthcare Professionals (HCPs) globally have access to information they need, that patients and consumers have access to the products they need and that products are prescribed, recommended or used in a manner that provides the maximum healthcare benefit to patients and consumers. We are committed to communicating information related to our approved products in a responsible, legal, and ethical manner.

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At times, researchers, HCPs, healthcare organisations (HCOs) and other external experts that we engage may be compensated for services and expertise provided. However, payments must not be excessive and must never be or be perceived to be an inducement or reward for prescribing or recommending our products. Consistent with our ABAC policies, they also must comply with a market s ABAC laws if the recipient of any payment is a government official.

In 2012, we paid $3 billion (£1.9 billion) to resolve government investigations in the US focused in large part on promotional practices and in 2014 we paid RMB 3 billion (£301 million), to resolve a government investigation in China focused on offering money or property to non-government personnel in order to obtain improper commercial gains.

Research practices

Risk definition

Failure adequately to conduct ethical and sound preclinical and clinical research. In addition, failure to engage in scientific activities that are consistent with the letter and spirit of the law, industry, or the Group s requirements.

Risk impact

The impacts of the risk include harm to patients, reputational damage, failure to obtain the necessary regulatory approvals for our products, governmental investigation, legal proceedings brought against the Group by governmental and private plaintiffs (product liability suits and claims for damages), and regulatory action such as fines, penalties or loss of product authorisation. Any of these consequences could materially and adversely affect our financial results.

Context

Research relating to animals can raise ethical concerns. While we attempt to proactively address this, animal studies remain a vital part of our research. In many cases, they are the only method that can be used to investigate the effects of a potential new medicine in a living body before it is tested in humans, and they are generally mandated by regulators and ethically imperative. Animal research can provide critical information about the causes of diseases and how they develop. Some countries require additional animal testing even when medicines have been approved for use elsewhere.

Clinical trials in healthy volunteers and patients are used to assess and demonstrate an investigational product s efficacy and safety or further evaluate the product once it has been approved for marketing. We also work with human biological samples. These samples are fundamental to the discovery, development and safety monitoring of our products.

The integrity of our data is essential to success in all stages of the research data lifecycle: design, generation, recording and management, analysis, reporting and storage and retrieval. Our research data is governed by legislation and regulatory requirements.

Research data and supporting documents are core components at various stages of pipeline progression decision-making and also form the content of regulatory submissions. Poor data integrity can compromise our research efforts.

There are innate complexities and interdependencies required for regulatory filings, particularly given our global research and development footprint. Rapid changes in submission requirements in developing countries continue to

increase the complexity of worldwide product registration.

Scientific Engagement (SE) is an essential part of scientific discourse defined as the interaction and exchange of information between GSK and external communities in order to advance scientific and medical understanding, including the appropriate development and use of our products. Such non-promotional engagement with external stakeholder groups is vital to GSK s mission and necessary for scientific and medical advance.

The scope of SE activities includes: advisory boards; scientific consultancies; pre-planned informal discussions with HCPs; sharing medical information; publications (including abstracts to congresses); scientific interactions with payers, patients, governments and the media; and support for Independent Medical Education. Non-independent educational activities are covered by Commercial Practices (CP).

SE activities are essential but present legal, regulatory, and reputational risk if the sharing of data, invited media coverage or payments for service providers has, or is perceived to have, inappropriate promotional intent. The risks are particularly high where HCP engagement and associated Financial and/or Transfer of Value disclosures are required by GSK.

Environment, health and safety and sustainability (EHSS)

Risk definition

Failure to manage EHSS risks in line with our objectives and policies and with relevant laws and regulations.

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Risk impact

Failure to manage EHSS risks could lead to significant harm to people, the environment and communities in which we operate, fines, failure to meet stakeholder expectations and regulatory requirements, litigation or regulatory action, and damage to the Group s reputation and could materially and adversely affect our financial results.

Context

The Group is subject to health, safety and environmental laws of various jurisdictions. These laws impose duties to protect people, the environment and the communities in which we operate as well as potential obligations to remediate contaminated sites. We have 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 our use or ownership of such sites. Failure to manage these environmental risks properly could result in litigation, regulatory action and additional remedial costs that may materially and adversely affect our financial results. See Note 45 to the financial statements, Legal proceedings on pages 206 to 210 of the GSK Annual report 2015, for a discussion of the environmental related proceedings in which we are involved. We routinely accrue amounts related to our liabilities for such matters.

Information protection

Risk definition

Failure to protect and maintain access to critical or sensitive computer systems or information.

Risk impact

Failure to adequately protect critical and sensitive systems and information may result in loss of commercial or strategic advantage, damage to our reputation, litigation, or other business disruption including regulatory sanction, which could materially and adversely affect our financial results.

Context

We rely on critical and sensitive systems and data, such as corporate strategic plans, sensitive personally identifiable information, intellectual property, manufacturing systems and trade secrets. There is the potential that malicious or careless actions expose our computer systems or information to misuse or unauthorised disclosure.

Several GSK employees were indicted for theft of GSK research information. While the charges against the individuals are concerning, based on what we know, we do not believe this breach has had any material impact on the company s R&D activity or ongoing business. GSK is conducting a full internal review into what occurred, and planning to continue to enhance the multiple layers of data protection that we already have in place.

Crisis and continuity management

Risk definition

Failure to deliver a continuous supply of compliant finished product; inability to recover and sustain critical operations, including key supply chains, following a disruption, or to respond to a crisis incident, in a timely manner.

Risk impact

We recognise that failure to supply of our products can adversely impact consumers and patients who rely on them. A material interruption of supply or exclusion from healthcare programmes could expose us to litigation or regulatory action, incurring of fines or disgorgement and materially and adversely affect the Group s financial results. The Group s international operations, and those of its partners, maintain a vast global footprint also expose our workforce, facilities, operations and information technology to potential disruption resulting from a natural event (e.g. storm or earthquake), a man-made event (e.g. civil unrest, terrorism), or a global emergency (e.g. Ebola outbreak, Flu pandemic). It is important for GSK to have robust crisis management and recovery plans in place to manage such events.

Context

Our supply chain operations are subject to review and approval by various regulatory agencies that effectively provide our licence to operate. Failure by our manufacturing and distribution facilities or by suppliers of key services and materials could lead to litigation or regulatory action such as product recalls and seizures, interruption of supply, delays in the approval of new products, and suspension of manufacturing operations pending resolution of manufacturing or logistics issues.

Materials and services provided by third-party suppliers are necessary for the commercial production of our products, including active pharmaceutical ingredients (API), antigens, intermediates, commodities and components necessary for the manufacture and packaging of many of our Pharmaceutical, Vaccine and Consumer Healthcare products. Some of the third-party services procured, such as services provided by contract manufacturing organisations and clinical research organisations to support development of key products, are important to ensure continuous operation

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of our businesses. Although we undertake business continuity planning, single sourcing of certain components, bulk API, 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 or logistics system.

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 of logistics and manufacturing sites may result in delays or service interruptions.

Through effective crisis management and business continuity planning we are committed to providing for the health and safety of our people, minimising damage and impact to the Group, and maintaining functional operations following a natural or man-made disaster, or a public health emergency.

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

Note 38 Acquisitions and disposals on pages 185 to 189

of the GSK Annual Report 2015 is incorporated herein by reference.

4.B Business overview

See Item 3D Risk factors above;

In addition, the information set forth under the headings:

Our investor proposition on pages 2 to 3;

Our business on pages 4 to 5;

Chairman s statement on page 6;

CEO s statement on page 7 (excluding (i) the graphic under the heading 2015 highlights and (ii) the pro-forma figures in the parentheticals in the first and the fourth paragraphs under the subheading Trading performance);

Our global marketplace on pages 8 to 10;

Our business model on page 11;

Our strategic priorities on pages 12 to 13;

Pharmaceuticals on pages 20 to 25 (excluding (i) the graphic under the heading 2015 performance summary on page 20 and (ii) the second sentence in the second paragraph under the subheading Grow on page 22);

Vaccines on pages 28 to 31 (excluding (i) the graphic under the heading 2015 performance summary on page 28; (ii) the second, third and fifth sentence in the first paragraph under the subheading Grow on page 28; (iii) the graphic under the heading Our strategy in action on page 28; and (iv) the third sentence in the first paragraph under the subheading Simplify on page 31);

Consumer Healthcare on pages 34 to 37 (excluding (i) the graphic under the heading 2015 performance summary on page 34; (ii) the first sentence in the first paragraph and the second sentence in the second paragraph under the subheading Grow on page 36; and (iii) the second sentence in the second paragraph under the subheading Simplify on page 37);

Responsible business on pages 40 to 49;

Note 6 Segment information on pages 149 to 152;

Note 38 Acquisitions and disposals on pages 185 to 189;

Pharmaceutical products, competition and intellectual property on pages 228 to 229;

Vaccines products, competition and intellectual property on page 229; and

Consumer Healthcare products and competition on page 230

of the GSK Annual Report 2015 is incorporated herein by reference.

4.C Organizational structure

The information set forth under the heading:

Note 44 Principal Group companies on page 205; and

Group Companies on pages 250 to 258

of the GSK Annual Report 2015 is incorporated herein by reference.

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

Property, plant and equipment within Group financial review on page 66;

Note 6 Segment information on pages 149 to 152; and

Note 17 Property, plant and equipment on pages 161 to 162
of the GSK Annual Report 2015 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:

Pricing and market access on pages 8 and 10;

Regulatory environment on page 10;

Intellectual Property and patent protection developments on page 10;

Grow within Pharmaceuticals on page 22 (excluding the second sentence in the second paragraph under the subheading Grow);

Grow within Vaccines on page 28 (excluding (i) the graphic under the heading 2015 performance summary , (ii) the second, third and fifth sentences in the first paragraph under the subheading Grow and (iii) the graphic under the heading Our strategy in action);

Grow within Consumer Healthcare on page 36 (excluding the first sentence in the first paragraph and the second sentence in the second paragraph under the subheading Grow);

Cash generation and conversion on page 65;

Financial position and resources on pages 66 to 69;

Non-controlling interests in Viiv Healthcare on page 70;

Critical accounting policies on pages 70 to 71;

Treasury policies on page 72; and

Strategic report on page 72

of the GSK Annual Report 2015 is incorporated herein by reference.

The following tables reconcile total results to core results. References in the GSK Annual Report 2015 to the reconciliations on page 62 of that report should be read to refer to the information in these tables.

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Core results reconciliation	31 December 2015							
	Total results £m	Intangible asset amortisation £m	Intangible asset impairment £m	Major restructuring £m	Legal charges £m	Acquisition accounting £m	Disposals and other £m	Core results £m
Gross profit	15,070	522	147	563		89	12	16,403
Operating profit	10,322	563	206	1,891	221	2,238	(9,712)	5,729
Profit before taxation	10,526	563	206	1,896	221	2,238	(10,559)	5,091
Profit after taxation	8,372	402	156	1,455	200	1,886	(8,373)	4,098
Earnings per share	174.3p	8.3p	3.2p	30.1p	4.1p	28.8p	(173.1)p	75.7p
Weighted average number of shares (millions)	4,831							4,831
The following adjustments are made in arriving at core gross profit								
Cost of sales	(8,853)	522	147	563		89	12	(7,520)
The following adjustments are made in arriving at core operating profit								
Selling, general and administration	(9,232)		7	1,009	221	88		(7,907)
Research and development	(3,560)	41	52	319			52	(3,096)
Other operating income	7,715					2,061	(9,776)	
The following adjustments are made in arriving at core profit before tax								
Net finance costs	(653)			5			12	(636)
Profit on disposal of associates	843						(843)	
Share of after tax profits/(losses) of associates and joint ventures	14						(16)	(2)
The following adjustments are made in arriving at core profit after tax								
Taxation	(2,154)	(161)	(50)	(441)	(21)	(352)	2,186	(993)

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Core results reconciliation	31 December 2014							
	Total results £m	Intangible asset amortisation £m	Intangible asset impairment £m	Major restructuring £m	Legal charges £m	Acquisition accounting £m	Disposals and other £m	Core results £m
Gross profit	15,683	503	78	204			3	16,471
Operating profit	3,597	575	150	750	548	843	131	6,594
Profit before taxation	2,968	575	150	755	548	843	139	5,978
Profit after taxation	2,831	366	121	540	522	709	(283)	4,806
Earnings per share	57.3p	7.6p	2.5p	11.3p	10.9p	11.7p	(5.9)p	95.4p
Weighted average number of shares (millions)	4,808							4,808
The following adjustments are made in arriving at core gross profit								
Cost of sales	(7,323)	503	78	204			3	(6,535)
The following adjustments are made in arriving at core operating profit								
Selling, general and administration	(8,246)			430	548	75	119	(7,074)
Research and development	(3,450)	72	72	116			77	(3,113)
Other operating income	(700)					768	(68)	
The following adjustments are made in arriving at core profit before tax								
Net finance costs	(659)			5			8	(646)
The following adjustments are made in arriving at core profit after tax								
Taxation	(137)	(209)	(29)	(215)	(26)	(134)	(422)	(1,172)

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Core results reconciliation 31 December 2013

	Total results £m	Intangible asset amortisation £m	Intangible asset impairment £m	Major restructuring £m	Legal charges £m	Acquisition accounting £m	Core results £m	Divestments £m	Core results excluding divestments £m
Gross profit	17,920	450	408	178			18,956	(429)	18,527
Operating profit	7,028	547	739	517	252	(1,068)	8,015	(244)	7,771
Profit before taxation	6,647	547	739	523	252	(1,342)	7,366	(244)	7,122
Profit after taxation	5,628	398	513	378	243	(1,489)	5,671	(184)	5,487
Earnings per share	112.5p	8.2p	10.7p	7.8p	5.0p	(32.0)p	112.2p	(3.8)p	108.4p
Weighted average number of shares (millions)	4,831						4,831		
The following adjustments are made in arriving at core gross profit									
Turnover	26,505						26,505	(903)	25,602
Cost of sales	(8,585)	450	408	178			(7,549)	474	(7,075)
The following adjustments are made in arriving at core operating profit									
Selling, general and administration	(8,480)			300	252		(7,928)	179	(7,749)
Research and development	(3,923)	97	331	39		56	(3,400)	6	(3,394)
Other operating income	1,124					(1,124)			
The following adjustments are made in arriving at core profit before tax									
Net finance costs	(706)			6		8	(692)		(692)
Profit on disposal of associates	282					(282)			
The following adjustments are made in arriving at core profit after tax									
Taxation	(1,019)	(149)	(226)	(145)	(9)	(147)	(1,695)	60	(1,635)

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Financial Review 2015

Group financial review

2015 highlights

In 2015, we made significant progress against our strategy including closing the Novartis transaction and accelerating the delivery of our restructuring and integration programmes. This allowed us to release £1 billion of incremental savings across the Group, ahead of our original targets by some £200 million. Importantly, we also created additional flexibility to invest behind both the R&D pipeline and new product launches, helping to build momentum in each of our three businesses.

The Group is now better positioned to drive sustainable growth and, given the significant restructuring and reshaping of our cost base, is better placed to deliver against our Financial architecture and drive growth in earnings per share ahead of sales, while improving cash generation to support the dividend over the longer term.

The current level of dividend exceeds the cash flows generated by the business. Our strategy is designed to rebuild that capacity through the transition of the Group s business away from its previous reliance on *Seretide/Advair* to more broadly based and growing cash flows, driven by new products in Pharmaceuticals, the expansion of our Vaccines and Consumer Healthcare businesses, operating cost savings arising from our integration and restructuring programme and a reduction in the level of restructuring spending as the programme comes to an end.

During this period of transition, we have said that we intend to prioritise available cash, whether from operational cash flows or disposals, for the return of ordinary dividends to shareholders and to accelerate investment behind our restructuring and integration programmes to support more rapid delivery of the synergy benefits and other new growth opportunities we have identified across the Group.

In line with this prioritisation, the Board has declared an ordinary dividend of 80 pence per share for 2015 and has also said that it expects to pay an ordinary dividend of 80 pence per share for 2016 and 2017 as we transition the Group s businesses.

To deliver on this expectation and ensure sufficient financial flexibility to continue to invest behind the synergy benefits and other growth opportunities as well as respond to the potential exercise of put options by our partners in ViiV Healthcare and the Consumer Healthcare Joint Venture, we have retained all but £1 billion of the net proceeds received from Novartis and a number of other non-strategic asset disposals. £1 billion is being returned to shareholders in the form of a special dividend of 20 pence per share to be paid in April 2016.

Retention of disposal proceeds and our continued focus on cash flow management and the protection of our credit profile has meant that during the year we were able to fund the restructuring and integration programmes, declare an ordinary dividend of 80 pence per share and reduce net debt by £3.7 billion, securing the flexibility we need to complete the transition of our business and deliver on our strategic objectives.

Financial architecture

Our financial architecture is designed to support the consistent execution of our strategy and to enhance the returns we deliver to shareholders.

It is focused on delivering more sustainable sales growth across the company, improving operating leverage, or profitability, and enhancing our financial efficiency. This is in order to drive growth in EPS ahead of our sales performance and then convert more of those earnings into cash that can be used to invest in the business or return to shareholders, wherever we see the most attractive returns.

This clear set of priorities ensures consistency in how capital is allocated across and between the different businesses within GSK with relative returns from each business benchmarked to relevant external comparatives using a Cash Flow Return on Investment (CFROI) based framework of metrics. Specific capital investments are also benchmarked in a similar way.

Turnover growth

The Group s turnover performance in 2015 reflected further progress in delivery against our strategic objective of building a more balanced set of growth drivers across our business. We continued to launch new products in our Pharmaceuticals business and we expanded our Vaccines and Consumer Healthcare businesses through the Novartis transaction. These new sources of growth more than offset the decline of *Seretide/Advair* and some of our other older products and we delivered overall turnover growth of 6% CER in the year.

Sales of New Pharmaceutical and Vaccines products of £2 billion in the year were a key driver but Consumer Healthcare also made a significant contribution, with new products, including the recent *Flonase* OTC switch, driving growth.

Operating leverage

Our ability to deliver improved profitability is heavily impacted by the overall trend in our sales, but it can also be affected by changes in the mix of business, regional and product contributions to growth in operating profit. 2015 saw a significant change in the mix of the Group following the Novartis transaction, which helped create industry-leading Vaccines and Consumer Healthcare businesses alongside the divestment of our marketed Oncology products.

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At the time of divestment, the Oncology business had a much higher operating margin than the acquired Vaccines and Consumer Healthcare businesses, particularly given the heavy investment and cost structure inherited from Novartis. While the integration plans are addressing that cost structure directly and we have set targets for significant margin improvement in both of the acquired businesses, our core operating margin in the short-term has been affected materially by the transaction, and this represented the majority of the decline in the core operating margin of 4.1 percentage points to 23.9%. In addition the decline reflected the impact of the benefit in 2014 to the operating margin of a structural credit in SG&A of £219 million which was not repeated in 2015.

This reflected the delivery of around £1 billion of incremental cost savings from our integration and restructuring programmes. The savings contributed to offset price pressures in older parts of the portfolio and also added to the cost flexibility we have been building in recent years.

This provided greater opportunities to reallocate resources across the Group, including reinvestment to support new launches and our R&D pipeline, but also improvements to our manufacturing capabilities and capacity.

Our integration and restructuring programme is ahead of schedule. By the end of 2015, the programme had delivered approximately £1.6 billion of annual savings and it remains on track to deliver £3 billion of annual savings in total by the end of 2017.

Financial efficiency

We continue to focus on improving our financial efficiency and overall funding costs while protecting our credit profile and, in particular, our short-term target credit ratings.

Earnings per share (EPS)

Total EPS in 2015 saw a significant increase to 174.3p, primarily driven by the profit on the disposal of our Oncology business. Core EPS declined 15%, mainly reflecting the short-term dilution of the Novartis transaction but also the impact of the continuing transition of our Pharmaceuticals business, particularly in Respiratory.

Free cash flow

Free cash flow generation in 2015 has been impacted by the ongoing transition of our pharmaceutical portfolio, particularly the decline in *Seretide/Advair* but also the short-term impact of the Novartis transaction and, in particular, the inherited levels of cost and investment that are being addressed as part of our synergy and integration plans.

The restructuring costs of these plans and other costs of the Novartis transaction are being funded from the proceeds of the disposal of the Oncology business and other non-strategic assets, consistent with our general approach to funding the costs of restructuring.

Excluding the cash restructuring charges incurred during the year of £1.1 billion and the initial tax payments due on the Oncology disposal, as well as legal payments, free cash flow generated in 2015 was £2.5 billion compared with £3.9 billion in 2014, when adjusted on a comparable basis.

In addition to rebuilding our cash generation capacity, we continue to focus on improving the efficiency of capital investment and our use of working capital to reduce internal cash requirements. This is expected to allow us to build operating cash flows more quickly while maintaining the dividend, returning the Group to growth and protecting our credit profile.

Returns to shareholders

The Board approved an ordinary dividend of 80 pence for 2015, together with a special 20 pence dividend to be paid from the net proceeds of the Oncology business and other asset disposals. This will be distributed in April 2016 alongside the regular fourth quarter dividend for 2015. We also expect to pay annual dividends of 80 pence for 2016 and 2017.

A fuller review of the financial results is set out below.

Simon Dingemans

Chief Financial Officer

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Financial review 2015

Results reporting

Our Group financial review discusses the operating and financial performance of the Group, cash flows and our financial position and resources. We compare the results for each year primarily with the results of the preceding year. This review discusses the total results of the Group and also core results.

We also use a number of adjusted measures to report the performance of our business. These measures are used by management for planning and reporting purposes and in discussions with and presentations to investment analysts and rating agencies and are defined below. These measures are not defined in IFRS and may not be comparable with similarly described measures used by other companies.

CER growth

In order to illustrate underlying performance, it is our practice to discuss the results in terms of constant exchange rate (CER) growth. This represents growth calculated as if the exchange rates used to determine the results of overseas companies in Sterling had remained unchanged from those used in the previous year. CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates.

All growth rates included in this Report are at CER unless otherwise stated.

Core results reporting

Total reported results represent the Group s overall performance. However, these results can contain material unusual or non-operational items that may obscure the key trends and factors determining the Group s operational performance. As a result, we also report core results.

Core results exclude the following items from total results: amortisation and impairment of intangible assets (excluding computer software) and goodwill; major restructuring costs, including those costs following material acquisitions; legal charges (net of insurance recoveries) and expenses on the settlement of litigation and government investigations, and acquisition accounting adjustments for material acquisitions, disposals of associates, products and businesses, other operating income other than royalty income, and other items, together with the tax effects of all of these items.

Core results reporting is utilised as one of the bases for internal performance reporting alongside Total results, cash flow generation and a number other metrics. Core results are presented and discussed in this Group financial review as we believe that core results are more representative of the performance of the Group s operations and allow the key trends and factors driving that performance to be more easily and clearly identified by shareholders. The definition of core results, as set out above, also aligns the Group s results with the majority of our peer companies and how they report earnings.

Reconciliations between total and core results, including detailed breakdowns of the key non-core items, are set out on page 11, and are provided to shareholders to ensure full visibility and transparency as they assess the Group s performance.

Segment reporting

The Novartis transaction completed on 2 March 2015 and so our reported year to date results include ten months turnover of the former Novartis Vaccines and Consumer Healthcare products and also exclude sales of the former GSK Oncology business from 2 March. Following the completion of the transaction with Novartis, we have reorganised the Group to reflect the greater balance between the Pharmaceuticals, Vaccines and Consumer Healthcare businesses and responsibilities for some parts of these respective businesses have been realigned. We are reporting these three businesses separately with corporate costs reallocated to each accordingly so that the profitability of each business is reflected more accurately. We have restated our segment information consistent with this realignment.

Free cash flow

Free cash flow is the net cash inflow from operating activities less capital expenditure, interest and dividends paid to non-controlling interests plus proceeds from the sale of property, plant and equipment and dividends received from joint ventures and associated undertakings. Free cash flow growth is calculated on a Sterling basis. A reconciliation is presented on page 65 of the GSK Annual Report 2015.

Adjusted free cash flow

Adjusted free cash flow excludes payments made to settle legal disputes.

Working capital conversion cycle

The working capital conversion cycle is calculated as the number of days sales outstanding plus days inventory outstanding, less days purchases outstanding.

R&D internal rate of return

The calculation for 2015 included products launched from 1 January 2013 to 31 December 2015 and compounds in phases IIb and III of the development process. The calculation was based on actual sales from 2013 to 2015, and forecast sales up to 2036, adjusted to reflect expected failure rates, which are broadly in line with standard industry failure rates. The cost base used in this calculation comprises an estimate of attributable R&D costs and actual and projected milestone payments where appropriate.

This IRR estimate factored in applicable components of the Novartis transaction, including the acquisition costs and forecast cash flows of *Bexsero* and Men ABCWY, as well as cash flows for the relevant oncology assets divested (i.e. products launched since 2013 and AKT inhibitor). The oncology cash flows included estimated attributable R&D costs and an estimated proportion of the after-tax sale proceeds. Proceeds for products launched before 2013 are excluded for consistency with our overall methodology. The net impact of the acquisitions and disposals on the estimated IRR is not material.

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Group turnover

	2015 £m	2014 (restated) £m	Growth CER%	Growth £%
Global Pharmaceuticals	11,844	13,950	(14)	(15)
HIV	2,322	1,498	54	55
Pharmaceuticals	14,166	15,448	(7)	(8)
Vaccines	3,657	3,159	19	16
Consumer Healthcare	6,028	4,312	44	40
Segment turnover	23,851	22,919	6	4
Corporate and other unallocated turnover	72	87	(9)	(17)
Group turnover	23,923	23,006	6	4

CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates. HIV turnover represents the sales of ViiV Healthcare.

Group turnover for 2015 increased 6% to £23,923 million, with Pharmaceuticals down 7%, Vaccines up 19% and Consumer Healthcare up 44%, reflecting the impact of the Novartis transaction. Sales of New Pharmaceutical and Vaccine products were £1,988 million in the year.

The Corporate and unallocated turnover of £72 million represented sales of several Vaccines and Consumer Healthcare products, which were being held for sale in a number of markets. We were required to dispose of these products in specific markets in order to meet the requirements of the anti-trust approvals for the Novartis transaction. The disposals were completed in August and September 2015.

Group turnover by geographic region

	2015 £m	2014 (restated) £m	Growth CER%	Growth £%
US	8,222	7,409	3	11
Europe	6,450	6,292	11	3
International	9,251	9,305	5	(1)
	23,923	23,006	6	4

Group turnover outside of the US and Europe represented 39% of total Group turnover in 2015 (2014: 40%).

Sales from new Pharmaceutical and Vaccine products

	2015 £m	2014 £m	Growth CER%	Growth £%
Respiratory:				
Relvar/Breo Ellipta	257	67	>100	>100
Anoro Ellipta	79	17	>100	>100
Arnuity Ellipta	3			
Incruse Ellipta	14			
Nucala	1			
CVMU:				
Eperzan/Tanzeum	41	6	>100	>100
Global Pharmaceuticals	395	90	>100	>100
HIV:				
Tivicay	588	282	>100	>100
Triumeq	730	57	>100	>100
Pharmaceuticals	1,713	429	>100	>100
Bexsero	115			
Menveo	160			
Vaccines	275			
	1,988	429	>100	>100

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At our Investor Day on 6 May 2015, we identified a series of New Pharmaceutical and Vaccine products that were expected to deliver at least £6 billion of revenues per annum on a CER basis by 2020. Those products, plus current clinical pipeline asset, *Shingrix*, are as set out above and, as a group are defined as New Pharmaceutical and Vaccine products. Sales of the New Pharmaceutical Vaccine products are now expected to reach £6 billion of revenues per annum on a CER basis up to two years earlier (2018).

Sales of New Pharmaceutical and Vaccine products were £1,988 million and represented approximately 11% of Pharmaceuticals and Vaccines turnover in the year.

Pharmaceuticals

Pharmaceuticals turnover was £14,166 million, down 7%, primarily reflecting the disposal of the Oncology business. There was also a 7% decline in Respiratory sales and a 15% decline in sales of Established Products, largely offset by growth in other New Pharmaceuticals products, particularly HIV products *Tivicay* and *Triumeq*.

Sales of New Pharmaceutical products were £1,713 million, an increase of £1,284 million, which more than offset the decline in *Seretide/Advair* sales of £548 million. Global *Seretide/Advair* sales were £3.7 billion, down approximately 30% from their peak in 2013.

Global Pharmaceuticals

Global Pharmaceuticals turnover

	2015 £m	2014 (restated) £m	Growth CER%	Growth £%
Respiratory	5,741	6,168	(7)	(7)
Cardiovascular, metabolic and urology	858	965	(9)	(11)
Immuno-inflammation	263	214	16	23
Oncology	255	1,202	(79)	(79)
Other pharmaceuticals	2,199	2,390	(4)	(8)
Established Products	2,528	3,011	(15)	(16)
	11,844	13,950	(14)	(15)

Global Pharmaceuticals turnover was £11,844 million, down 14%, primarily reflecting the disposal of the Oncology business. There was also a 7% decline in Respiratory sales and a 15% decline in sales of Established Products. Sales of New Global Pharmaceutical products were £395 million, an increase of £305 million.

In the US, Global Pharmaceuticals reported turnover of £4,233 million, a decline of 20% in the year, primarily reflecting the Oncology disposal. In addition, the decline reflected a 10% fall in Respiratory sales and a 30% fall in Established Products sales. Within Respiratory, *Advair* sales were down 13% to £1,865 million (4% volume decline and a 9% negative impact of price and mix) and *Flovent* sales down 19% to £379 million. These declines were partly offset by sales of the new Respiratory products, *Breo Ellipta*, *Anoro Ellipta*, *Incruse Ellipta* and *Arnuity Ellipta*, with combined sales of £177 million in the year.

The primary driver of the decline in Established Products was *Lovaza*, which was down 64% to £93 million following the launch of generic competition in April 2014. *Avodart* declined 41% to £166 million reflecting the launch of generic competition in October 2015. *Relenza* sales more than doubled to £69 million, partly reflecting US CDC orders, while *Benlysta* continued its strong growth with sales of £209 million, up 24%.

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In Europe, Global Pharmaceuticals turnover declined 16% to £2,849 million, primarily reflecting the impact of the Oncology disposal. In addition, Respiratory sales declined 9% to £1,415 million with an 18% decline in *Seretide* due to increased generic competition and the ongoing transition to the new *Ellipta* products, which reported total sales of £99 million in the year. Established Products sales were down 11% to £493 million, reflecting increased generic competition and some capacity constraints to supply of a number of products.

International Global Pharmaceuticals sales of £4,762 million were down 7%. Sales in Emerging Markets of £2,963 million declined 9%. Emerging Market Respiratory sales declined 1%, with *Seretide* down 5%, impacted by increased generic competition and price pressure, offset by *Flovent* up 5%, *Ventolin*, up 1%, and *Avamys*, up 8%, as well as £13 million of *Relvar Ellipta* and *Anoro Ellipta* sales. Established Products were down 14%, and Dermatology products were down 15%, both partly impacted by supply constraints.

Within Emerging Markets, China was down 18%, with Respiratory flat and Established Products down 21%, primarily reflecting significantly increased pricing pressures and the ongoing reshaping of the business, including a number of product disposals. In Japan, Global Pharmaceutical sales were down 5% to £1,213 million, primarily reflecting the Oncology disposal. In addition, there was a 5% increase in Respiratory sales, primarily driven by *Relvar Ellipta*, partly offset by lower sales of *Relenza*, reflecting a weaker and earlier flu season than in 2014, and continued competitive pressures to a number of Established Products.

Respiratory

Respiratory sales in the year declined 7% to £5,741 million. *Seretide/Advair* sales were down 13% to £3,681 million, *Flixotide/Flovent* sales decreased 12% to £623 million and *Ventolin* sales fell 7% to £620 million. The combined total of all *Ellipta* product sales was £353 million.

In the US, Respiratory sales declined 10% to £2,750 million in the year (4% volume growth and a 14% negative impact of price and mix). Sales of *Advair* were £1,865 million, down 13% (4% volume decline and a 9% negative impact of price and mix, including the benefit of positive adjustments to payer rebates provisions in the fourth quarter). *Flovent* sales were down 19% to £379 million and *Ventolin* sales fell 15% to £304 million primarily as a result of net negative movements in payer rebates provisions. The new *Ellipta* products recorded sales of £177 million in the year.

European Respiratory sales were down 9% to £1,415 million, with *Seretide* sales down 18% to £1,014 million (11% volume decline and a 7% negative impact of price and mix), reflecting the expected pressures of increased competition from generics and the transition of the Respiratory portfolio to newer products. *Relvar Ellipta* recorded sales of £80 million in the year, while *Anoro Ellipta* recorded sales of £16 million.

Respiratory sales in the International region were flat at £1,576 million with Emerging Markets down 1% and Japan up 5%. In Emerging Markets, sales of *Seretide* declined 5% to £460 million, while *Ventolin* grew 1% to £182 million. In Japan, sales of *Relvar Ellipta* of £56 million, together with strong *Avamys* and *Xyzal* sales growth, more than offset a 13% decline in *Adoair* sales.

Cardiovascular, metabolic and urology

Sales in the category declined 9% to £858 million in the year. The *Avodart* franchise fell 15% to £657 million, with 1% growth in sales of *Duodart/Jalyn* more than offset by a 21% decline in sales of *Avodart* reflecting the patent expiry in the US in October 2015. Sales of *Prolia* were up 12% to £43 million. In December 2015, Amgen re-acquired the rights to *Prolia* from GSK.

Immuno-inflammation

Immuno-inflammation sales grew 16% to £263 million. *Benlysta* sales in the year were £230 million, up 25%. In the US, *Benlysta* sales were £209 million, up 24%.

Oncology

Sales of oncology products were £255 million in the year (2014 £1,202 million) following the disposal of the Oncology business to Novartis on 2 March 2015.

Other pharmaceuticals

Sales in other therapy areas fell 4% to £2,199 million in the year. *Augmentin* sales were down 2% at £528 million and Dermatology sales declined 9% to £412 million, in part adversely affected by supply constraints. *Relenza* sales were up 22% to £109 million driven by US CDC orders.

Sales of products for Rare diseases declined 6% to £371 million, primarily as a result of generic competition to *Mepron* in the US.

Established Products

Established Products turnover fell 15% to £2,528 million in the year. Sales in the US were down 30% to £647 million, primarily reflecting a 64% fall in sales of *Lovaza* to £93 million.

Europe was down 11% to £493 million, reflecting increased generic competition to a number of products and some supply constraints. *Seroxat* sales fell 12% to £35 million.

International was down 8% to £1,388 million, primarily reflecting lower sales of *Seroxat/Paxil*, down 10% to £143 million, due to generic competition in Japan, and of *Zeffix*, down 23% to £125 million. This was partly offset by increased *Valtrex* sales, up 30% to £121 million, following the regaining of exclusivity in Canada from late 2014 until October 2015. Sales in China fell 21% to £249 million, primarily reflecting significantly increased pricing pressures, together with supply constraints on *Zeffix*.

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HIV

HIV turnover

	2015 £m	2014 £m	Growth CER%	Growth £%
Combivir	34	59	(42)	(42)
Epzicom/Kivexa	698	768	(7)	(9)
Lexiva/Telzir	65	87	(25)	(25)
Selzentry	124	136	(8)	(9)
Tivicay	588	282	>100	>100
Triumeq	730	57	>100	>100
Trizivir	26	36	(28)	(28)
Other	57	73	(19)	(22)
	2,322	1,498	54	55

Worldwide HIV sales increased 54% to £2,322 million, with the US up 77%, Europe up 46% and International up 15%. The growth in all three regions was driven primarily by the strong performances of both *Triumeq* and *Tivicay*, with sales of £730 million and £588 million respectively in the year.

Epzicom/Kivexa sales declined 7% to £698 million and *Selzentry* declined 8% to £124 million. *Combivir* and *Lexiva* sales fell 42% and 25%, respectively.

Vaccines

Vaccines turnover

	2015 £m	2014 £m	Growth CER%	Growth £%
Bexsero	115			
Infanrix, Pediarix	733	828	(9)	(11)
Boostrix	358	317	12	13
Fluarix, FluLaval	268	215	21	25
Hepatitis	540	558	(4)	(3)
Menveo	160			
Rotarix	417	376	14	11
Synflorix	381	398	5	(4)
Other	685	467	57	46
	3,657	3,159	19	16

Vaccines sales grew 19% to £3,657 million with the US up 24%, Europe up 23% and International up 12%. The business benefited from sales of the newly acquired products, primarily the Meningitis portfolio, in Europe and the

US. Growth also reflected strong *Rotarix*, *Fluarix/FluLaval*, and *Boostrix* sales in the US. The growth was partly offset by a decline in *Infanrix/Pediarix* sales due to the return of a competitor to the market in the US, increased competitor activity in Europe and supply constraints in International. Hepatitis A vaccines sales declined due to supply constraints and International was impacted by higher trade inventory of newly acquired vaccines. *Cervarix* sales declined following the introduction of a new competitor vaccine.

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In the US, sales grew 24% to £1,258 million, primarily reflecting the benefit from the newly acquired products. There were strong performances from *Fluarix/FluLaval,* as a result of the conversion to the Quadrivalent formulation, *Rotarix,* benefiting from CDC stockpile replenishments, *Boostrix,* due to market share gains, and the Meningitis portfolio driven primarily by the launch of *Bexsero*. This growth was partly offset by an *Infanrix/Pediarix* sales decline of 17%, primarily as a result of the return to the market of a competitor vaccine during 2014 combined with lower CDC stockpile purchases than in 2014.

In Europe, sales grew 23% to £1,097 million. The growth primarily reflected the benefit of the newly acquired Meningitis portfolio with *Bexsero* performing strongly in several private markets including Italy, Spain, Germany and Portugal as well as in the UK following its inclusion in the NHS immunisation programme. *Menveo* also delivered a strong sales performance as a result of tender awards in the UK and Italy. Growth was partly offset by sales declines in *Infanrix/Pediarix* due to supply constraints and increased competitor activity, Hepatitis A vaccines due to supply constraints, and *Cervarix* following the introduction of a new competitor vaccine. Germany grew strongly with the MMRV portfolio, *Boostrix* and *Infanrix/Pediarix*, all up due to better supply and competitor supply shortages.

In International, sales grew by 12% to £1,302 million. The benefit from the newly acquired products was partly offset by declines in the existing products, including lower tender volumes in Latin America, particularly for *Synflorix*, partly offset by increased market access and demand for *Synflorix* in Africa and Bangladesh. *Cervarix* sales decreased in Mexico and South Africa due to lower demand. *Infanrix/Pediarix* and Hepatitis A vaccines sales were down, reflecting supply constraints. The sales performance of the newly acquired vaccines was adversely impacted by the phasing of shipments and higher trade inventory levels inherited as part of the acquisition.

Consumer Healthcare

Consumer Healthcare turnover

	2015 £m	2014 (restated) £m	Growth CER%	Growth £%
Wellness	2,970	1,565	95	90
Oral health	1,866	1,797	8	4
Nutrition	684	633	7	8
Skin health	508	317	67	60
	6,028	4,312	44	40

	2015 £m	2014 (restated) £m	Growth CER%	Growth £%
US	1,430	851	56	68
Europe	1,788	1,138	70	57
International	2,810	2,323	27	21
	6,028	4,312	44	40

The Consumer Healthcare business represents the Consumer Healthcare Joint Venture with Novartis together with the GSK Consumer Healthcare listed businesses in India and Nigeria, which are excluded from the Joint Venture.

Turnover grew 44% to £6,028 million, benefiting significantly from the sales of the newly-acquired products included in the Joint Venture. There was strong growth in the US following the launch of OTC *Flonase*, buoyant sales in India driven by *Horlicks* as well as global specialist Oral health growth, partly due to a recovery from supply disruptions in 2014. Other key 2015 launches included *Sensodyne Repair and Protect Whitening* in the US and Germany, *Voltaren* 12 hour and the roll-out of *Sensodyne* mouthwash.

US sales grew 56% to £1,430 million, primarily reflecting the benefit of the newly acquired products. In addition, *Flonase* was a principal growth driver. Oral health sales continued to be driven by *Sensodyne*, up 13%, with the launch of *Sensodyne Repair and Protect Whitening*, supply recovery and distribution gains for *Sensodyne Pronamel*. A strong

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performance from *Excedrin* reflected the launch of the gel tablet format combined with momentum in the tension headache variant. *Theraflu* also performed well following its re-launch, benefiting from the new warming syrups format and price increases. *Nicorette* lozenges, *Nicorette Mini* lozenges and *alli* returned to the market but *Tums* was impacted by supply constraints and increased competitive pressure during the year.

Sales in Europe grew 70% on a reported basis to £1,788 million, primarily reflecting the benefit of the newly acquired products. Growth in the existing portfolio reflected strong performances in Oral health from both *Sensodyne* and Gum health products following an improved supply position compared with 2014, new advertising in key markets, and the roll out of new *Sensodyne* variants across the region. In Wellness, pain relief recorded a strong performance, driven by *Voltaren* which also benefited from new marketing campaigns. The brand recorded its highest market shares in many of the major European markets, including Germany, Italy, Poland and France.

International sales of £2,810 million grew 27%, primarily reflecting the benefit of the newly acquired products. Oral health sales grew strongly across the region with double-digit growth on *Sensodyne* and Denture care products. In Wellness, sales growth was held back by the impact of the excess channel inventories in parts of the acquired consumer businesses, most notably China, Russia and Middle East, together with generic competition which impacted *Panadol Osteo* in Australia, and economic and political uncertainties in Venezuela. India led the growth amongst the priority markets, reporting double-digit performances from *Eno*, *Sensodyne* and *Horlicks*, driven by distribution gains and new marketing campaigns and the re-launch of the improved chocolate flavoured *Horlicks*. Sales growth in Brazil was held back as the business transitioned to new product formulations in the sun care business.

Total results

The total results of the Group are set out below.

	2015		2014		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Turnover	23,923	100	23,006	100	6	4
Cost of sales	(8,853)	(37.0)	(7,323)	(31.8)	24	21
Selling, general and administration	(9,232)	(38.6)	(8,246)	(35.8)	13	12
Research and development	(3,560)	(14.9)	(3,450)	(15.0)	2	3
Royalty income	329	1.4	310	1.3	8	6
Other operating income	7,715	32.2	(700)	(3.1)	>100	>100
Operating profit	10,322	43.1	3,597	15.6	>100	>100
Net finance costs	(653)		(659)			
Profit on disposal of interest in associates	843					
Share of after tax profits of associates and joint ventures	14		30			
Profit before taxation	10,526		2,968		>100	>100
Taxation	(2,154)		(137)			
Total profit after taxation for the year	8,372		2,831		>100	>100
Total profit attributable to shareholders	8,422		2,756			

Earnings per share (p)	174.3	57.3	>100	>100
Earnings per ADS (US$)	5.33	1.89		

Cost of sales

Cost of sales as a percentage of turnover was 37.0%, 5.2 percentage points higher than in 2014 and 5.4 percentage points higher on a CER basis. The increase reflected the disposal of our higher margin Oncology business and the acquisition of the lower margin Vaccines and Consumer Healthcare businesses from Novartis. In addition, there were adverse price movements, particularly in US Pharmaceuticals, and increased investments in Vaccines to improve the reliability and capacity of the supply chain, together with increased intangible asset amortisation and impairment charges and higher integration and restructuring costs. This was partly offset by an improved product mix, particularly as a result of the growth in HIV sales, and the benefits of the Group s ongoing cost reduction programmes.

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Selling, general and administration

SG&A costs as a percentage of sales were 38.6%, 2.8 percentage points higher than in 2014 and 2.3 percentage points higher on a CER basis. This increase primarily reflected the impacts of the Novartis transaction in 2015 and the £219 million credit in SG&A in 2014 from a release of reserves following simplification of our entity structure, together with higher integration and restructuring costs and increased promotional product support, particularly for new launches in Respiratory, Consumer Healthcare, Vaccines and HIV. This was partly offset by the benefits of the Pharmaceuticals cost reduction programme, synergies in Vaccines and Consumer Healthcare and lower legal charges.

Research and development

R&D expenditure increased 2% CER to £3,560 million (14.9% of turnover) compared with £3,450 million (15.0% of turnover) in 2014. The benefits of the cost reduction programmes in Pharmaceuticals, Vaccines and Consumer Healthcare R&D were more than offset by higher integration and restructuring costs.

Other operating income

Net other operating income of £7,715 million (2014 £700 million expense) included the profits on the disposals of the Oncology business of £9,228 million and ofatumumab of £200 million. This was partly offset by a further increase in the liability for the contingent consideration for the acquisition of the former Shionogi-ViiV Healthcare joint venture of £1,874 million (2014 £768 million) following the improved sales performance of *Tivicay* and *Triumeq*. The liability of £3,409 million at 31 December 2015 represents the present value of expected future payments to Shionogi.

Operating profit

Total operating profit was £10,322 million compared with £3,597 million in 2014. The increase primarily reflected the profits on disposal of the Oncology business to Novartis and several equity investment and other asset disposals. This was partly offset by increased integration and restructuring costs, the adverse impact on margins of the disposal of the higher margin Oncology business and acquisition of the lower margin Vaccines and Consumer Healthcare businesses from Novartis and the increase in the contingent consideration liability payable on the acquisition of the former Shionogi-ViiV Healthcare joint venture.

Intangible asset amortisation decreased to £563 million from £575 million in 2014. Intangible asset impairments of £206 million (2014: £150 million) included impairments of several R&D and commercial assets. Both of these charges were non-cash items.

Major restructuring charges accrued in the year were £1,891 million (2014 £750 million) and reflected the acceleration of a number of integration projects following completion of the Novartis transaction, as well as further charges as part of the Pharmaceuticals restructuring programme. Cash payments made in the year were £1,131 million (2014 £566 million). The programme has delivered approximately £1 billion of incremental benefits in 2015 compared with 2014.

Charges to date for the combined restructuring and integration programme are £2.7 billion. The total cash charges of the combined programme are expected to be approximately £3.65 billion and the non-cash charges up to £1.35 billion. By the end of 2015, the programme had delivered approximately £1.6 billion of annual savings and remained on track to deliver £3 billion of annual savings in total. The programme is expected to be largely complete by the end of 2017.

Legal charges of £221 million (2014 £548 million) included the settlement of a number of existing matters and litigation costs. The charge in 2014 included the £301 million fine payable to the Chinese government. Cash payments were £420 million (2014 £702 million).

Acquisition-related adjustments resulted in a net charge of £2,238 million (2014 £843 million). This included remeasurements of the liability and the unwinding of the discounting effects on the contingent consideration for the acquisition of the former Shionogi-ViiV Healthcare joint venture of £1,874 million (2014 £768 million); the contingent consideration related to the acquisition of the former Novartis Vaccines business of £91 million, net of hedging gains (2014 £nil); and the Consumer Healthcare Joint Venture put option of £83 million (2014 £nil).

Disposals and other items resulted in a net credit of £9,712 million (2014 £131 million charge). This included the profit on disposal of the Oncology business to Novartis of £9,228 million and the profit on disposal of ofatumumab, together with equity investment and other asset disposals, equity investment impairments reflecting current market valuations, one-off required regulatory charges in R&D and certain other adjusting items.

Net finance costs

	2015 £m	2014 £m
Finance income		
Interest and other finance income	99	66
Fair value movements	5	2
	104	68
Finance expense		
Interest expense	(719)	(688)
Unwinding of discounts on liabilities	(16)	(15)
Remeasurements and fair value movements	(8)	(10)
Other finance expense	(14)	(14)
	(757)	(727)

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Profit on disposal of interest in associates

The profit on disposal of associates was £843 million (2014 £nil). This arose from the disposal of half of our investment in Aspen Pharmacare and the remeasurement of the remaining holding to market value on its reclassification to other investments.

Share of after tax profits of associates and joint ventures

The share of profits of associates and joint ventures was £14 million (2014 £30 million profit), including a £16 million gain, being our share of the profit on a disposal of an investment recognised by one of the associates. In 2014, the share of profits of associates principally arose on our holding in Aspen Pharmacare.

Profit before taxation

Taking account of net finance costs, the profit on disposal of interest in associates and the share of profits of associates, profit before taxation was £10,526 million compared with £2,968 million in 2014.

Taxation

	2015 £m	2014 £m
UK current year charge	156	221
Rest of world current year charge	2,924	1,092
Charge in respect of prior periods	(508)	(571)
Total current taxation	2,572	742
Total deferred taxation	(418)	(605)
Taxation on total profits	2,154	137

The charge for taxation on total profits amounted to £2,154 million and represented a total effective tax rate of 20.5% (2014 4.6%). In 2015 GSK made payments of £111 million in UK Corporation tax. In January 2016 GSK made further payments of £100 million in relation to UK Corporation tax. These amounts are for Corporation tax only and do not include various other business taxes borne by GSK each year. See Taxation on page 158 of the GSK Annual Report 2015 for further details.

Earnings per share

Total EPS was 174.3p, compared with 57.3p in 2014, the increase primarily reflecting the profits on disposal of the Oncology business and the Aspen Pharmacare shares, partly offset by the increase in the liability for the contingent consideration due on the acquisition of the former Shionogi-ViiV Healthcare joint venture and accelerated charges for major restructuring expenditure.

Dividends

The Board declared four interim dividends resulting in a total dividend for the year of 80 pence, in line with the dividend for 2014. In addition, the Board has declared a special dividend of 20 pence to be paid out of the proceeds of the disposals of the Oncology business and other assets. See Note 16 to the Financial statements, Dividends .

Core results

We use core results, among other metrics including Total results and cash flow generation, to manage the performance of the Group. The definition of core results is set out on page 16 and reconciliations of total results to core results are presented on page 11.

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Cost of sales

	2015		2014		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Cost of sales	(7,520)	(31.4)	(6,535)	(28.4)	18	15

Cost of sales as a percentage of turnover was 31.4%, 3.0 percentage points higher than in 2014, primarily reflecting the impact of the Novartis transaction. In addition, this reflected adverse price movements, particularly in US Pharmaceuticals, and increased investments in Vaccines to improve the reliability and capacity of the supply chain. This was partly offset by an improved product mix, particularly as a result of the growth in HIV sales, and the benefits of our ongoing cost reduction programmes.

Selling, general and administration

	2015		2014		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Selling, general and administration	(7,907)	(33.1)	(7,074)	(30.7)	12	12

SG&A costs as a percentage of sales were 33.1%, 2.4 percentage points higher than in 2014 and 2.0 percentage points higher on a CER basis, primarily reflecting the impact of the Novartis transaction. In addition, the increase reflected the impact of the £219 million credit in SG&A in 2014 from a release of reserves following simplification of our entity structure. Declines in SG&A costs in Global Pharmaceuticals, including the benefits of the Pharmaceuticals cost reduction programme, and synergies in Vaccines and Consumer Healthcare, were largely offset by promotional product support, particularly for new launches in Respiratory, Consumer Healthcare, Vaccines and HIV.

Research and development

	2015		2014		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Research and development	(3,096)	(12.9)	(3,113)	(13.5)	(2)	(1)

R&D expenditure declined 2% CER to £3,096 million (12.9% of turnover) compared with £3,113 million (13.5% of turnover) in 2014, reflecting the benefit of cost reduction programmes in Pharmaceuticals, Vaccines and Consumer Healthcare R&D.

The operations of Pharmaceuticals R&D are broadly split into Discovery activities (up to the completion of phase IIa trials) and Development work (from phase IIb onwards) each supported by specific and common infrastructure and other shared services where appropriate. Phase IV costs and other administrative expenses are reported in SG&A and are not included in the table below.

The table below analyses core R&D expenditure by these categories:

	2015 £m	2014 £m
Discovery	744	739
Development	1,136	1,317
Facilities and central support functions	433	455
Pharmaceuticals R&D	2,313	2,511
Vaccines R&D	525	443
Consumer Healthcare R&D	258	159
Research and development	3,096	3,113

The proportion of Pharmaceuticals R&D investment made in the late-stage portfolio decreased from 52% of Pharmaceuticals R&D costs in 2014 to 49% in 2015, reflecting the completion of a number of late-stage programmes.

Royalty income

Royalty income was £329 million (2014 £310 million).

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Core operating profit by business

	2015		2014 (restated)		Growth	
	£m	Margin %	£m	Margin %	CER%	£%
Global Pharmaceuticals	4,733	40.0	6,388	45.8	(24)	(26)
HIV	1,686	72.6	977	65.2	72	73
Pharmaceuticals R&D	(2,168)		(2,326)		(10)	(7)
Pharmaceuticals	4,251	30.0	5,039	32.6	(12)	(16)
Vaccines	966	26.4	997	31.6	(9)	(3)
Consumer Healthcare	680	11.3	491	11.4	66	38
	5,897	24.7	6,527	28.5	(6)	(10)
Corporate & other unallocated costs	(168)		67		>(100)	>100
Core operating profit	5,729	23.9	6,594	28.7	(9)	(13)

Core operating profit was £5,729 million, 9% lower than in 2014 in CER terms on a turnover increase of 6%. The core operating margin of 23.9% was 4.8 percentage points lower than in 2014. Excluding the adverse impact of currency movements, particularly from the Euro and Emerging Markets currencies, the core operating margin was 4.1 percentage points lower on a CER basis. This decline primarily reflected the impact of the Novartis transaction, resulting from the disposal of the higher margin Oncology business and the acquisition of the lower margin and different cost structures of the Vaccines and Consumer Healthcare businesses from Novartis.

This decline also included a 0.9 percentage point impact from the adverse comparison with 2014 which included a £219 million credit in SG&A from a release of reserves following simplification of the Group s entity structure and its trading arrangements. The remaining margin decline reflected the balance between the continued impact of the decline in sales of *Seretide/Advair*, including contracting and other price reductions, lower sales of Established Products, as well as the investments required behind multiple new launches in Pharmaceuticals, Vaccines and Consumer Healthcare, as we transition our product portfolio, offset by the savings released by our restructuring and integration programmes and the benefits of an improved product mix, particularly from the growth in HIV sales.

Pharmaceuticals

Pharmaceuticals operating profit was £4,251 million, 12% lower than in 2014 in CER terms on a turnover decrease of 7%. The core operating margin of 30.0% was 2.6 percentage points lower than in 2014 and 1.8 percentage points lower on a CER basis. This reflected the impact of the Novartis transaction, together with adverse price movements in Global Pharmaceuticals, particularly in the US for Respiratory products, the increased promotional and manufacturing investments behind new product launches in Respiratory and HIV as well as targeted investments in manufacturing capacity and stability elsewhere in the portfolio, partly offset by a more favourable product mix, primarily driven by the growth in HIV sales, and the benefits of the Group s cost reduction programmes. The core operating margin for Global Pharmaceuticals was 40.0% (2014 45.8%) and for HIV was 72.6% (2014 65.2%).

Vaccines

Vaccines operating profit was £966 million, 9% lower than in 2014 in CER terms on a turnover increase of 19%. The core operating margin of 26.4% was 5.2 percentage points lower than 2014 and 7.6 percentage points lower on a CER basis, primarily driven by the inclusion of the cost base of the former Novartis Vaccines business. In addition there was an increase in cost of sales as a percentage of turnover due to additional supply chain investments and the benefit to cost of sales in 2014 of a number of inventory adjustments, offset by reductions in SG&A and R&D from restructuring and integration benefits.

Consumer Healthcare

Consumer Healthcare operating profit was £680 million, 66% higher than in 2014 in CER terms on a turnover increase of 44%. The core operating margin of 11.3% was 0.1 percentage points lower than in 2014, but improved 1.7 percentage points on a CER basis. This was primarily driven by a reduction in cost of sales as a percentage of turnover, reflecting benefits from improved supply and pricing, as well as the delivery of integration synergies which together more than offset additional investment behind the growth of target power brands, particularly in Oral health and Wellness.

Net finance costs

	2015 £m	2014 £m
Finance income		
Interest and other income	99	66
Fair value movements	5	2
	104	68
Finance expense		
Interest expense	(719)	(688)
Unwinding of discounts on liabilities	1	(2)
Remeasurements and fair value movements	(8)	(10)
Other finance expense	(14)	(14)
	(740)	(714)

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Net finance expense was £636 million compared with £646 million in 2014.

Share of after tax losses of associates and joint ventures

The share of losses of associates and joint ventures was £2 million (2014 £30 million profit). In March 2015, we reduced our shareholding in our significant associate, Aspen Pharmacare Holdings Limited, from 12.4% to 6.2% of the issued share capital. As a result, we no longer account for Aspen as an associate.

Core profit before taxation

	2015		2014		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Core profit before tax	5,091	21.3	5,978	26.0	(10)	(15)

Taxation

Tax on core profit amounted to £993 million and represented an effective core tax rate of 19.5% (2014 19.6%), reflecting the resolution of a number of items that benefited the year.

Non-controlling interests

The allocation of earnings to non-controlling interests amounted to £440 million (2014 £222 million), including the non-controlling interest allocations of Consumer Healthcare segment profits of £205 million (2014 £60 million) and the allocation of ViiV Healthcare profits, which increased to £224 million (2014 £132 million).

Core earnings per share

Core EPS of 75.7p declined 15% in CER terms compared with a 9% decline in operating profit, primarily reflecting the greater contributions to growth from businesses in which there are significant non-controlling interests.

Financial review 2014

Group performance

Our Group financial review discusses the operating and financial performance of the Group, the cash flows and our financial position and financial resources. We compare the results for each year primarily with results of the preceding year.

We also use a number of adjusted measures to report the performance of our business. These measures are used by management for planning and reporting purposes and in discussions with and presentations to investment analysts and rating agencies and are defined below. These measures are not defined in IFRS and may not be comparable with similarly described measures used by other companies.

CER growth

In order to illustrate underlying performance, it is our practice to discuss the results in terms of constant exchange rate (CER) growth. This represents growth calculated as if the exchange rates used to determine the results of overseas companies in Sterling had remained unchanged from those used in the previous year. CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates.

All growth rates included in this review are at constant exchange rates (CER) unless otherwise stated.

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Core results reporting

Total reported results represent the Group s overall performance. However, these results can contain material unusual or nonoperational items that may obscure the key trends and factors determining the Group s operational performance. As a result, we also report core results.

Core results exclude the following items from total results: amortisation and impairment of intangible assets (excluding computer software) and goodwill; major restructuring costs, including those costs following material acquisitions; legal charges (net of insurance recoveries) and expenses on the settlement of litigation and government investigations, and acquisition accounting adjustments for material acquisitions, disposals of associates, products and businesses, other operating income other than royalty income, and other items, together with the tax effects of all of these items.

Core results reporting is utilised as one of the bases for internal performance reporting alongside Total results, cash flow generation and a number other metrics. Core results are presented and discussed in this Group financial review as we believe that core results are more representative of the performance of the Group s operations and allow the key trends and factors driving that performance to be more easily and clearly identified by shareholders. The definition of core results, as set out above, also aligns the Group s results with the majority of our peer companies and how they report earnings.

During 2014, we have reported core results performance measured against 2013 core results excluding divestments completed during 2013. Growth rates are calculated excluding divestments completed during 2013 unless otherwise stated.

Segment information

As a result of the impact of the Novartis transaction, we changed our operating segments in 2015. Since January 1, 2015, our results have been reported under five segments: Global Pharmaceuticals, HIV, Pharmaceuticals R&D, Vaccines and Consumer Healthcare. Comparative information has been restated accordingly and the segment information in this financial review is presented on a comparable basis.

Group turnover by segment

	2014 (restated) £m	2013 (restated) £m	CER%	£%
Global Pharmaceuticals	13,950	15,983	(6)	(13)
HIV	1,498	1,386	15	8
Pharmaceuticals	15,448	17,369	(5)	(11)
Vaccines	3,159	3,384	(1)	(7)
Consumer Healthcare	4,312	4,703	(1)	(8)
	22,919	25,456		
Corporate and other unallocated turnover	87	146		

	23,006	25,602	(3)	(10)
Divestments		903		
	23,006	26,505	(7)	(13)

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

Total Group turnover for 2014, including divestments completed during 2013 was down 7%, but excluding those divestments, turnover declined 3% to £23,006 million.

Pharmaceuticals turnover declined 5% as growth in Emerging Markets and Japan was more than offset by lower sales in the US and Europe. Vaccines turnover declined 1%, as a positive performance in Emerging Markets was more than offset by lower reported sales in Europe and Japan. US Vaccines sales were flat. Consumer Healthcare turnover was £4,312 million in the year, down 1% compared with 2013.

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Group turnover by geographic region

	2014 (restated) £m	2013 (restated) £m	Growth CER%	Growth £%
US	7,409	8,695	(11)	(15)
Europe	6,292	6,681	(1)	(6)
International	9,305	10,226	1	(9)
	23,006	25,602	(3)	(10)
Divestments		903		
	23,006	26,505	(7)	(13)

Group sales outside the US and Europe accounted for 40% of total turnover in 2014 and reported growth of 1%, adversely impacted by a sales decline in Japan and weaker market conditions and some supply constraints in Emerging Markets.

Global Pharmaceuticals turnover

	2014 (restated) £m	2013 (restated) £m	Growth CER%	Growth £%
Respiratory	6,168	7,259	(9)	(15)
Cardiovascular, metabolic and urology	965	1,073	(3)	(10)
Immuno-inflammation	214	161	40	33
Oncology	1,202	969	33	24
Other pharmaceuticals	2,390	2,652	(2)	(10)
Established Products	3,011	3,869	(16)	(22)
	13,950	15,983	(6)	(13)

In the US, Global Pharmaceuticals turnover declined 16%, impacted by continued price and contracting pressures, primarily affecting respiratory sales, which were down 18% (11% volume decline and a 7% negative impact of price and mix).

Oncology products in the US contributed strongly in the year, with sales up 41% to £512 million, benefiting from strong performances from *Votrient* and *Promacta*, and the recent launches of *Tafinlar* and *Mekinist*. *Benlysta* sales grew 22% to £156 million. Generic competition in the US continued to impact sales of Dermatology products, which declined 56% to £49 million and *Mepron*, which declined 49% to £40 million.

Europe Global Pharmaceuticals turnover was declined 2% to £3,656 million, as strong growth in Oncology and the *Avodart* franchise, up 8% to £280 million, was more than offset by a 3% decline in Respiratory sales and a 13% decline in Established Products. The newly launched *Relvar Ellipta* recorded sales of £18 million in the year but these

were more than offset by lower sales of *Seretide*, down 5% to £1,330 million (1% volume decline and a 4% negative impact of price), reflecting increasing competitive pressures and the transition of the Respiratory portfolio to the newer products, particularly in the latter part of the year. Oncology sales were up 29% to £417 million, led by *Votrient*, *Promacta* and the newly launched *Tafinlar*.

International Global Pharmaceuticals turnover grew 1% to £5,357 million. Emerging Markets sales grew 7%, with notable performances from Brazil, up 12% to £380 million, and the rest of Latin America, up 9% to £593 million. Sales in China fell 1%, reflecting the effects of the government investigation during the year. In Japan, sales grew 2% benefiting from strong growth in *Avodart*, up 14%, and Oncology products, up 17%, partially offset by lower sales in the Respiratory portfolio, down 2%.

Respiratory

Respiratory sales in 2014 declined 9% to £6,168 million. *Seretide/Advair* sales were down 15% to £4,229 million, *Flixotide/Flovent* sales decreased 6% to £702 million and *Ventolin* sales grew 11% to £665 million. *Xyzal* sales, almost exclusively made in Japan, grew 7% to £130 million.

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In the US, Respiratory sales declined 18% (11% volume decline and a 7% negative impact of price and mix), primarily reflecting the continued price and contracting pressures in the market. Sales of *Advair* were down 25% to £1,987 million (14% decline in volume and an 11% decline of price and mix). *Flovent* sales were down 5% while *Ventolin* sales were up 18%, primarily reflecting the impact of net favourable adjustments to previous accruals for returns and discounts. *Breo Ellipta* recorded sales of £29 million and *Anoro Ellipta* sold £14 million in the year.

European Respiratory sales were down 3%, primarily reflecting increasing competition. *Seretide* sales declined 5% to £1,330 million (1% decline in volume and a 4% negative impact of price), reflecting increasing competitive pressures and the transition of the Respiratory portfolio to the newer products in the latter part of the year. *Relvar Ellipta* recorded sales of £18 million in the year.

Respiratory sales in International grew 1% to £1,665 million. In Emerging Markets, *Seretide* grew 3% to £400 million, helped by an improved performance in China. Sales growth of *Ventolin*, up 8% to £165 million, and *Veramyst*, up 15% to £73 million, was offset by a 33% decline in *Flixonase*, which was largely driven by lower sales in China. In Japan, Respiratory sales fell 2% to £475 million. Sales of the newly launched *Relvar Ellipta* of £17 million offset the impact of increasing competitor action on *Adoair*, which fell 6% to £228 million.

Oncology

Oncology sales in 2014 grew 33% to £1,202 million. *Votrient* sales grew 33% to £410 million and *Promacta* sales grew 34% to £231 million. *Arzerra* sales fell 24% to £54 million and *Tykerb/Tyverb* sales fell 11% to £171 million. Generic competition to both *Hycamtin* and Argatroban was more than offset by new launches, as *Tafinlar* and *Mekinist* recorded sales of £135 million and £68 million, respectively.

In the US, Oncology grew 41% to £512 million. *Votrient* sales grew 32% to £182 million and sales of *Promacta* grew 32% to £93 million. *Tafinlar* and *Mekinist* sales were £58 million and £67 million, respectively.

In Europe, Oncology grew 29% to £417 million, led by sales of *Votrient*, which increased by 23% to £153 million in the year. *Promacta* grew 36% to £71 million and sales of *Tafinlar* were £67 million.

In International, Oncology sales in the year grew 26% to £273 million.

Cardiovascular, metabolic and urology

Sales in the category fell 3% to £965 million. The *Avodart* franchise grew 1% to £805 million, with 17% growth in sales of *Duodart/Jalyn* and a 4% decline in sales of *Avodart*. *Levitra* fell 28% to £100 million in the year. Sales of *Prolia* fell 10% to £41 million due to the agreement in Q2 2014 with Amgen to terminate the joint commercialisation in a number of European markets, Mexico and Russia.

On a regional basis, the decline in the US of 16% to £366 million, was partly offset by growth in International of 12% to £306 million. Europe was flat at £293 million.

Immuno-inflammation

Immuno-inflammation sales grew 40% to £214 million. *Benlysta* turnover in the year was £173 million, up 25%. In the US, *Benlysta* sales were £156 million, up 22%.

Other pharmaceuticals

Other therapy areas were down 2% at £2,390 million, principally reflecting generic competition to Dermatology products, which primarily affected sales of *Soriatane* in the US, and by a decline in sales of *Mepron* in the Rare diseases category. These declines were partly offset by growth in *Relenza* sales of 39%, primarily in the US, and the inclusion of Theravance milestone income of £57 million (2013 £78 million).

Established Products

Established Products turnover fell 16% to £3,011 million. Sales in the US were down 31% to £860 million, Europe was down 13% to £601 million, and International was down 7% to £1,550 million.

Generic competition to *Lovaza*, down 57% to £240 million, *Seroxat*/*Paxil*, down 19% to £210 million and *Valtrex*, down 24% to £154 million, all contributed to the decline in the category.

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HIV turnover

Worldwide HIV sales increased 15% to £1,498 million, with the US up 27%, Europe up 6% and International up 9%. *Tivicay* recorded sales of £282 million, *Epzicom*/*Kivexa* sales increased 8% to £768 million but *Selzentry* sales were flat at £136 million. The newly-launched *Triumeq* recorded sales of £57 million in the year. This growth was partly offset by declines in the mature portfolio, mainly driven by generic competition to both *Combivir*, down 46% to £59 million, and *Trizivir*, down 61% to £36 million.

Vaccines turnover

	2014 (restated) £m	2013 (restated) £m	Growth CER%	Growth £%
Boostrix	317	288	16	10
Cervarix	118	172	(26)	(31)
Fluarix, FluLaval	215	251	(9)	(14)
Hepatitis	558	629	(6)	(11)
Infanrix, Pediarix	828	862	2	(4)
Rotarix	376	375	7	
Synflorix	398	405	4	(2)
Other	349	402	(7)	(13)
Vaccines sales	3,159	3,384	(1)	(7)

Vaccines sales fell 1% to £3,159 million reflecting the decline in Europe, down 2%. The US and International were both flat.

Infanrix/*Pediarix* grew 2% to £828 million. Growth in the US benefited from a favourable comparison with 2013, which was impacted by a withdrawal from the CDC stockpile. This offset declines in Europe and International.

Boostrix sales increased 16% to £317 million, reflecting growth in all regions except the US. US sales fell 6% reflecting the return of a competitor during the year and some supply constraints.

Cervarix sales declined 26% to £118 million in 2014, largely reflecting declines in International and increasing competitive pressures, particularly in the tender market.

Fluarix and *FluLaval* sales declined 9% to £215 million due to lower production levels for 2014 and the impact of increased competitive pressures.

Sales of hepatitis vaccines fell 6% to £558 million, in part reflecting supply constraints that impacted the US and International.

Rotarix sales were up 7% to £376 million, with growth driven by tender shipments in Europe and International, partly offset by a decline in the US, which was impacted by a CDC stockpile withdrawal in Q4 2014.

Synflorix sales grew 4% to £398 million, primarily reflecting a strong tender performance in International.

Consumer Healthcare turnover

	2014 (restated) £m	2013 (restated) £m	Growth CER%	Growth £%
Wellness	1,565	1,807	(6)	(13)
Oral health	1,797	1,884	4	(5)
Nutrition	633	627	10	1
Skin health	317	385	(11)	(18)
	4,312	4,703	(1)	(8)

	2014 (restated) £m	2013 (restated) £m	Growth CER%	Growth £%
USA	851	968	(8)	(12)
Europe	1,138	1,239	(2)	(11)
International	2,323	2,496	4	(6)
	4,312	4,703	(1)	(8)

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Consumer Healthcare turnover was down 1% in 2014, reflecting the impact of supply issues, comparison with a strong cold and flu season in early 2013 and slowing markets in the Rest of World. Estimated global market growth was approximately 3%.

Wellness

Wellness sales were £1,565 million, down 6%, primarily due to the supply issues and product recalls that significantly impacted sales of products for Smokers Health, down 29%, and *alli*.

Oral health

Oral health sales grew 4% to £1,797 million. The continued growth of *Sensodyne*, up 11%, was partly offset by a 10% decline in sales of *Aquafresh* which was impacted by supply issues in both Europe and the US, together with increased competition.

Nutrition

Nutrition sales grew 10% to £633 million. Horlicks was up 11%, reflecting continued growth in India, and Boost was up 9%.

Skin health

Sales of products for Skin health were down 11% to £317 million, primarily due to lower sales of Bactroban in China.

Regional performance

Sales in the US and Europe were down 8% and 2%, respectively, reflecting both supply issues and product recalls, primarily affecting products for Smokers Health and *alli*. Growth in International markets of 4% was restricted by a slower economic environment but did reflect some growth across most markets, partly offset by a 5% reduction of sales in China and a 52% decline in sales of Smokers Health products, both primarily due to supply issues.

Total results

The Group s total results are set out below. Reconciliations of total results to core results are presented on page 12.

	2014		2013		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Turnover	23,006	100	26,505	100	(7)	(13)
Cost of sales	(7,323)	(31.8)	(8,585)	(32.4)	(11)	(15)
Selling, general and administration	(8,246)	(35.8)	(8,480)	(32.0)	4	(3)
Research and development	(3,450)	(15.0)	(3,923)	(14.8)	(8)	(12)
Royalty income	310	1.3	387	1.5	(18)	(20)
Other operating income	(700)	(3.1)	1,124	4.2	>(100)	>(100)

Operating profit	3,597	15.6	7,028	26.5	(40)	(49)
Net finance costs	(659)		(706)			
Profit on disposal of interest in associates			282			
Share of after tax profits of associates and joint ventures	30		43			
Profit before taxation	2,968		6,647		(46)	(55)
Taxation	(137)		(1,019)			
Total profit after taxation for the year	2,831		5,628		(41)	(50)
Total profit attributable to shareholders	2,756		5,436			
Earnings per share (p)	57.3		112.5		(40)	(49)
Earnings per ADS (US$)	1.89		3.53			

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Cost of sales

Cost of sales as a percentage of turnover was 31.8% compared with 32.4% in 2013. Net of adverse currency translation effects, the cost of sales percentage decreased 1.3 percentage points. This reflected adverse price and mix movements, particularly the decline in Pharmaceuticals sales in the US, the costs of supply remediation activities and continuing investments in new launch capacity and future manufacturing technology, more than offset by lower intangible write-offs and the benefit of our ongoing cost reduction programmes and lower intangible impairments.

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Selling, general and administration

SG&A costs as a percentage of sales were 35.8%, 3.8 percentage points higher than in 2013. Excluding currency effects, the SG&A percentage increased 3.7 percentage points, as SG&A increased 4% on a turnover decline of 7%. The increase in SG&A reflected continued investments in our multiple new product launches, higher legal costs, restructuring costs and a charge of £114 million for an additional, catch-up year of the US Branded Prescription Drug fee in accordance with the final regulations issued by the IRS in Q3 2014, partly offset by the benefits of our restructuring programmes and ongoing cost management efforts.

Advertising and promotion decreased 11% reflecting reduced activity in the Established Products category and ongoing cost management efforts which were partly offset by new product launches. Selling and distribution decreased 4% as investments in product launches were offset by savings in Established Products. General and administration expenses increased 20% due to higher phase IV expenditure, legal and restructuring costs, partly offset by restructuring benefits.

Research and development

R&D expenditure declined 8% to £3,450 million (15.0% of turnover) compared with £3,923 million (14.8% of turnover) in 2013. Excluding currency effects, the R&D percentage declined 0.2 percentage points, reflecting lower intangible write-offs, the phasing of ongoing project spending as well as the completion of a number of programmes and continuing cost management benefits and lower intangible impairments.

Other operating income

Net other operating expenses of £700 million (2013 £1,124 million income) included, following the improved sales performance of *Tivicay* and *Triumeq*, an increase in the liability for the contingent consideration for the acquisition of the former Shionogi-ViiV Healthcare joint venture which has increased to £1.7 billion, resulting in a charge for the year of £768 million (2013 £253 million). The liability represents the present value of expected future payments to Shionogi. These will be paid over a number of years and will vary in line with sales of products that contain dolutegravir. The income in 2013 included profits from the disposals of the *Lucozade* and *Ribena* business and certain anti-coagulant products, which is aggregate were £1,331 million.

Following announcement of the proposed Novartis transaction, GSK entered into a number of forward exchange contracts to protect the Sterling value of the net US Dollar proceeds due to the Group on completion of the transaction. At 31 December 2014 these contracts were in a loss position and resulted in the recognition of an unrealised loss in 2014 of £299 million which has been included in net other operating expense.

Operating profit

Total operating profit was £3,597 million compared with £7,028 million in 2013. The non-core items resulted in a net charge of £2,997 million (2013 £987 million, excluding trading profits on products divested in 2013). The 2013 net charge included the profits on the disposals of *Lucozade* and *Ribena* business and the anti-coagulant products, which in aggregate were £1,331 million.

The intangible asset amortisation increased to £575 million (2013 £547 million), reflecting the accelerated amortisation of *Lovaza*. Intangible asset impairments of £150 million (2013 £739 million) included write-offs of several R&D and commercial assets.

Major restructuring charges of £750 million (2013 £517 million) included £101 million under the Operational Excellence programme, £334 million under the Major Change programme and £243 million under the new Pharmaceuticals restructuring programme.

The Operational Excellence programme initiated on 2007 and expanded in 2009, 2010 and 2011 was substantially complete at the end of 2014 at a total cost of £4.7 billion and delivered annual pre-tax savings of approximately £2.9 billion. The Major Change programme, announced in 2013, focuses on opportunities to simplify our supply chain processes, build the Group s capabilities in manufacturing and R&D, and restructure our European Pharmaceuticals business. It has delivered approximately £0.6 billion of annual savings.

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The new Pharmaceuticals restructuring programme, announced in October 2014, will rescale commercial operations, global support functions and the relevant R&D/manufacturing operations across Pharmaceuticals.

Legal charges of £548 million (2013 £252 million) included a £301 million fine paid to the Chinese government, settlement of existing anti-trust matters and higher litigation costs.

Acquisition accounting,disposals and other adjustments resulted in a net charge of £974 million (2013 income of £1,068 million) and included the increase in the liability for the contingent consideration for the acquisition of the former Shionogi-ViiV Healthcare joint venture of £768 million (2013 £253 million). The net credit in 2013 included profits on the disposal of the *Lucozade* and *Ribena* business and the anti-coagulant products, which in aggregate were £1,331 million. Other items also included charges related to major acquisitions, equity investment and asset disposals, one-off required regulatory charges in R&D and certain other adjusting items.

Net finance costs

Net finance income	2014 £m	2013 £m
Interest and other finance income	66	59
Fair value movements	2	2
	68	61
Finance expense		
Interest expense	(688)	(726)
Unwinding of discounts on liabilities	(15)	(14)
Remeasurement and fair value movements	(10)	(5)
Other finance expense	(14)	(22)
	(727)	(767)

Profit on disposal of interest in associates

The pre-tax profit on disposals of associates was nil (2013 £282 million). The 2013 profit reflected the disposal of 28.2 million ordinary shares in Aspen Pharmacare for £429 million.

Share of after tax profits of associates and joint ventures

The share of after tax profits of associates of £30 million (2013 £43 million) principally arose from the Group s holdings in Aspen Pharmacare.

Profit before taxation

Taking account of net finance costs, the profit on disposal of interest in associates and the share of profit in associates, profit before taxation was £2,968 million compared with £6,647 million in 2013, a 46% CER decrease and a 55% decrease in sterling terms.

Taxation

	2014 £m	2013 £m
UK current taxation	(251)	265
Overseas current taxation	993	1,284
Total current taxation	742	1,549
Total deferred taxation	(605)	(530)
Taxation on total profits	137	1,019

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The charge for taxation on total profits amounted to £137 million and represented a total effective tax rate of 4.6% (2013 15.3%), reflecting the differing tax effects of the various non-core items, including a number of non-recurring tax only items.

Tax relating to acquisition accounting and other adjustments included deferred tax on the increased liability for the expected future payments to Shionogi; recognition of a deferred tax asset in respect of tax losses expected to be used on completion of the Novartis transaction, and tax credits arising on the resolution of a number of tax matters with tax authorities, including matters related to prior year acquisitions or disposals.

The UK current tax credit includes a benefit from resolution of a number of tax matters and other prior year adjustments.

Earnings per share

Total EPS was 57.3p, compared with 112.5p in 2013 which included 33.8p arising from gains on equity investment and asset disposals. Of the remaining difference, 10.4p was due to currency.

Dividend

The Board declared four interim dividends resulting in a dividend for the year of 80 pence, a 2 pence increase on the dividend for 2013. See Note 16 Dividends on page 160 of the GSK Annual Report 2015.

Core results

We use core results, among other metrics, to manage the performance of the Group. The definition of core results is set out on page 64.

Cost of sales

	2014		2013		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Cost of sales	(6,535)	(28.4)	(7,075)	(27.6)	(3)	(8)

Core cost of sales as a percentage of turnover was 28.4% compared with 27.6% in 2013. Net of adverse currency translation effects, the cost of sales percentage increased 0.2 percentage points. This reflected adverse price and mix movements, particularly the decline in Pharmaceuticals sales in the US, the costs of supply remediation activities and continuing investments in new launch capacity and future manufacturing technology, partly offset by the benefit of our ongoing cost reduction programmes.

Selling, general and administration

	2014	2013	Growth
	% of turnover	% of turnover	

	£m		£m		CER%	£%
Selling, general and administration	(7,074)	(30.7)	(7,749)	(30.3)	(2)	(9)

Core SG&A costs as a percentage of sales were 30.7%, 0.4 percentage points higher than in 2013. Excluding currency effects, the SG&A percentage increased 0.5 percentage points, as SG&A declined 2% on a turnover decline of 3%. The reduction in SG&A reflected continued investments in our multiple new product launches partly offset by the benefits of our restructuring programmes and ongoing cost management efforts.

Advertising and promotion decreased 8% primarily reflecting reduced activity in the Established Products category and ongoing cost management efforts which were partly offset by new product launches. Selling and distribution decreased 2% as investments in product launches were offset by savings in from our ongoing cost reduction programmes. General and administration expenses increased 1% primarily due to higher phase IV expenditure, partly offset by benefits from the restructuring programmes.

Research and development

	2014		2013		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Research and development	(3,113)	(13.5)	(3,394)	(13.3)	(4)	(8)

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Core R&D expenditure declined 4% to £3,113 million (13.5% of turnover) compared with £3,394 million (13.3% of turnover) in 2013. Excluding currency effects, the R&D percentage declined 0.1 percentage points, reflecting the phasing of ongoing project spending as well as the completion of a number of programmes and continuing cost management benefits.

The operations of Pharmaceuticals R&D are broadly split into Discovery activities (up to the completion of phase IIa trials) and Development work (from phase IIb onwards) each supported by specific and common infrastructure and other shared services where appropriate. Phase IV costs and other administrative expenses are reported in SG&A and are not included in the table below.

The table below analyses core R&D expenditure by these categories:

	2014 £m	2013 £m
Discovery	739	742
Development	1,317	1,535
Facilities and central support functions	455	449
Pharmaceuticals R&D	2,511	2,726
Vaccines R&D	443	496
Consumer Healthcare	159	172
Research and Development	3,113	3,394

The proportion of Pharmaceuticals R&D investment made in the late-stage portfolio decreased from 56% of Pharmaceuticals R&D costs in 2013 to 52% in 2014, reflecting the completion of a number of late-stage programmes.

Royalty income

Royalty income was £310 million (2013 - £387 million) reflecting the conclusion of a number of royalty agreements. 2013 also included a prior year catch-up adjustment.

Core operating profit

	2014		2013		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Core operating profit	6,594	28.7	7,771	30.4	(6)	(15)

Core operating profit was £6,594 million, 6% lower than in 2013 in CER terms on a turnover decline of 3%. The core operating margin of 28.7% was 1.7 percentage points lower than in 2013. Excluding currency effects, the margin decreased 0.8 percentage points. This primarily reflected an increase in SG&A as a percentage of sales and lower royalty income. SG&A costs declined 2% driven by targeted cost management and the benefit of ongoing

restructuring programmes. SG&A also included the credit reported in Q3 2014 of £219 million from a release of reserves following simplification of the Group s entity structure and our trading arrangements. Structural savings of approximately £280 million were realised in 2013.

Net finance costs

Net finance costs	2014 £m	2013 £m
Interest and other income	66	59
Fair value movements	2	2
	68	61
Finance expense		
Interest expense	(688)	(726)
Unwinding of discounts on liabilities	(2)	
Remeasurement and fair value movements	(10)	(5)
Other finance expense	(14)	(22)
	(714)	(753)

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Core net finance expense was £646 million compared with £692 million in 2013, reflecting GSK s strategy to improve the funding profile of the Group, despite average net debt in 2014 being marginally higher than in 2013.

Share of after tax profits of associates and joint ventures

The share of profits of associates and joint ventures was £30 million (2013 £43 million), reflecting the reduced shareholding in the Aspen group, currency movements and a number of one-off adjustments.

	2014		2013		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Core profit before tax	5,978	26.0	7,122	27.8	(6)	(16)

Taxation

Tax on core profit amounted to £1,172 million and reflected an effective core tax rate of 19.6% (2013 23.0%). The reduction in the effective rate included the resolution of a number of matters that benefited the year, and an increase in the benefit of intellectual property incentives.

Core earnings per share

Core EPS of 95.4p decreased 1% in CER terms compared with a 6% decline in the operating profit as a result of financial efficiencies.

Financial position and resources

Property, plant and equipment

Our business is science-based, technology-intensive and highly regulated by governmental authorities. We allocate significant financial resources to the renewal and maintenance of our property, plant and equipment to minimise risks of interruption of production and to achieve compliance with regulatory standards. A number of our processes use chemicals and hazardous materials.

The total cost of our property, plant and equipment at 31 December 2014 was £19,355 million, with a net book value of £9,052 million. Of this, land and buildings represented £4,007 million, plant and equipment £2,740 million and assets in construction £2,305 million. In 2014, we invested £1,261 million in new and renewal property, plant and equipment. This was mainly related to a large number of projects for the renewal, improvement and expansion of facilities at various worldwide sites. Property is mainly held freehold. New investment is financed from our liquid resources. At 31 December 2014, we had contractual commitments for future capital expenditure of £459 million and operating lease commitments of £701 million. We believe that our facilities are adequate for our current needs.

We observe stringent procedures and use specialist skills to manage environmental risks from our activities. Environmental issues, sometimes dating from operations now modified or discontinued, are reported under Our Planet on page 46 and in Note 45 to the financial statements, Legal proceedings .

Goodwill

Goodwill decreased during the year to £3,724 million at December 2014, from £4,205 million. The decrease reflected the goodwill allocated to the oncology business and transferred to assets held for sale following the decision to sell the business to Novartis.

Other intangible assets

Other intangible assets include the cost of intangibles acquired from third parties and computer software. The net book value of other intangible assets as at 31 December 2014 was £8,320 million (2013 £9,283 million). The decrease in 2014 reflected a transfer of £506 million to assets held for sale to reflect the proposed Novartis transaction, capitalised development costs of £242 million and the amortisation and impairment of existing intangibles of £704 million and £157 million, respectively.

Investments

We held investments, including associates and joint ventures, with a carrying value at 31 December 2014 of £1,454 million (2013 £1,525 million). The market value at 31 December 2014 was £2,502 million (2013 £2,212 million). The largest of these investments were in an associate, Aspen Pharmacare Holdings Limited, which had a book value at

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31 December 2014 of £274 million (2013 £229 million) and investments in Theravance, Inc. and Theravance Biopharma, Inc. which have a book value at 31 December 2014 of £367 million (2013 £644 million). The investments included equity stakes in companies with which we have research collaborations, which provide access to biotechnology developments of potential interest and interests in companies that arise from business divestments.

Derivative financial instruments: assets

We had both non-current and current derivative financial instruments held at fair value of £146 million (2013 £156 million). The majority of this amount related to interest rate swaps and foreign exchange contracts both designated and non-designated (inter-company loans and deposits) as accounting hedges.

Inventories

Inventory of £4,231 million increased by £331 million during the year. The increase primarily reflected the impact of stock building for new product launches and remediation of the Consumer Healthcare supply chain, partly offset by a favourable exchange impact.

Trade and other receivables

Trade and other receivables of £4,600 million decreased from 2013 reflecting the receipt of the deferred receivable from Aspen in respect of the inventory and a manufacturing site which formed part of the disposal of the anti-coagulants products business in 2013, together with improved recoveries of receivables in various markets and favourable exchange impacts.

Derivative financial instruments: liabilities

We held both non-current and current derivative financial instruments at fair value of £413 million (2013 £130 million. This primarily related to foreign exchange contracts both designated and non-designated (inter-company loans and deposits, acquisitions and disposals, external debt and legal provisions) as accounting hedges.

Trade and other payables

Trade and other payables amounting to £7,958 million decreased from £8,317 million in 2013, reflecting the effect of the increased shareholding in the Group s Indian Pharmaceutical subsidiary accrued in 2013 partly offset by the effect of an increase in the returns and rebates accrual together with a favourable exchange impact.

Provisions

We carried deferred tax provisions and other short-term and non-current provisions of £2,035 million at 31 December 2014 (2013 £2,237 million) in respect of estimated future liabilities, of which £520 million (2013 £646 million) related to legal and other disputes. Provision has been made for legal and other disputes, indemnified disposal liabilities, employee related liabilities and the costs of restructuring programmes to the extent that at the balance sheet date a legal or constructive obligation existed and could be reliably estimated.

Pensions and other post-employment benefits

We account for pension and other post-employment arrangements in accordance with IAS 19. The deficits, net of surpluses before allowing for deferred taxation were £1,689 million (2013 £613 million) on pension arrangements

and £1,397 million (2013 £1,246 million) on unfunded post-employment liabilities. The increases in the deficits were predominantly driven by lower discount rates that we used to discount the value of the liabilities.

In December 2010, the UK scheme purchased an insurance contract that will guarantee payment of specified pensioner liabilities. This contract was valued at £803 million at 31 December 2014.

Other non-current liabilities

Other non-current liabilities of £2,401 million at 31 December 2014 (2013 £1,704 million) included £1,619 million (2013 £958 million) of contingent consideration payable, primarily in respect of the acquisition in 2012 of the former Shionogi-ViiV Healthcare joint venture.

Net debt

Net debt increased by £1,732 million and reflected the aggregate consideration of £650 million paid to increase the shareholding in the Group s Indian pharmaceutical subsidiary from 50.7% to 75% and the acquisition of the remaining 30% of the Group s Indonesian Consumer Healthcare business held by a third party, together with a reduction in cash generated from operations.

The Group s cash generation and liquidity enabled the payment of ordinary dividends of £3,843 million and share repurchases of £238 million.

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Total equity

At 31 December 2014, total equity had decreased from £7,812 million at 31 December 2013 to £4,936 million. The decrease arose principally from an increase in the pension deficit of £1,076 million and the impact of dividends paid out in the year.

Cash generation and conversion

The net cash inflow from operating activities for the year was £5,176 million (2013 £7,222 million). The decrease primarily reflected the impact of the strength of Sterling on profits and lower profits, including the impact of divestments.

Capital expenditure and financial investment

Cash payments for tangible and intangible fixed assets amounted to £1,751 million (2013 £1,701 million) and disposals realised £594 million (2013 £2,033 million). Cash payments to acquire equity investments of £83 million (2013 £133 million) were made in the year and sales of equity investment realised £205 million (2013 £59 million).

5.B Liquidity and capital resources

The information set forth under the headings:

Cash generation and conversion on page 65;

Financial position and resources on pages 66 to 69; and

Treasury policies on page 72

of the GSK Annual Report 2015 is incorporated herein by reference.

5.C Research and development, patents and licenses, etc.

The information set forth under the headings:

Intellectual property and patent protection developments on page 10;

Competition on page 10**;**

Deliver within Pharmaceuticals on pages 22 to 25, Vaccines on pages 29 to 30 and Consumer Healthcare on page 36;

Pharmaceuticals and Vaccines product development pipeline on pages 225 to 227;

Pharmaceutical products, competition and intellectual property on pages 228 to 229;

Vaccines products, competition and intellectual property on page 229; and

Consumer Healthcare products and competition on page 230

of the GSK Annual Report 2015 is incorporated herein by reference.

The information set forth under the headings:

Financial Review 2014 Core results Research and development ; and

Financial Review 2014 Total results Research and development

of item 5.A hereof is incorporated herein by reference.

5.D Trend information

The information set forth under the heading 2015 Financial Review in Item 5.A of this annual report on Form 20-F is incorporated herein by reference.

5.E Off-balance sheet arrangements

Not applicable.

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5.F Tabular disclosure of contractual obligations
The information set forth under the heading:

Contractual obligations and commitments on page 69
of the GSK Annual Report 2015 is incorporated herein by reference.

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

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

Our Board on pages 74 to 77; and

Our Corporate Executive Team on pages 78 to 79
of the GSK Annual Report 2015 is incorporated herein by reference.

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

Remuneration report on pages 102 to 126 (excluding (i) the phrase and 1% CER on a pro forma basis in the first sentence in the first row, (ii) the phrase and up 3% on a pro-forma basis in 2015 in the first sentence in the second row and (iii) the second, fourth and sixth sentences in the second row in the Financial performance table under the heading Pay for performance (audited) on page 107); and

2014 Remuneration policy summary on pages 127-128
of the GSK Annual Report 2015 is incorporated herein by reference.

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

Corporate governance on pages 80 to 101;

Governance on page 116; and

Donations to political organisations and political expenditure on page 249
of the GSK Annual Report 2015 is incorporated herein by reference.

Termination of Employment:

Loss of office payment policy:
The following table sets out the contractual framework for Executive Directors. The terms specifically relating to termination are set out in more detail below.

Policy	
Duration of contracts	The company does not have a policy of fixed term contracts. Generally, contracts for new appointments will expire in line with the applicable policy on retirement age, which since 2009 has been 65. Contracts for existing Executive Directors will expire on the dates shown on page 114 of the GSK Annual Report 2015.
Notice period	Notice period on termination by employing company or Executive Director is 12 calendar months.
Mitigation	The ability to impose a 12-month non-compete period (and a non-solicitation restriction) on an Executive Director is considered important by the company to have the ability to protect the Group s intellectual property and staff. In light of this, the Remuneration Committee believes that it would not be appropriate to provide for mitigation in the contracts.

Termination of employment
In the event that an Executive Director s employment with the company terminates, the following policies and payments will apply.

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Element of Remuneration	Loss of office payment policy
Termination payment	Termination by notice: 12 months annual salary payable on termination by the company (pro-rated where part of the notice period is worked). No termination payment is made in respect of any part of a notice period that extends beyond the contract expiry date. A bonus element is not normally included in the termination payment. However, the terms of the contracts seek to balance commercial imperatives and best practice. If the company enforces the non-compete clause for the current CEO and Chairman, Global R&D and Vaccines, up to 12 months on-target bonus will be payable. Redundancy: As above, for termination by notice. In the UK, only statutory redundancy pay will apply. In the US, general severance policy does not apply. Retirement, death and ill-health, injury or disability: No termination payment.
Long-term incentive awards	Performance Share Plan (PSP) and Deferred Annual Bonus Plan (DABP) matching awards are governed by the Plan Rules as approved by shareholders. Termination by notice: Unvested awards lapse. Redundancy and retirement: Generally, awards vest over the original timescales, subject to the original performance conditions. Awards made in the last 12 months are forfeited. Death and ill-health, injury or disability: Generally, awards will vest following the end of the financial year, normally taking into account performance to that date. Awards may be pro-rated for time. In the event of a change of control, PSP and DABP matching awards will vest, taking into account performance to date and normally taking into account the proportion of the performance period that has elapsed. Alternatively, the awards may be exchanged for new awards.
Annual bonus	Termination by notice by individual: If an individual serves notice and the termination date falls before 31 December, the bonus is forfeited. Termination by notice by the company, redundancy, retirement, death and ill-health, injury or disability: If the termination date falls during the financial year, eligible for pro-rated on-target bonus (if employed on 31 December, bonus payable based on actual results).
DABP deferred bonus awards	Termination by notice: Deferred shares vest in full on the date of termination. Redundancy, retirement, death and ill-health, injury or disability: Generally, deferred shares vest in full at the end of the financial year in which the

	termination date falls.
Benefits	Generally, benefits will continue to apply until the termination date. Termination by notice by the company and retirement (US executives): In line with the policy applicable to US senior executives, the Chairman, Global R&D & Vaccines may become eligible, at a future date, to receive continuing medical and dental insurance after termination/retirement.

Termination by mutual agreement: In certain circumstances it can be in the best interests of the company for the Board to manage proactively succession planning and the development of the senior talent pipeline. In such circumstances, the Board may therefore agree that an executive s departure will be by mutual agreement. In order for this to apply, the Remuneration Committee will need to be satisfied that the executive has demonstrated performance in line with expectations, where required they should have contributed to an orderly succession, and they should have completed at least 20 years service with the Group on the termination date. In the case of an Executive Director, they would then be treated as a good leaver for the purposes of GSK s long-term incentive plans. If the termination date falls during the financial year, they would be eligible for a pro-rated on-target bonus and if they are employed on 31 December, the bonus payable would be based on actual results. In the case of the CEO, as a member of the UK defined benefit pension scheme, his pension would then be payable from the later of his termination date and age 55 without actuarial reduction.

The Remuneration Committee does not anticipate the exercise of discretion provided by the PSP and DABP plan rules in respect of termination payments. However, there may be unforeseen circumstances where this is in the best interests of the company and its shareholders. Where it is necessary to exercise discretion, explanations will be provided.

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Where an Executive Director leaves the company, the Remuneration Committee will carry out an assessment of the individual s performance and conduct over the time in role. If it is determined that the individual s performance or conduct was contrary to the legitimate expectations of the company, the Remuneration Committee reserves the right to apply appropriate mechanisms such as clawback (see page 113 of the GSK Annual Report 2015), or reduction or lapsing of outstanding incentive awards (malus), to ensure that any termination payments are in the best interests of the company and its shareholders.

In the case of termination for cause, all payments and unvested awards are forfeited except shares deferred under the DABP (which vest in full on the date of termination) and accrued salary and expenses.

6.D Employees

The information set forth under the headings:

Performance and engagement on page 46;

Note 9 Employee costs on page 155;

Note 28 Pensions and other post-employment benefits on pages 169 to 176; and

Five year record, Number of employees on page 224

of the GSK Annual Report 2015 is incorporated herein by reference.

6.E Share ownership

The information set forth under the headings:

Note 42 Employee share schemes on pages 202 to 204;

Total remuneration for 2015 on pages 104 to 105;

Value earned from Long Term Incentive awards on page 109;

Update on performance of ongoing awards on page 110; and

Directors interests in shares on pages 119 to 125
of the GSK Annual Report 2015 is incorporated herein by reference.

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

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

Change of control and essential contracts on page 100;

Share capital and control on page 241; and

Analysis of shareholdings at 31 December 2015 on page 242
of the GSK Annual Report 2015 is incorporated herein by reference.

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

Note 35 Related party transactions on page 183
of the GSK Annual Report 2015 is incorporated herein by reference.

7.C Interests of experts and counsel
Not applicable.

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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:

Note 45 Legal proceedings on pages 206 to 210; and

Dividends on page 243
of the GSK Annual Report 2015 is incorporated herein by reference.

8.B Significant Changes
The information set forth under the heading Note 43 Post balance sheet events on page 204 and Note 45 Legal proceedings on pages 206 to 210 of the GSK Annual Report 2015 is incorporated herein by reference.

Item 9. The Offer and Listing

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

Market capitalisation on page 241;

Share price on page 241; and

Nature of trading market on page 242
of the GSK Annual Report 2015 is incorporated herein by reference.

9.B Plan of distribution
Not applicable.

9.C Markets

The information set forth under the headings:

Nature of trading market on page 242

of the GSK Annual Report 2015 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

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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. 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.

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

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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(excluding any shares of that class held as treasury shares) (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 certificated 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.

(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 clear 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 direct or indirect interest;

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(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).

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, is Chairman of, or 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;

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(ii) has held office, other than employment or executive 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.

In addition to any power of removal conferred by the Companies Acts 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;

(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; or

(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

On April 22, 2014, GSK and Novartis AG (Novartis) entered into a three-part, inter-conditional transaction (the Transaction), pursuant to which they executed an implementation agreement (as subsequently amended, the Implementation Agreement), a contribution agreement relating to a consumer healthcare joint venture (as subsequently amended, the Contribution Agreement), a share and business sale agreement relating to the vaccines business of Novartis (as subsequently amended, the Vaccines SAPA), a sale and purchase agreement relating to the oncology business of GSK (as subsequently amended, the Oncology SAPA), a put option deed relating to the influenza vaccines business of Novartis (as subsequently amended, the Put Option Deed) and a shareholders agreement (the Shareholders Agreement, and, together with the Implementation Agreement, the Contribution Agreement, the Vaccines SAPA, the Oncology SAPA and the Put Option Deed, the Transaction Contracts).

Under the Vaccines SAPA, GSK purchased Novartis vaccines business (excluding Novartis influenza vaccines business). The purchase price for the business is up to US$7,055,000,000 plus royalties. The US$7,055,000,000 consists of US$5,255,000,000 upfront and up to US$1,800,000,000 in milestone payments.

Under the Oncology SAPA, GSK sold or licensed, and Novartis purchased or licensed, certain assets, rights and liabilities relating to GSK s oncology business. Novartis acquired GSK s oncology products for an aggregate cash consideration of US$16,000,000,000. Under the terms of the transaction, Novartis also has preferred partner rights over GSK s current and future oncology research and development pipeline, excluding oncology vaccines, for a period of 12.5 years following the closing of the Transaction.

Under the Put Option Deed, Novartis has the right to unilaterally require GSK to acquire from Novartis its entire influenza vaccines business for US$250,000,000, or certain parts of the influenza vaccines business for a pro rata portion thereof (subject to certain customary purchase price adjustments) if the divestment of this business to a certain third party does not complete (the Influenza Put Option). The Influenza Put Option is exercisable during an 18-month period. Any divestment to GSK under the Influenza Put Option (if exercised) would be subject to applicable antitrust clearances and

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satisfaction of certain other conditions. On 3 August 2015, Novartis announced that it had completed effective 31 July 2015 the sale of its influenza vaccines unit to CSL Limited for $275 million. Accordingly, GSK does not expect any material rights or obligations to remain under the Put Option Deed.

Under the Contribution Agreement, GSK contributed its consumer healthcare business and Novartis contributed its over-the-counter business into a newly-created joint venture company, which operates under the GSK Consumer Healthcare name. GSK owns a 63.5% share of the joint venture. Pursuant to the Shareholders Agreement entered into by GSK and Novartis at the closing of the Transaction, GSK has seven of eleven seats on the joint venture s board of directors, and Novartis has customary minority rights and exit rights at a pre-defined, market-based pricing mechanism.

GSK s shareholders approved the Transaction on December 18, 2014. The Transaction closed on March 2, 2015.

10.D Exchange controls

The information set forth under the heading:

Exchange controls and other limitations affecting security holders on page 241

of the GSK Annual Report 2015 is incorporated herein by reference.

10.E Taxation

The information set forth under the heading:

Tax information for shareholders on pages 244 to 245

of the GSK Annual Report 2015 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 243
of the GSK Annual Report 2015 is incorporated herein by reference.

10.I Subsidiary information
Not applicable.

Item 11. **Quantitative and Qualitative Disclosures About Market Risk**
The information set forth under the headings:

Treasury policies on page 72; and

Note 41 Financial instruments and related disclosures on pages 192 to 202
of the GSK Annual Report 2015 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.

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12.D American Depositary Shares

Fees and charges payable by ADR holders

The Bank of New York serves as the depositary (the Depositary) for GSK s American Depositary Receipt (ADR) programme. On April 6, 2015, GSK and the Depositary amended and restated the deposit agreement (the Deposit Agreement) between GSK, the Depositary and owners and holders of ADRs. Pursuant to 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 (i) a fee of $5.00 or less per 100 American Depositary Shares (or portion thereof) for the delivery and surrender of American Depositary Shares, (ii) a fee of $0.05 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to this Deposit Agreement, (iii) a fee for the distribution of securities other than cash or shares and (iv) a fee of $0.05 or less per American Depositary Share (or portion thereof) per annum for depositary services. In addition, the following charges shall be incurred by any party depositing or withdrawing Shares or surrendering ADRs or to whom American Depositary Shares are issued: (i) taxes and other governmental charges, (ii) such registration fees as may from time to time be in effect, (iii) certain cable, telex and facsimile transmission expenses, (iv) such expenses as are incurred by the Depositary in the conversion of foreign currency and (v) any other charges payable by the Depositary.

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, (ii) deduct from any cash distribution any tax payable thereon or the cost of any currency conversion and (iii) collect any of its fees or charges by deduction from any cash distribution payable to ADR holders that are obligated to pay those fees or charges.

Direct and indirect payments by the Depositary

The Depositary has agreed to pay GSK, on an annual basis, (i) 50% of the issuance and cancellation fees collected by the depositary, net of custody fees, (ii) 100% of any cash dividend fee, net of the Depositary s charges for fees, service and expenses and (iii) 90% of certain special dividend fees, net of the Depositary s charges for fees, service and expenses. In 2015 the Depositary made payments to GSK of approximately $3.3 million, of which approximately $2.3 million were related to expenses reimbursed in connection with services provided in 2014.

Under certain circumstances, including removal of the Depositary or termination of the ADR programme by GSK, GSK is required to repay certain amounts paid to GSK and to compensate the Depositary for payments made or services provided on behalf of GSK.

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 85 to 86

of the GSK Annual Report 2015 is incorporated herein by reference.

US law and regulation

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

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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 Item 16.G of this Form 20-F. 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.

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 GSK Annual Report 2015 and Form 20-F. In 2015 the Committee met 14 times.

Sarbanes-Oxley requires that this annual report on Form 20-F contain 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 judgment on this matter, please refer to Item 16.A below and to pages 89 and 248 of the GSK Annual Report 2015. 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 GSK Annual Report 2015 and Form 20-F;
- based on their knowledge, the GSK Annual Report 2015 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 GSK Annual Report 2015 and Form 20-F;

they are responsible for establishing and maintaining disclosure controls and procedures that ensure that material information is made known to them, and have evaluated the effectiveness of these controls and procedures as at the year-end, the results of such evaluation being contained in the GSK Annual Report 2015 and Form 20-F;

they are responsible for establishing and maintaining internal control over financial reporting that provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

they have disclosed in the GSK Annual Report 2015 and Form 20-F any changes in internal controls over financial reporting during the period covered by the GSK Annual Report 2015 and Form 20-F that have materially affected, or are reasonably likely to affect materially, the company s internal control over financial reporting; and

they have disclosed, based on their most recent evaluation of internal control over financial reporting, to the external auditors and the ARC, all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to affect adversely the company s ability to record, process, summarise and report financial information, and any fraud (regardless of materiality) involving persons that have a significant role in the company s internal control over financial reporting.

The Group has carried out an evaluation under the supervision and with the participation of its management, including the CEO and CFO, of the effectiveness of the design and operation of the Group s disclosure controls and procedures as at 31 December 2015.

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There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on the Group s evaluation, the CEO and CFO have concluded that, as at December 31, 2015, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that the Group files and submits under the US Securities Exchange Act of 1934, as amended, is recorded, processed, summarised and reported as and when required and that it is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding disclosure.

The CEO and CFO completed these certifications on March 18, 2016.

Section 404: Management s annual report on internal control over financial reporting.

In accordance with the requirements of section 404 of Sarbanes-Oxley, the following report is provided by management in respect of the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the US Securities Exchange Act of 1934):

management is responsible for establishing and maintaining adequate internal control over financial reporting for the Group. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS;

management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission;

management has assessed the effectiveness of internal control over financial reporting, as at 31 December 2015 and has concluded that such internal control over financial reporting was effective. In addition, there have been no changes in the Group s internal control over financial reporting during 2015 that have materially affected, or are reasonably likely to affect materially, the Group s internal control over financial reporting; and

PricewaterhouseCoopers LLP, which has audited the consolidated financial statements of the Group for the year ended December 31, 2015, has also assessed the effectiveness of the Group s internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board (United States). Their audit report can be found in Item 18 below.

Item 16. **[Reserved]**

Item 16.A **Audit committee financial expert**

The information set forth under the heading:

Membership and attendance , within the Audit & Risk Committee Report , on page 89; and

Sarbanes-Oxley Act of 2002 on page 248

of the GSK Annual Report 2015 is incorporated herein by reference.

Item 16.B **Code of Ethics**

The information set forth under the heading:

Code of Conduct and reporting lines on page 94

of the GSK Annual Report 2015 is incorporated herein by reference.

No waivers were granted from a provision of our code of ethics to an officer or person described in Item 16B(a) that relates to one or more of the items set forth in Item 16B(b) in 2015.

Item 16.C **Principal Accountant Fees and Services**

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The information set forth under the heading:

Non-audit services on page 94; and

Note 8 Operating profit on page 154

of the GSK Annual Report 2015 is incorporated herein by reference.

Item 16.D **Exemptions from the Listing Standards for Audit Committees**

Not applicable.

Item 16.E **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Not applicable.

Item 16.F **Change in Registrant s Certifying Accountant**

Not applicable.

Item 16.G **Corporate Governance**

Comparison of New York Stock Exchange Corporate Governance Standards and GlaxoSmithKline plc s corporate governance practice.

On November 4, 2003, the New York Stock Exchange (the NYSE) adopted new corporate governance standards. The application of the NYSE s standards is restricted for foreign companies, recognising that they have to comply with domestic requirements. As a foreign private issuer, GlaxoSmithKline plc (GlaxoSmithKline or the Company) must comply with the following NYSE standards:

1. the Company must satisfy the audit committee requirements of the Securities and Exchange Commission (the SEC);

2. the Chief Executive Officer (the CEO) must promptly notify the NYSE in writing after any executive officer of the Company becomes aware of any non-compliance with any applicable provisions of the NYSE s corporate governance standards;

3.

the Company must submit an annual affirmation to the NYSE affirming GlaxoSmithKline s compliance with applicable NYSE corporate governance standards, and submit interim affirmations to the NYSE notifying it of specified changes to the audit committee or a change to the status of the Company as a foreign private issuer; and

4. the Company must provide a brief description of any significant differences between its corporate governance practices and those followed by US companies under the NYSE listing standards.

As a Company listed on the London Stock Exchange, GlaxoSmithKline is required to comply with the UK Listing Authority s Listing Rules (the Listing Rules) and to report non-compliance with the UK Corporate Governance Code (the UK Code).

The table below discloses differences between GlaxoSmithKline s current domestic corporate governance practices, which are based on the UK Code, and the NYSE corporate governance standards, applicable to US companies.

NYSE Corporate Governance Standards	Description of differences between GlaxoSmithKline s governance practice and the NYSE Corporate Governance Standards
Director Independence	
1. Listed companies must have a majority of independent directors (as defined in Exchange Act Rule 10A-3).	GlaxoSmithKline complies with the equivalent domestic requirements contained in the UK Code which was issued in September 2014. The UK Code provides that the board of directors of GlaxoSmithKline (the Board) and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively (B.1). The Board should include an appropriate combination of Executive and

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		Non-Executive Directors (and, in particular, independent Non-Executive Directors) such that no individual or small group of individuals can dominate the Board s decision taking (B.1). At least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent (B.1.2). The roles of Chairman and Chief Executive should not be exercised by the same individual. The division of responsibilities between the Chairman and Chief Executive should be clearly established, set out in writing and agreed by the Board (A.2.1).
		The Board considers that Professor Sir Roy Anderson, Vindi Banga, Dr Stephanie Burns, Stacey Cartwright, Lynn Elsenhans, Dr Jesse Goodman, Judy Lewent, Sir Deryck Maughan, Dr Daniel Podolsky, Urs Rohner, and Hans Wijers are independent for the purpose of the UK Code.
		A majority of the Board members are independent Non-Executive Directors and, in accordance with the recommendations of the UK Code, the Board has appointed one of the independent Non-Executive Directors as Senior Independent Director to provide a sounding board for the Chairman and act as an intermediary for other Directors where necessary (A.4.1). In January 2012 the Board adopted a formal written role specification for the Senior Independent Director.
NYSE Independence Tests		
2.	In order to tighten the definition of independent director for purposes of these standards:	GlaxoSmithKline complies with the corresponding domestic requirements contained in the UK Code, which sets out the principles for the Company to determine whether a director is independent .
	(a) (i) No director qualifies as independent unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company).	The Board is required to determine and state its reasons for the determination of whether directors are independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could affect, the directors judgment. In

(ii) In addition, in affirmatively determining the independence of any director who will serve on the compensation committee of the listed company s board of directors, the board of directors must consider all factors specifically relevant to determining whether a director has a relationship to the listed company which is material to that director s ability to be independent from management in connection with the duties of a compensation committee member, including, but not limited to:

(A) the source of compensation of such director, including any consulting, advisory or other compensatory fee paid by the listed company to such director; and

(B) whether such director is affiliated with the listed company, a subsidiary of the listed company or an affiliate of a subsidiary of the listed company.

(b) In addition, a director is not independent if:

(i) The director is, or has been within the last three years, an employee of the listed company, or an immediate family member is, or has been within the last three years, an executive officer, of the listed company.

undertaking this process, the Board is required, amongst other factors, to consider if the director:

(a) has been an employee of GlaxoSmithKline within the last five years;

(b) has, or has had within the last three years, a material business relationship with the Company either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Company;

(c) has received or receives additional remuneration from the Company apart from a director s fee, participates in the Company s share option or a performance-related pay scheme, or is a member of the Company s pension scheme;

(d) has close family ties with any of the Company s advisers, directors or senior employees;

(e) holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;

(f) represents a significant shareholder; or

(g) has served on the Board for more than nine years from the date of his or her first election (B.1.1).

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(ii) The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than $120,000 in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).	The Board considers all its Non-Executive Directors to be independent in character and judgment and has concluded that all its Non-Executive Directors are independent within the meaning of the UK Code. The Chairman satisfied the independence criteria on appointment in accordance with the UK Code (A.3.1).
(iii) (A) The director is a current partner or employee of a firm that is the listed company s internal or external auditor; (B) the director has an immediate family member who is a current partner of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and personally works on the listed company s audit; or (D) the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the listed company s audit within that time.	GlaxoSmithKline complied with the UK Code requirement that all Directors should be subject to annual election or re-election by shareholders (B.7) at its Annual General Meeting in 2015, and intends to comply with this requirement at its 2016 Annual General Meeting. The UK Code also provides that the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors (B.6). Evaluation of the Board should consider the balance of skills, experience, independence and knowledge of the Company on the Board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness (B.6). GlaxoSmithKline has complied with this requirement. In addition, the evaluation of the Board should be externally facilitated at least every three years and a statement should be made available of whether an external facilitator has any other connection with the Company and the external facilitator should be identified in the annual report (B.6.2). The Company conducted an externally facilitated evaluation in 2014, an internally facilitated evaluation in 2015 and expects to conduct another internally facilitated evaluation in 2016.
(iv) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the listed company s present executive officers at the same time serves or served on that company s compensation committee.	
(v) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the listed company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million, or 2% of such other company s consolidated gross revenues.	The UK Code provides that all Directors should receive an induction on joining the Board (B.4). The Chairman should regularly review and agree with each Director their training and development needs (B.4.2).
(For the purposes of these standards executive officer is defined to have the meaning specified for the term officer in Rule 16a-1(f) under the Securities Exchange	

Act of 1934, as amended, the Exchange Act).

	Executive Sessions	**Meetings**
3.	To empower non-management directors to serve as a more effective check on management, the non-management directors of each listed company must meet at regularly scheduled executive sessions without management.	GlaxoSmithKline complies with the equivalent domestic requirements set out in the UK Code, which requires that the Chairman of GlaxoSmithKline should hold meetings with the Non-Executive Directors without executives present. The Non-Executive Directors, led by the Senior Independent Director, also meet at least annually without the Chairman present to appraise the Chairman s performance (A.4.2).
		The UK Code provides that the Chairman should promote a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors (A.3) and, in particular, ensuring constructive relations between Executive and Non-Executive Directors (A.3). In addition, the Chairman is responsible for ensuring that all Directors are made aware of shareholders concerns (E.1).

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	Nominating / Corporate Governance Committee	Nominations Committee
4.	(a) Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.	GlaxoSmithKline complies with the corresponding domestic requirements set out in the UK Code, which requires that GlaxoSmithKline should have a Nominations Committee that is comprised of a majority of independent Non-Executive Directors (B.2.1).
	(b) The nominating/corporate governance committee must have a written charter that addresses:	
	(i) the committee s purpose and responsibilities which, at minimum, must be to: identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders; develop and recommend to the board a set of corporate governance guidelines applicable to the corporation; and oversee the evaluation of the board and management; and an annual performance evaluation of the committee.	GlaxoSmithKline s Nominations Committee has written terms of reference in accordance with the UK Code. The terms of reference are available on the Company s website and explain the Nominations Committee s role and the authority delegated to it by the Board (B.2.1). The Nominations Committee reviews the structure, size, diversity (including gender diversity), and composition of the Board and leads the process for the appointment of members to the Board and the Corporate Executive Team (the CET), and makes recommendations to the Board as appropriate. The Committee also monitors the planning of succession for the Board and Senior Management.
		In compliance with the UK Code, the terms and conditions of appointment of Non-Executive Directors are available for inspection (B.3.2).
		The UK Code requires that a separate section in the Company s Annual Report describe the work of the Nominations Committee in discharging its duties, including the process it has used in relation to Board appointments (B.2.4). An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director. Where an external search consultancy has been used, it should be identified in the report and a statement should be made as to whether it has any other connection with the company (B.2.4). This section should include a description of the board s policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on

		achieving the objectives (B.2.4). GlaxoSmithKline has complied with this requirement.
		As described above, there is an annual Board evaluation exercise, which also includes evaluation of the Board s committees (B.6).
		The Board is responsible for regularly reviewing its corporate governance standards and practices. The Company Secretary oversees corporate governance matters for the Group. The Company Secretary is responsible for advising the Board through the Chairman on all corporate governance matters. Domestic requirements do not mandate that GlaxoSmithKline establish a distinct corporate governance committee.
	Compensation Committee	**Remuneration Committee**
5.	(a) Listed companies must have a compensation committee composed entirely of independent directors. Compensation committee members must satisfy the additional independence requirements specific to compensation committee membership set forth in Section 2(a)(ii) in the Section titled Independence Tests above.	GlaxoSmithKline complies with the equivalent domestic requirements set out in the UK Code, which requires that GlaxoSmithKline should have a Remuneration Committee that is comprised of at least three independent Non-Executive Directors (D.2.1).

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(b) The compensation committee must have a written charter that addresses:	GlaxoSmithKline s Remuneration Committee has written terms of reference in accordance with the UK Code. The terms of reference are available on the Company s website and explain the Remuneration s Committee s role and the authority delegated to it by the Board (D.2.1). The Remuneration Committee determines the terms of service and remuneration of the Executive Directors and members of the CET and, with the assistance of external independent advisers, it evaluates and makes recommendations to the Board on overall executive remuneration policy (the Chairman and the CEO are responsible for evaluating and making recommendations to the Board on the remuneration of Non-Executive Directors). Where remuneration consultants are appointed, they should be identified in the annual report and a statement should be made as to whether they have any other connection with the company (D.2.1).
(i) the committee s purpose and responsibilities which, at a minimum, must be to have direct responsibility to:	
(A) review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO s performance in light of those goals and objectives, and, either as a committee or together with the other independent directors (as directed by the board), determine and approve the CEO s compensation level based on this evaluation;	
(B) make recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval; and	The UK Code provides that the Remuneration Committee:
(C) prepare the disclosure required by item 407(e)(5) or Regulation S-K under the Exchange Act;	(a) should take care to recognise and manage conflicts of interest when receiving views from Executive Directors or senior management, or consulting the Chief Executive about its proposals (D.2) and should have delegated responsibility for setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments (D.2.2);
(ii) an annual performance evaluation of the compensation committee.	
(iii) The rights and responsibilities of the compensation committee set forth in Section 303A.05(c).	(b) should recommend and monitor the level and structure of remuneration for senior management (D.2.2);
(c) (i) The compensation committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, independent legal counsel or other adviser.	(c) should consider what compensation commitments (including pension contributions and all other elements) the directors terms of appointment would entail in the event of early termination (D.1.4.);

(ii) The compensation committee shall be directly responsible for the appointment, compensation and oversight of the work of any compensation consultant, independent legal counsel or other adviser retained by the compensation committee.

(iii) The listed company must provide for appropriate funding, as determined by the compensation committee, for payment of reasonable compensation to a compensation consultant, independent legal counsel or any other adviser retained by the compensation committee.

(iv) The compensation committee may select a compensation consultant, legal counsel or other adviser to the compensation committee only after taking into consideration, all factors relevant to that person s independence from management, including the following:

(A) The provision of other services to the listed company by the person that employs the compensation consultant, legal counsel or other adviser;

(B) The amount of fees received from the listed company by the person that employs the compensation consultant, legal counsel or other adviser, as a percentage of the total revenue of the person that employs the compensation consultant, legal counsel or other adviser;

(C) The policies and procedures of the person that employs the compensation consultant, legal counsel or other adviser that are designed to prevent conflicts of interest;

(d) should invite shareholders specifically to approve all new long-term incentive schemes and significant changes to existing schemes (D.2.4.);

(e) should judge where to position the Company relative to other companies and should be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases (D.1); and

(f) should determine an appropriate balance between fixed and performance-related immediate and deferred remuneration bearing in mind that performance-related elements of Executive Directors remuneration should be designed to promote the long-term success of the Company and be transparent, stretching and rigorously applied (D.1, D.1.1 and Schedule A). Incentive schemes should include provisions that would enable the Company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so (D.1.1).

The UK Code requires that payouts under incentive schemes should be subject to challenging performance criteria, including non-financial performance criteria where appropriate and remuneration incentives should be compatible with the Company s risk policies and systems (Schedule A). In addition, remuneration of Non-Executive Directors should not include share options or other performance-related elements (D.1.3).

As described above, there is an annual Board evaluation exercise, which also includes evaluation of the Board s committees (B.6).

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	(D) Any business or personal relationship of the compensation consultant, legal counsel or other adviser with a member of the compensation committee;	
	(E) Any stock of the listed company owned by the compensation consultant, legal counsel or other adviser; and	
	(F) Any business or personal relationship of the compensation consultant, legal counsel, other adviser or the person employing the adviser with an executive officer of the listed company.	
	Audit Committee	**Audit & Risk Committee**
6.	Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.	GlaxoSmithKline complies with equivalent domestic requirements set out in the UK Code, which requires that GlaxoSmithKline has an Audit & Risk Committee that is comprised of at least three independent Non-Executive Directors (C.3.1). The Company considers all members of the Audit & Risk Committee are independent . The Board has also satisfied itself, in line with the UK Code, that at least one member of the Audit & Risk Committee has recent and relevant financial experience.
		The UK Code requires the Audit & Risk Committee to:
		(a) monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company s financial performance, reviewing significant financial reporting judgments contained in them (C.3.2);
		(b) review the Company s internal financial controls and internal control and risk management systems (C.3.2);

(c) monitor and review the effectiveness of the Company s internal audit function (C.3.2);

(d) make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor (C.3.2);

(e) review and monitor the external auditor s independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements (C.3.2);

(f) develop and implement policy on the engagement of external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken (C.3.2);

(g) report to the Board on how it has discharged its responsibilities;

(h) review arrangements by which the staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters (C.3.5).

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GlaxoSmithKline s Audit & Risk Committee meets the requirements of Rule 10A-3 in that:

each member of the Audit & Risk Committee is deemed to be independent in accordance with the Securities Exchange Act of 1934, as amended, and applicable NYSE and UK requirements;

the Audit & Risk Committee, amongst other things, is responsible for recommending the appointment, compensation, maintenance of independence and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and each such accounting firm must report directly to the Audit & Risk Committee;

the Audit & Risk Committee has established a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

the Audit & Risk Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties; and

GlaxoSmithKline must provide appropriate funding for the Audit & Risk Committee.

The Board has determined that Judy Lewent and Stacey Cartwright both have the appropriate qualifications and background to be an Audit Committee Financial Expert as defined in rules

promulgated by the SEC under the Exchange Act.

7.	(a) The audit committee must have a minimum of three members. All audit committee members must satisfy the requirements for independence set out in Section 303A.02 and, in the absence of an applicable exemption, Rule 10A-3(b)(1) under the Exchange Act.	GlaxoSmithKline complies with the equivalent domestic requirements set out in the UK Code, which requires that the Audit & Risk Committee should be comprised of a minimum of three independent Non-Executive Directors.
	(b) The audit committee must have a written charter that addresses:	GlaxoSmithKline s Audit & Risk Committee has written terms of reference in accordance with the UK Code. The terms of reference are available on the Company s website and explain the Audit & Risk Committee s role and the authority delegated to it by the Board (C.3.3). The Committee s main responsibilities include monitoring and reviewing the financial reporting process, the system of internal control and risk management, overseeing the identification and management of risks, the external and internal process and for monitoring compliance with laws, regulations and ethical codes of practice, including review throughout the year of integrated assurance reports comprising business unit and associated consolidated internal audit reports. Where requested by the board, the audit committee should provide advice on:
	(i) the committee s purpose which, at minimum, must be to:	
	(A) assist board oversight of (1) the integrity of the listed company s financial statements, (2) the listed company s compliance with legal and regulatory requirements, (3) the independent auditor s qualifications and independence, and (4) the performance of the listed company s internal audit function and independent auditors (if the listed company does not yet have an internal audit function because it is availing itself of a transition period pursuant to Section 303A.00, the charter must provide that the committee will assist board oversight of the design and implementation of the internal audit function); and	whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company s performance, business model and strategy (C.3.4); and

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(B) prepare disclosure regarding the audit committee s review and discussion of financial statements and certain other audit matters with management and auditors	when taking into account the company s position and principal risks, how the prospects of the company have been assessed, over what period and why the period is regarded as appropriate. The Audit & Risk Committee should also advise whether there is a reasonable expectation that the company will be able to continue in operation and meet its liabilities when
(ii) the committee s responsibility to conduct an annual performance evaluation of the audit committee; and	falling due over the said period, drawing attention to any qualifications or assumptions as necessary prior to the directors making their statement in the annual report (C.2.2)
(iii) the duties and responsibilities of the audit committee which, at a minimum, must include those set out in Rule 10A-3(b)(2), (3), (4) and (5) of the Exchange Act as well as to:	The UK Code requires that a separate section of the annual report should describe the work of the Committee in discharging its responsibilities (C.3.8).
(A) at least annually, obtain and review a report by the independent auditor describing: the firm s internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor s independence) all relationships between the independent auditor and the listed company;	The report should include: the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed (C.3.8); an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted (C.3.8); and
(B) meet to review and discuss the listed company s annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing the listed company s specific disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations ;	if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded (C.3.8).
(C) discuss the listed company s earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;	Please see section 6 above for a description of the main role and responsibilities of the Audit & Risk Committee.

(D) discuss policies with respect to risk assessment and risk management;

(E) meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors;

(F) review with the independent auditor any audit problems or difficulties and management s response;

(G) set clear hiring policies for employees or former employees of the independent auditors; and

(H) report regularly to the board of directors.

(c) Each listed company must have an internal audit function.

In accordance with the UK Code (C.3.6), GlaxoSmithKline has an internal audit function.

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	Shareholder Approval of Equity Compensation Plans	
8.	Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, except for employment inducement awards, certain grants, plans and amendments in the context of mergers and acquisitions, and certain specific types of plans.	GlaxoSmithKline complies with corresponding domestic requirements in the Listing Rules, which mandate that the Company must seek shareholder approval for employee share schemes (D.2.4 and Listing Rule 9.4). Please see section 5(d) above.
	Corporate Governance Guidelines	
9.	Listed companies must adopt and disclose corporate governance guidelines.	GlaxoSmithKline complies with corresponding domestic requirements in the Listing Rules and the UK Code, which require that GlaxoSmithKline include an explanation in its Annual Report of how it complies with the principles of the UK Code and that it confirm that it complies with the UK Code s provisions or, where it does not, provide an explanation of how and why it does not comply (Listing Rule 9.8.6). In addition, GlaxoSmithKline is required to make certain mandatory corporate governance statements in the Directors Report in accordance with the UK Listing Authority s Disclosure and Transparency Rules, DTR 7, which was issued by the UK Financial Conduct Authority to implement the eighth Company Law Directive; GlaxoSmithKline has complied with these requirements in its 2015 Annual Report.
	Code of Business Conduct and Ethics	**Code of Conduct**
10.	Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	GlaxoSmithKline s Code of Conduct for all employees, including the CEO, CFO and other senior financial officers, is available on the Company s website.
	Description of Significant Differences	
11.	Listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those followed by domestic companies under NYSE listing standards.	GlaxoSmithKline fulfils this requirement by publishing this document.
	Listed foreign private issuers are required to provide	GlaxoSmithKline fulfils this requirement by including

this disclosure in the English language and in their annual reports filed on Form 20-F.	this disclosure in its annual report on Form 20-F.

12. **Certification Requirements**

Each listed company and its CEO must file certain annual and interim certifications regarding compliance with the corporate governance requirements and certain other matters (although foreign private issuers are only required to comply with a subset of these requirements).	GlaxoSmithKline fulfils this requirement by filing the required certifications each year.

Item 16H **Mine Safety Disclosure**

Not applicable.

PART III

Item 17 **Financial Statements**

Not applicable.

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Item 18 **Financial Statements**

The information set forth under the headings:

Consolidated income statement on page 138;

Consolidated statement of comprehensive income on page 138;

Consolidated balance sheet on page 139;

Consolidated statement of changes in equity on page 140;

Consolidated cash flow statement on page 141; and

Notes to the financial statements on pages 142 to 210

of the GSK Annual Report 2015 is incorporated herein by reference.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of GlaxoSmithKline plc

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, consolidated cash flow statements, consolidated statements of comprehensive income and consolidated statements of changes in equity (as referred to in item 18 above) present fairly, in all material respects, the financial position of GlaxoSmithKline plc and its subsidiaries at 31 December 2015 and 31 December 2014 and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2015 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at 31 December 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management s annual report on internal control over financial reporting included in item 15 of this 20-F. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

London, United Kingdom

18 March 2016

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Item 19 **Exhibits**

1.1	Memorandum and Articles of Association of the Registrant as in effect on the date hereof.
2.1	Amended and Restated Deposit Agreement among the Registrant and The Bank of New York Mellon, as Depositary, and the owners and holders from time to time of the American Depositary Shares issued thereunder, including the form of American Depositary Receipt, is incorporated by reference to the post-effective amendment to the Registration Statement on Form F-6 (No. 333-148017) filed with the Commission on March 30, 2015.
4.1	Service Agreement between SmithKline Beecham Corporation and Moncef Slaoui is incorporated by reference to Exhibit 4.4 to the Registrant s Annual Report on Form 20-F filed with the Commission on February 29, 2008.
4.2	Amended and Restated Service Agreement between GlaxoSmithKline LLC (formerly known as SmithKline Beecham Corporation) and Moncef Slaoui dated December 21, 2010 is incorporated by reference to Exhibit 4.3 to the Registrant s Annual Report on Form 20-F filed with the Commission on March 4, 2011.
4.3	UK Service Agreement between GlaxoSmithKline Services Unlimited and Sir Andrew Witty is incorporated by reference to Exhibit 4.5 to the Registrant s Annual Report on Form 20-F filed with the Commission on February 29, 2008.
4.4	UK Service Agreement between GlaxoSmithKline Services Unlimited and Sir Andrew Witty dated June 18, 2008 is incorporated by reference to Exhibit 4.4 to the Registrant s Annual Report on Form 20-F filed with the Commission on March 4, 2009.
4.5	Amendment to UK Service Agreement between GlaxoSmithKline Services Unlimited and Sir Andrew Witty dated February 4, 2010 is incorporated by reference to Exhibit 4.5 to the Registrant s Annual Report on Form 20-F filed with the Commission on March 1, 2010.
4.6	UK Service Agreement between GlaxoSmithKline Services Unlimited and Simon Dingemans dated September 8, 2010 is incorporated by reference to Exhibit 4.7 to the Registrant s Annual Report on Form 20-F filed with the Commission on March 4, 2011.
4.7	Implementation Agreement made on April 22, 2014, as amended and restated on May 29, 2014, between GlaxoSmithKline plc and Novartis AG is incorporated by reference to Exhibit 4.7 of the Registrant s Annual Report on Form 20-F filed with the Commission on February 27, 2015.
4.8	Contribution Agreement relating to the Consumer Healthcare Joint Venture made on April 22, 2014, as amended and restated on May 29, 2014 and as further amended and restated on March 1, 2015, between Novartis AG, GlaxoSmithKline plc and GlaxoSmithKline Consumer Healthcare Holdings Limited (formerly known as Leo Constellation Limited). Confidential portions of this exhibit have been omitted pursuant to a request for confidential treatment and filed separately with the SEC.
4.9	Share and Business Sale Agreement relating to the Vaccines Group made on April 22, 2014, as amended and restated on May 29, 2014, as amended on October 9, 2014, and as further amended and restated on March 1, 2015, between Novartis AG and GlaxoSmithKline plc. Confidential portions of this exhibit have been omitted pursuant to a request for confidential treatment and filed separately with the SEC.
4.10	Sale and Purchase Agreement relating to the Oncology Business made on April 22, 2014, as amended and restated on May 29, 2014, and as further amended and restated on November 21, 2014 and March 1, 2015, between GlaxoSmithKline plc and Novartis AG. Confidential portions of this exhibit have been omitted

pursuant to a request for confidential treatment and filed separately with the SEC.

4.11 Put Option Deed relating to all or part of the Influenza Business of the Novartis Group made on April 22, 2014, as amended and restated on May 29, 2014, between Novartis AG and GlaxoSmithKline plc is incorporated by reference to Exhibit 4.11 of the Registrant s Annual Report on Form 20-F filed with the Commission on February 27, 2015. Confidential portions of this exhibit have been omitted pursuant to a request for confidential treatment and filed separately with the SEC.

4.12 Shareholders Agreement relating to GlaxoSmithKline Consumer Healthcare Holdings Limited made on March 2, 2015, among Setfirst Limited, Novartis Holding AG, Novartis Finance Corporation, GlaxoSmithKline plc, Novartis AG and GlaxoSmithKline Consumer Healthcare Holdings Limited. Confidential portions of this exhibit have been omitted pursuant to a request for confidential treatment and filed separately with the SEC.

8.1 A list of the Registrant s principal subsidiaries is incorporated by reference to the information set forth under Group Companies on pages 250 to 258 of the GSK Annual Report 2015 included as Exhibit 15.2.

12.1 Certification Required by Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 Sir Andrew Witty.

12.2 Certification Required by Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 Simon Dingemans.

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13.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).

15.1 Consent of PricewaterhouseCoopers LLP.

15.2* GSK Annual Report 2015.

* Certain of the information included within Exhibit 15.2, which is provided pursuant to Rule 12b-23(a)(3) of the Securities Exchange Act of 1934, as amended, is incorporated by reference in this Form 20-F, as specified elsewhere in this Form 20-F. With the exception of the items and pages so specified, the GSK Annual Report 2015 is not deemed to be filed as part of this Form 20-F.

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Signature

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

GlaxoSmithKline plc

March 18, 2016

By: /s/ Simon Dingemans
Simon Dingemans
Chief Financial Officer

ew Roman" style="font-size:10.0pt;">18.3

95.9

87.4

Earnings before income taxes

39.6

112.1

(72.5

)

(64.7

)

4.1

					12.6
Income taxes					
					13.7
					39.6
					(25.9)
					(65.5)
					1.4
					4.5
Earnings from continuing operations					
$					25.9
$					72.5
					(46.6)
					(64.2)

2.7

8.1

Diluted EPS from continuing operations

$

0.17

$

0.49

(0.32

)

(65.3

)

Our consolidated revenue increased by $37.1 million in the quarterly comparison with $23.6 million of the increase coming from HRS and $13.5 million coming from Comdata. In the year-to-date comparison, our consolidated revenue increased by $69.5 million with $44.0 million of the increase coming from HRS and $25.5 million coming from Comdata.

The following factors had the most significant impacts on our HRS revenue performance:

More revenue from LifeWorks and benefits services and new payroll services

Benefits from changes in currency exchange rates on our international revenue

Increased revenue due to higher levels of invested customer funds and rising yields

The recognition in December 2003 of $9.2 million of W-2 revenue which previously would have been recognized in the first quarter of 2004

The following factors had the most significant impacts on our Comdata revenue performance:

Continued growth in Comdata s retail cards in use and transaction volume

Higher transportation card transaction volume and fuel prices

Interest income and interest expense, which are not allocated to our business segments, both remained at the same level in the 2004 quarterly and year-to-date periods as in 2003.

Our total costs and expenses, excluding net interest, increased by $51.7 million in the quarterly comparison and $142.6 million in the year-to-date comparison. HRS costs and expenses, excluding net interest, increased by $40.1 million in the quarterly comparison and $122.2 million in the year-to-date comparison. Comdata costs and expenses, excluding net interest, increased by $11.6

million in the quarterly comparison and $20.4 million in the year-to-date comparison. The principal factors affecting the comparison of total costs and expenses included:

- Accelerated amortization of the CobraServ trademark in 2004
- Changes in the carrying value of interest rate derivative instruments
- Higher HRS technology support and implementation expenses
- Higher non-U.S. costs and expenses as a result of changes in currency exchange rates
- Higher pension costs
- Higher internal investigation and Sarbanes-Oxley compliance costs
- Additional costs related to higher Comdata retail card sales and processing revenue

Further information on revenue and costs and expenses appear in the following section entitled Business Segment Results.

Our effective tax rates for the quarterly and year-to-date 2004 periods were 32.5% and 34.5%. For the comparative 2003 periods, our effective tax rate was 36.4% for the third quarter and 35.3% for first nine months of the year.

Business Segment Results

Segment Third Quarter Comparisons (restated)

(Dollars in millions)	Amount 2004	Amount 2003	Inc (Dec) $	Inc (Dec) %	% of Revenue 2004	% of Revenue 2003
Revenue						
HRS	$ 235.1	$ 211.5	23.6	11.2	71.5	72.5
Comdata	93.6	80.1	13.5	16.8	28.5	27.5
Total	$ 328.7	$ 291.6	37.1	12.8	100.0	100.0
EBIT*						
HRS	$ (12.4)	$ 4.1	(16.5)	NM	(5.2)	1.9
Comdata	29.1	27.2	1.9	7.0	31.1	34.0
Total	$ 16.7	$ 31.3	(14.6)	(46.4)	5.1	10.7

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Segment Year-To-Date September 30 Comparisons (restated)

(Dollars in millions)	Amount 2004	Amount 2003	Inc (Dec) $	Inc (Dec) %	% of Revenue 2004	% of Revenue 2003
Revenue						
HRS	$ 695.1	$ 651.1	44.0	6.8	72.5	73.2
Comdata	264.0	238.5	25.5	10.7	27.5	26.8
Total	$ 959.1	$ 889.6	69.5	7.8	100.0	100.0
EBIT*						
HRS	$ (42.6)	$ 35.6	(78.2)	NM	(6.1)	5.5
Comdata	83.7	78.6	5.1	6.5	31.7	33.0
Total	$ 41.1	$ 114.2	(73.1)	(64.0)	4.3	12.8

**We measure the financial performance of our business segments by reference to earnings before interest and taxes since consolidated interest income and interest expense are not allocated to those segments.*

HRS

Revenue for our HRS business increased by $23.6 million in the third quarter and $44.0 million in the first nine months of 2004 over the amounts reported in the same periods of 2003. Revenue from U.S. operations increased by $15.7 million in the quarterly comparison and $26.9 million in the year-to-date comparison as payroll and tax services contributed $8.9 million to the quarterly comparison and $11.2 million to the year-to-date comparison. Both comparisons benefited from increases in investment income from customer funds and tax service fees as well as growth in our Payments Solutions service. As previously reported, the acceleration of W-2 information delivery to customers of U.S. operations, made possible by technological advances first accomplished at the end of 2003, resulted in the recognition of $9.2 million of revenue in December 2003 that would otherwise not have been recognized until the first quarter of 2004.

Growth in revenue from the LifeWorks contract with the U.S. Armed Services was the principal factor in increases in LifeWorks revenue of $4.7 million in the quarterly comparison and $11.3 million in the year-to-date comparison. Higher revenue for COBRA and flexible spending account services resulted in increases to benefits services operations revenue of $2.1 million in the quarterly comparison and $4.4 million in the year-to-date comparison.

Our HRS revenue includes investment income from invested customer funds that constitutes a component of our compensation for providing services to those customers. Investment income from invested customer funds increased by $4.9 million in the quarterly comparison to $19.1 million in 2004 from $14.2 million in 2003 and by $7.1 million in the year-to-date comparison to $54.6 million in 2004 from $47.5 million in 2003 due to higher average balances of invested customer funds and rising yields. In the quarterly comparison, higher average balances contributed $1.7 million to the increase in investment income and higher interest rates contributed $3.2 million. The average balance of invested customer funds during the third quarter of 2004 rose by $222.7 million or 11.3% over the average balance for the third quarter of 2003. In the year-to-date comparison, higher average balances contributed $6.3 million to the increase in investment income

and higher interest rates contributed $0.8 million. The average balance of invested customer funds during the 2004 year-to-date period rose by $287.4 million or 13.0% compared to the 2003 year-to-date period. The higher average invested balance reflected the continued success of our introduction of our Payment Solutions service where we make compensation payments to participating customers employees from payroll deposits advanced to us by those customers.

Ceridian Canada revenue increased by $2.0 million to $33.3 million from $31.3 million in the quarterly comparison and by $8.5 million to $99.7 million from $91.2 million in the year-to-date comparison due largely to the effect of currency rate changes of $1.4 million in the quarterly comparison and $8.6 in the year-to-date comparison. Without regard to currency rate changes, revenue increased in both comparisons due to improved order performance and customer retention. The year-to-date comparison was negatively effected by a $2.0 million decrease in revenue from invested customer funds.

Revenue from Ceridian Centrefile operations increased by $5.9 million to $22.7 million from $16.8 million in the quarterly comparison and by $8.6 million to $67.8 million from $59.2 million in the year-to-date comparison as changes in currency exchange rates added $1.8 million to the quarterly comparison and $7.3 million to the year-to-date comparison. Without regard to the currency rate changes, revenue in both comparisons benefited from an increase in the number of customer employees, improved customer retention and the commencement of new outsourcing contracts.

Total costs and expenses, excluding net interest, for our HRS business increased by $40.1 million in the quarterly comparison and $122.2 million in the year-to-date comparison including the accelerated amortization of the CobraServ trademark and the effect of changes in the carrying value of interest rate derivative instruments held for our U.S. operations, which are reported as (gain) loss on derivative instruments within costs and expenses. The additional CobraServ trademark amortization was $10.2 million for the third quarter of 2004 and $30.6 million for the first nine months of 2004. During the third quarter of 2004, the gain from interest rate derivative instruments amounted to $9.4 million compared to a gain of $0.3 million during the third quarter of 2003, which decreased HRS costs and expenses by $9.1 million. In the year-to-date comparison, the 2004 period reported a $5.1 million gain while the 2003 period reported a $19.5 million gain, which increased HRS costs and expenses by $14.4 million. The changes in carrying value of these derivatives largely reflected a change in market expectations for future interest rates from falling in 2003 to rising in 2004. Without regard to accelerated amortization of the CobraServ trademark and the changes in (gain) loss from derivative instruments, HRS total costs and expenses, excluding net interest, increased by $39.0 million in the quarterly comparison and by $77.2 million in the year-to-date comparison.

For U.S. operations, total costs and expenses, excluding net interest, increased by $34.8 million in the quarterly comparison including $10.2 million related to the accelerated amortization of the CobraServ trademark and an increased gain on derivative instruments of $9.1 million. Excluding the effect of CobraServ amortization and the derivatives gain, the remaining quarterly increase of $33.7 million included $12.2 million for cost of revenue, $5.6 million for selling expense and $11.9 million for general and administrative expense. In addition, R&D expense increased by $1.7

million and other expense (income) increased by $2.4 million in the quarterly comparison. Other expense (income) included gains from sales of Ultimate and USIH common stock of $1.0 million during the third quarter of 2004 compared to gains of $3.4 million in the third quarter of 2003. In the year-to-date comparison, total costs and expenses, excluding net interest, for U.S. operations increased by $106.5 million of which $30.6 million related to the accelerated amortization of the CobraServ trademark and $14.4 million related to the change in (gain) loss on derivative instruments. Of the remaining year-to-date increase of $61.5 million, $14.7 million related to cost of revenue, $13.5 million related to selling expense and $25.8 million related to general and administrative expense. R&D expense increased by $5.9 million, due to a higher level of software development efforts, and other expense (income) increased by $1.6 million. Other expense (income) included gains of $4.5 million from sales of Ultimate and USIH common stock during the first nine months of 2004 compared to $3.4 million during the same period of 2003. Also included in other expense (income) was a $2.3 million software impairment loss in the first quarter of 2004.

Cost of revenue for U.S. operations increased by $12.2 million in the quarterly comparison and $14.7 million in the year-to-date comparison primarily due to increased costs in payroll and tax filing services of $6.8 million in the quarterly comparison and $7.9 million in the year-to-date comparison. Both comparisons for payroll and tax filing included higher technology support costs and a higher level of installation efforts. These cost increases were offset in part by cost reductions of $1.5 million in the quarterly comparison and $4.5 million in the year-to-date comparison resulting from the reassignment of certain personnel from production operations to selling operations. LifeWorks experienced increased cost of revenue of $2.8 million in the quarterly comparison and $4.4 million in the year-to-date comparison related to the additional revenue from the U.S. Armed Services contract referred to above. Benefits services operations cost of revenue increased by $2.6 million in the quarterly comparison and $2.5 million in the year-to-date comparison due to growth in COBRA and flexible spending services. The year-to-date increase was reduced by cost reductions associated with the consolidation of other operations with our Florida operation completed in 2003.

SG&A expense for U.S. operations increased by $27.7 million in the quarterly comparison and $69.8 million in the year-to-date comparison primarily due to $10.2 million for the quarter and $30.6 million for the year-to-date for accelerated amortization of the CobraServ trademark, as well as increased staffing, compensation and benefits and staff support costs related in part to a higher level of and an increased emphasis on successful completion of new orders. The increase in selling expense of $5.6 million in the quarterly comparison and $13.5 million in the year-to-date comparison reflected additional costs of $1.5 million in the quarterly comparison and $7.9 million in the year-to-date comparison related to additional staffing, including the transfer of personnel from production positions to selling positions. The remainder of the increase in both comparisons was largely due to higher staff support costs. Excluding the accelerated CobraServ amortization, general and administrative expense increased by $11.9 million in the quarterly comparison and $25.8 million in the year-to-date comparison as incremental spending on an investigation directed by the Audit Committee of the Board of Directors which led to the Prior Restatement (the Audit Committee Investigation) and Sarbanes-Oxley compliance added $5.5 million in the quarterly comparison and $6.4 million in the year-to-date comparison. Corporate allocations of pension

costs contributed an additional $1.0 million to the quarterly comparison and $3.4 million to the year-to-date comparison. The remaining increase in both comparisons was largely due to higher compensation and staff support costs.

Total costs and expenses for Ceridian Canada increased by $1.2 million in the quarterly comparison and $8.7 million in the year-to-date comparison as currency rate changes contributed $1.2 million to the quarterly comparison and $6.9 million to the year-to-date comparison. The year-to-date comparison reflected severance costs of $1.8 million recorded in the first quarter of 2004; and this action provided some cost reduction benefit to the quarterly comparison that helped offset higher selling expense resulting from increased marketing efforts in 2004.

Total costs and expenses for Ceridian Centrefile increased by $4.2 million in the quarterly comparison and $7.0 million in the year-to-date comparison as currency rate changes contributed $3.0 million to the quarterly comparison and $7.8 million to the year-to-date comparison. The year-to-date comparison reflected severance costs of $1.0 million recorded in the first quarter of 2004, and this action provided some cost reduction benefit to the quarterly comparison.

Comdata

Comdata revenue grew by $13.5 million in the quarterly comparison and $25.5 million in the year-to-date comparison due primarily to increased revenue from retail card sales and processing. For arrangements that include retail card sales and related services, revenue from the card sale and the related services is deferred at the time of delivery of the cards or service. Revenue from both retail card sales and related services is substantially recognized within a six-month period after activation of the card. Therefore, the increased revenue in the comparisons largely reflected sales of retail cards and related services in late 2003. Revenue from retail card sales and related services recognized during the comparative quarters increased by $8.0 million while revenue recognized during the comparative year-to-date periods increased by $17.6 million. Gross billable fees for card sales and related services increased by $5.6 million in the quarterly comparison and $10.5 million in the year-to-date comparison reflecting the addition of new customers and increasing usage of retail cards. Over-the-road transportation services revenue increased by $3.4 million in the quarterly comparison and $8.0 million in the year-to-date comparison as higher fuel prices contributed $1.8 million to the quarterly and $3.7 million to the year-to-date comparisons. The remainder of the increase in the quarterly comparison of over-the-road revenue related primarily to an increase in transportation card transaction volume, including the BusinessLink product.

Comdata s costs and expenses, excluding net interest, increased by $11.6 million in the quarterly comparison and $20.4 million in the year-to-date comparison as cost of revenue increased $7.1 million in the quarterly comparison and $12.3 million in the year-to-date comparison and other expenses increased $4.5 million in the quarterly comparison and $8.1 million in the year-to-date comparison. Higher levels of retail card sales and processing revenue resulted in increases to cost of revenue of $6.5 million to the quarterly comparison and $12.6 million in the year-to-date comparison. Bad debt expense in SG&A expense decreased by $0.8 million in the quarterly comparison and, largely due to the provision for a particular doubtful account in the first quarter of 2003, decreased by $2.1 million in the year-to-date comparison. On a year-to-date basis, selling

expense increased by $0.8 million due primarily to higher commissions. Incremental spending on the Audit Committee Investigation and Sarbanes-Oxley compliance added $1.0 million to the quarterly and $1.3 million to the year-to-date general and administrative expense. Corporate allocations of pension costs included in general and administrative expense contributed $0.3 million to the quarterly comparison and $1.1 million to the year-to-date comparison. The third quarter of 2004 included an increase of $2.7 million of incentive compensation and business meetings expense compared to the third quarter of 2003. The loss on fuel price derivative instruments increased in the quarterly comparison by $0.7 million to $1.5 million in 2004 from $0.8 million in 2003 and in the year-to-date comparison by $1.7 million to $2.5 million in 2004 from $0.8 million in 2003. Other increases in operating expenses related primarily to contracted services and R&D expenses in both comparisons.

FINANCIAL CONDITION

CASH FLOWS

Consolidated Statements of Cash Flows Highlights

(Dollars in millions)	Nine Months Ended September 30, 2004	2003	Change
Operating activities	$ 152.2	$ 82.9	$ 69.3
Investing activities	(48.7)	(30.7)	(18.0)
Financing activities	(73.9)	(54.5)	(19.4)
Effect of exchange rate changes on cash	2.5	3.1	(0.6)
Net cash flows provided (used)	$ 32.1	$ 0.8	$ 31.3
Cash and equivalents at 9/30/04 and 12/31/03	$ 156.3	$ 124.2	$ 32.1

Reconciliation of Earnings to Cash Inflows (Outflows) from Operating Activities (restated)

(Dollars in millions)	Nine Months Ended September 30, 2004	2003	Change
Earnings from continuing operations	$ 25.9	$ 72.5	$ (46.6)
Provision for deferred income taxes	(8.8)	(3.2)	(5.6)
Depreciation and amortization	92.7	60.3	32.4
Unrealized (gain) loss on derivative instruments	20.6	4.2	16.4
Contributions to retirement plan trusts		(29.2)	29.2
Other reconciling items	15.4	11.4	4.0
From continuing operations earnings	145.8	116.0	29.8
From continuing operations working capital activities	6.4	(33.1)	39.5
Cash flows provided by operating activities	$ 152.2	$ 82.9	$ 69.3

Cash Balances

Our cash and equivalents increased by $32.1 million to $156.3 million during the first nine months of 2004. Our net cash flows provided by operating activities amounted to $152.2 million as we used operating cash flows and cash balances to fund investing activities, repurchases of our common stock and payment on our securitization facility. Our net cash flows provided by operating activities amounted to $82.9 million for the first nine months of 2003 as cash inflows from continuing operations earnings of $116.0 million exceeded cash outflows associated with an investment in net working capital of $33.1 million.

Operating Activities

Net cash inflows from operating activities grew by $69.3 million to $152.2 million during the first nine months of 2004 compared to $82.9 million during the first nine months of 2003. Net cash inflows from continuing operations earnings contributed $29.8 million to the increase while changes in working capital items contributed $39.5 million. We discussed the factors that determined the operating cash inflows from earnings activities in the previous section of this discussion called Results of Operations. Higher cash inflows from Comdata drafts and settlements payable increased cash flows from working capital activities by $49.8 million in the first nine months of 2004 compared to the same period in 2003. This was offset by an increase in trade receivables during the first nine months of 2004 than in the comparable 2003 period by $43.1 million. We also received a tax refund of $16.5 million during the first quarter of 2004 related to our $75.0 million contribution to our principal pension plan made during the fourth quarter of 2003.

Investing Activities

During the first nine months of 2004, we made capital expenditures of $21.7 million for property and equipment and $24.2 million for software and development costs. The respective amounts for 2003 were $22.1 million and $19.6 million. During March 2003, at the request of Ultimate, we paid $3.0 million to Ultimate to acquire 750,000 unregistered shares of Ultimate common stock and a warrant to purchase an additional 75,000 unregistered common shares at a price of $4.00 per share. In June 2003, we received cash of $10.9 million for assets sold relative to two sale and leaseback transactions involving data storage equipment. During the first nine months of 2004 we sold 193,289 shares of Ultimate common stock and recorded a gain of $1.6 million. Proceeds from the sale of Ultimate stock amounted to $2.4 million. During the first nine months of 2004 we also sold 582,758 shares of USIH common stock and recorded a gain of $2.9 million with proceeds amounting to $8.7 million which was received in July 2004. We also acquired a customer base for COBRA services from a major insurance company for $0.9 million near the end of the first quarter of 2004. Investing cash flows also included an expenditure of $11.0 million in April 2004 for the acquisition of RSI, $0.7 million for ITS and $1.5 million for a minority interest in ProfitPoint, Inc. in July 2004. We describe these transactions further in the note to our consolidated financial statements entitled Investing Activity.

Financing Activities

During the first six months of 2004, we paid $80.3 million to repurchase 4,012,400 shares of our common stock on the open market at an average net price of $20.01 per share under an existing stock repurchase program. We made no additional purchases during the third quarter of 2004. During the first nine months of 2003, we repurchased 1,844,100 shares of our common stock for $28.8 million on the open market at an average net price of $15.60 per share. Of the 1,844,100 total shares repurchased, 25,000 of the shares were repurchased in late September 2003 for $0.5 million and payment did not occur until October 2003. We provide further information on our stock repurchase program in the following section entitled Liquidity and Capital Resources and in Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds of this report. We provide further information on changes in debt financing in the note to our consolidated financial statements entitled Financing.

Proceeds from exercises of stock options and employee stock plan purchases amounted to $47.3 million during the first nine months of 2004 compared to $25.2 million in the first nine months of 2003 due to higher market prices for Ceridian stock in 2004. During the first nine months of 2004, we paid down our Comdata receivables securitization facility by $45.0 million and capital lease obligations by $3.0 million. During the first nine months of 2004, Ceridian Centrefile increased borrowings from its overdraft facility by $7.5 million principally to fund the retirement of an intercompany note held by Ceridian Canada.

During the third quarter of 2003, we paid off the remaining $40.0 million of advances on our domestic revolving credit facility and reduced our borrowings on our Comdata receivables securitization facility by $10.0 million.

Liquidity and Capital Resources

We expect to meet our liquidity needs from existing cash balances, cash flows from operations and borrowings under external credit facilities. Cash balances and cash flows are discussed under the section entitled Cash Balances and Operations above. Cash flows from operations are primarily influenced by the same factors that influence operating results. We discussed these in a preceding section of this discussion entitled Results of Operations and in several of the cautionary factors described at the beginning of this discussion. In addition to issues discussed in Cash Balances and Operations above, cautionary factors of particular relevance to our liquidity needs include those that refer to:

The effects of government regulations on such matters as the timing of tax payments, interest rates, employee benefits, and funds transfer activities

Our ability to attract new customers and retain our existing customers

General economic conditions

We have been opportunistically repurchasing Ceridian common stock under a program approved by our Board of Directors effective July 24, 2002 that authorized the repurchase of up to 12,500,000

Ceridian common shares. During the first nine months of 2004, we repurchased 4,012,400 shares for a total of $80.3 million. As of September 30, 2004, we were authorized to purchase up to 6,350,500 additional shares of our common stock under the authorization from our Board of Directors. We generally use our treasury stock to address our obligations under our stock compensation and employee stock purchase plans.

At September 30, 2004, our committed credit arrangements included a domestic revolving credit facility that provides up to $350.0 million for a combination of advances of which up to $50.0 million can be used for letters of credit until March 2006. In addition at September 30, 2004, we had a $150.0 million receivables securitization facility with a term ending in June 2005, which uses selected Comdata trade receivables as collateral for borrowing. In May 2004, Ceridian Centrefile replaced its £3.0 million overdraft facility with a £6.5 million overdraft facility available through February 2005.

As of September 30, 2004, we have unused borrowing capacity under the $350.0 million revolving credit facility amounting to $347.7 million of which we have designated $95.0 million as backup to the Comdata receivables securitization facility. We are in compliance with all covenants related to these facilities. These covenants require that our consolidated debt must not exceed our stockholders equity, as defined in the agreement, as of the end of any quarter, and the ratio of earnings before interest and taxes to interest expense on a rolling four quarter basis must be at least 2.75 to 1. These covenants also limit liens, subsidiary debt, contingent obligations, operating leases, minority equity investments and divestitures, among other things. We amended our domestic revolving credit facility and Comdata receivables securitization facility to allow additional time to deliver our quarterly reports on Form 10-Q for the second and third quarters of 2004 to our lenders without the delayed delivery constituting a default under these agreements.

As of September 30, 2004, there have been no material changes since December 31, 2003 to our off-balance-sheet financing or the Table of Contractual Commitments and Contingencies presented in the Liquidity and Capital Resources section of Management s Discussion of Financial Condition and Results of Operations included in Part II, Item 7 of the 2003 Form 10-K/A.

Critical Accounting Policies

Our critical accounting policies are described in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations contained in the 2003 Form 10-K/A. There have been no changes to these policies that materially affected this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risk exposure is primarily due to the variability of interest income earned on the investment of customer funds in lieu of fees and reported as revenue. The fair value of our interest rate derivative instruments was $37.0 million at September 30, 2004 and $55.7 million at December 31, 2003. The September year-to-date payments received from interest rate derivative

contracts amounted to $23.0 million in 2004 and $23.2 million in 2003. There has been no material change in our interest rate market risk during the three-month period ended September 30, 2004.

We also face market risk exposure due to variability in the prices of diesel fuel. In providing services to certain of our trucking customers, Comdata calculates a portion of the fees it charges as a fixed percentage of the total cost of fuel purchased. As fuel prices rise and fall, Comdata s revenue rises and falls accordingly. In March 2004, Comdata entered into fuel price derivative contracts to swap the floating price of fuel for an average fixed price of $1.51 per gallon. These contracts had the effect of reducing the exposure to price variability of diesel fuel noted above by approximately one half for the period July 1 to December 31, 2004. The carrying amount of the fuel price derivatives at September 30, 2004 was a liability of $1.9 million, representing the expected aggregate future payments to the counterparty over the term of the contracts.

We provided further information on interest rate and fuel price derivatives in notes entitled Restatement of Prior Period Financial Statements and Investing Activity to the consolidated financial statements contained in Part I, Item 1 of the Form 10-Q.

For additional information on market risk, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk contained in the 2003 Form 10-K/A including a discussion of certain changes in our market risk analysis as a result of the application of corrected hedge accounting principles under FAS 133.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by the 2004 Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)). Based upon that evaluation, we have concluded that as of September 30, 2004, our disclosure controls and procedures were ineffective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. However, to address the material weaknesses described in the paragraphs below, we have significantly expanded our disclosure controls and procedures to include additional analysis and other post-closing procedures to ensure that our disclosure controls and procedures were effective over the preparation of the financial statements included in this report. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), and that receipts and expenditures are being made only in accordance with authorizations from our management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2004. This assessment identified deficiencies in our internal control over financial reporting, and management has determined that each of the following deficiencies individually constitutes a material weakness (as defined by the Public Company Accounting Oversight Board or PCAOB in its Auditing Standard No. 2, An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements) in our internal control over financial reporting as of December 31, 2004:

1. *Inadequate company-level controls.* We did not maintain effective company-level controls as defined in the *Internal Control Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). These deficiencies related to each of the five components of internal control as defined by COSO (control environment, risk assessment, control activities, information and communication, and monitoring), specifically:

We did not maintain sufficient documentation supporting the application of our accounting policies, practices and procedures;

We did not maintain adequately trained personnel in accounting and other functions critical to financial reporting;

We did not maintain adequate mechanisms for anticipating and identifying financial reporting risks and for reacting to changes in our operating environment that could have a material effect on financial reporting;

We did not maintain policies and procedures designed to ensure that we accounted for software capitalization, revenue recognition, and expense recognition in accordance with U.S. GAAP, and did not maintain effectively-designed preventive and detective controls to ensure proper application of U.S. GAAP in the financial reporting process;

We did not adequately communicate employees duties and control responsibilities; and

Our periodic evaluations of internal controls and monitoring of remediation activities were not effective.

2. *Inadequate financial statement preparation and review procedures.* We did not maintain adequate policies, procedures and personnel to ensure that accurate, reliable interim and annual consolidated financial statements were prepared and reviewed on a timely basis. Specifically, we identified the following deficiencies:

Failure to document and approve journal entries at our corporate office and U.S. and U.K. payroll divisions;

Inadequate policies and procedures to identify errors in accounts payable and various accruals and to ensure timely recognition of costs and expenses;

Failure to appropriately segregate and define certain accounting duties relating to the identification, calculation and recording of liabilities;

Inadequate cost and expense classification processes and review controls to ensure compliance with U.S. GAAP;

Inadequate policies and procedures for the identification, calculation and recording of acquisition and consolidation entries for international subsidiaries;

Ineffective reconciliation of accounts; and

Lack of sufficient finance and accounting personnel with appropriate U.S. GAAP expertise.

As a result of this material weakness, we (i) failed to recognize costs and expenses on a timely basis and misclassified costs and expenses in our consolidated statements of operations; (ii) incorrectly calculated and recorded acquisition and consolidation entries associated with our subsidiaries, principally in the United Kingdom and Canada, and (iii) improperly accounted for free rent, concessions and escalation clauses in leases.

3. *Inadequate financial reporting processes and information systems in our United Kingdom subsidiary.* Our financial reporting processes and information systems at our subsidiary in the United Kingdom were not adequately designed or operating to effectively support our financial reporting requirements. This material weakness is the result

of aggregate deficiencies in internal control activities, specifically:

Access and security control deficiencies surrounding the use of certain information technology applications;

Insufficient data validation controls in end-user computing applications;

Insufficient management oversight; and

Lack of adequately trained finance and accounting personnel.

These deficiencies result in more than a remote likelihood that improper accounting for transactions could occur, and not be detected on a timely basis, resulting in material misstatements in our consolidated financial information.

4. *Inadequate controls associated with the accounting for capitalized software costs and related amortization*. Our internally developed software capitalization guidelines were not consistent with U.S. GAAP; we lacked personnel with sufficient expertise in software capitalization rules pursuant to U.S. GAAP; we did not adequately train employees, including financial analysts and project managers who performed these accounting functions; we failed to maintain sufficient documentation for the historical capitalization of certain software development costs and for the commencement of amortization related to such costs; and we had insufficient preventive and detective controls related to the capitalization of internally developed software. As a result of this material weakness, corrections of errors in accounting were required to reduce assets and stockholders equity in our consolidated balance sheets; increase costs and expenses and reduce net earnings in our consolidated statements of operations; and reclassify amounts between operating activities and investing activities in our consolidated statements of cash flows.

5. *Inadequate controls over complex transactions and accounting matters.* We lacked adequately trained finance and accounting personnel with appropriate U.S. GAAP accounting expertise. Accordingly, in certain circumstances, an effective secondary review of technical accounting matters could not be performed. As a result of these deficiencies, errors in accounting for certain complex transactions occurred in the following areas:

Inadequate revenue recognition procedures and controls. We did not have adequate policies and procedures in place related to revenue recognition; we lacked personnel with adequate expertise in revenue recognition rules under U.S. GAAP; and we failed to consistently include finance and accounting personnel in the analysis of the impact revenue arrangements would have on consolidated financial reporting. As a result, accounting errors were identified related to revenue recognition. These errors in accounting were corrected by increasing deferred income and deferred costs and reducing stockholders equity in our consolidated balance sheets; and reducing revenue, cost of revenue and net earnings in our consolidated statements of operations in 2003 and 2004.

Statement of Financial Accounting Standards (FAS) 133, Accounting for Derivative Instruments and Hedging Activities. Our interest rate and fuel price derivative instruments did not satisfy the requirements of FAS 133 and, as such, did not qualify for hedge accounting treatment. The correction of this accounting error impacted revenue and (gain) loss on derivative instruments in our consolidated statements of operations for fiscal 2001 through 2004. The unrealized gains and losses on these derivative instruments that were originally accounted for in accumulated other comprehensive income within stockholders equity in our consolidated balance sheets were restated and correctly reported in (gain) loss on derivative instruments in our consolidated statements of operations.

Application of FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Our processes were insufficient to ensure the timely identification of business events impacting the useful life of our long-lived assets. As a result, we failed to timely identify the need to shorten the estimated useful life of a trademark asset resulting from a strategic marketing decision made in January of 2004. This accounting error was corrected by increasing expenses and reducing net earnings in our consolidated statements of operations and reducing other intangible assets in our consolidated balance sheets.

As a result of the aforementioned material weaknesses in internal control over financial reporting, material misstatements of our current and previous consolidated financial statements occurred and were identified. To correct these errors in accounting, we restated our annual and interim consolidated financial statements for fiscal 1999 through fiscal 2003 and the fiscal quarters of 2004.

In making our assessment, management used the criteria set forth by COSO in *Internal Control Integrated Framework*. Because of the material weaknesses described above, management concluded that, as of December 31, 2004, our internal control over financial reporting was not effective based on those criteria.

Remediation Steps to Address Material Weaknesses and Other Deficiencies in Internal Control over Financial Reporting

In July 2004, we began performing periodic internal accounting reviews of HRS. These reviews are performed at least once per quarter and evaluate compliance with our policies and in accordance with U.S. GAAP related to the capitalization and amortization of internally developed software costs, and the month-end close and cost and expense accrual process. These reviews are performed by HRS personnel, as well as by our Internal Audit Department, and have been completed through the end of 2004.

In order to remediate the material weaknesses in internal control over financial reporting and ensure the integrity of our financial reporting processes, we implemented in 2004 or are in the process of implementing the following actions:

a comprehensive review of internal control over financial reporting through our ongoing review being carried out in connection with our efforts to comply with the Section 404 of the Sarbanes-Oxley Act of 2002 and the rules issued thereunder, including additional remediation as necessary;

additional training for finance, accounting and certain other personnel at HRS in (i) appropriate accounting for the capitalization and amortization of internally developed software, (ii) month-end expense cut-off and cost and expense accrual processes, (iii) revenue recognition, (iv) procedures for identifying unusual events or transactions and obtaining appropriate accounting guidance prior to recording such transactions, (v) the importance of a robust internal control environment and (vi) the application of technical accounting pronouncements;

implementation of detailed, new internally developed software capitalization and amortization policy and formal procedures that are consistent with U.S. GAAP;

implementation of detailed, new revenue recognition policies at HRS that are consistent with U.S. GAAP;

establishment of new documentation requirements and monitoring procedures for HRS finance and accounting employees to ensure, among other things, that (i) accounting conclusions involving the interpretation of complex accounting standards are thoroughly documented and identify the critical factors that support the basis for such conclusions, and (ii) the factors upon which such employees rely are validated and adequately evidenced;

implementation of detective controls in the form of (i) random internal audits by our Internal Audit Department of selected HRS software development projects for compliance with our new capitalization policy, (ii) monthly testing processes at HRS to analyze whether costs and expenses have been accrued properly, and (iii) quarterly monitoring procedures at HRS to analyze costs and expenses incurred during such period and determine whether such costs and expenses were classified correctly on our consolidated statement of operations;

modification of systems and procedures to (i) ensure that appropriate cut-off dates for the monthly accounts payable cycle are strictly observed, thereby preventing improper deferral of costs and expenses, (ii) ensure that purchases in an amount of over $1,000 be evidenced by a written purchase order form and that appropriate purchase order reports are generated and analyzed monthly and (iii) establish appropriate deterrent controls, including clear and regular communication of operating policies and procedures by management to HRS employees emphasizing that noncompliance with such policies and procedures will result in corrective action, which may include termination;

creation of a new position, Director of Financial Accounting and Compliance, and retention of such person to review and coordinate the implementation of new revenue-related pronouncements and regulations under U.S. GAAP

at Ceridian;

review of all new HRS contracts containing certain quantitative and qualitative characteristics in order to determine appropriate accounting treatment under U.S. GAAP;

creation of a revenue recognition steering committee comprised of financial and accounting personnel to discuss and review revenue recognition issues at HRS for policy amendments and interpretations;

periodic review of details supporting the consolidated statement of operations to determine whether significant costs and expenses are being classified appropriately on a historical and recurring basis and to reclassify where appropriate;

reconciliation of balance sheet accounts for HRS that were unreconciled for the third and fourth quarters of 2004. We have reviewed our account reconciliation process at HRS to ensure that, among other things, such accounts are being reconciled on a timely basis, the reconciliation is being independently reviewed, any reconciling items are cleared on a timely basis, and the accuracy of the underlying supporting detail, or subledger, has been substantiated and independently reviewed; and

establishment of a process to review long-lived assets on a quarterly basis.

In addition, in an effort to improve internal control over financial reporting, we continue to emphasize the importance of establishing the appropriate environment in relation to accounting, financial reporting and internal control over financial reporting and the importance of identifying areas of improvement and to create and implement new policies and procedures where material weaknesses or significant deficiencies exist. Furthermore, in an effort to improve internal control over financial reporting, we have hired additional accounting expertise, continued our use of external resources, taken certain disciplinary actions and terminated certain individuals. In addition, a new chief financial officer joined Ceridian in February 2005.

Changes in Internal Controls

In the third quarter of 2004, we began to remediate identified deficiencies in our internal control over financial reporting. Other than such actions noted above under the heading Remediation Steps to Address Material Weaknesses and Other Deficiencies in Internal Control over Financial Reporting as were implemented in the third quarter of 2004, there have been no other changes to our internal control over financial reporting during the quarter ended September 30, 2004 that have materially affected, or are likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Ceridian and its subsidiaries are involved in a number of judicial and administrative proceedings considered normal in the course of our current and past operations, including employment-related disputes, contract disputes, government proceedings, customer disputes, and tort claims. In some proceedings, the claimant seeks damages as well as other relief, which, if granted, would require substantial expenditures on our part.

Some of these matters raise difficult and complex factual and legal issues, and are subject to many uncertainties, including the facts and circumstances of each particular action, and the jurisdiction, forum and law under which each action is proceeding. Because of this complexity, final disposition of some of these proceedings may not occur for several years. As such, we are not always able to estimate the amount of our possible future liabilities. There can be no certainty that we may not ultimately incur charges in excess of presently or established future financial accruals or insurance coverage. Although occasional adverse decisions (or settlements) may occur, it is management s opinion that the final disposition of these proceedings will not, considering the merits of the claims and available reserves and insurance and based upon the facts and circumstances currently known, have a material adverse effect on our financial position or results of operations.

Securities Class Actions

Since August 6, 2004, six shareholder lawsuits have been filed against Ceridian Corporation and certain executive officers in United States District Court, District of Minnesota. *Edmund Biancarelli v. Ceridian Corp., et al.*, filed August 16, 2004; *Garco Investments v. Ceridian Corp., et al.*, filed September 2, 2004; *Ellen Lear v. Ceridian Corp., et al.*, filed August 26, 2004; *Bruce Valentine Mickan v. Ceridian Corp., et al.*, filed September 24, 2004; *Richard Shaller v. Ceridian Corp., et al.*, filed August 6, 2004; and *Sharon Zaks v. Ceridian Corp., et al.*, filed August 25, 2004. The complaints for these actions are virtually identical. These actions purport to be class actions filed on behalf of all persons who purchased or otherwise acquired common stock of the company between April 17, 2003 through and including July 19, 2004, and allege claims against the company and certain of its officers under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Plaintiffs challenge the accuracy of certain public disclosures made by Ceridian regarding its financial performance, and in particular Ceridian s accounting for revenue at its Stored Value Systems business unit and accounting for capitalization and expensing of certain costs in Ceridian s U.S. Human Resource Solutions business.

Ceridian believes these claims are without merit and intends to vigorously defend itself in all of these actions. We cannot estimate the possible loss or range of loss from these matters.

Derivative Actions

Since August 13, 2004, two shareholders have filed derivative suits on behalf of Ceridian against Ceridian, as nominal defendant, its directors and certain of its executive officers in United States District Court, District of Minnesota. *James Park, Derivatively On Behalf of Ceridian Corporation v. Ronald L. Turner, et al.*, and *Anthony Santiamo, Derivatively On Behalf of Ceridian Corporation v. Ronald L. Turner, et al.*, both served August 19, 2004. These complaints have been consolidated. The consolidated lawsuit alleges that the Ceridian Board of Directors and certain executive officers breached fiduciary duties, through abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. These complaints rely on the same factual allegations as the purported class action shareholder lawsuits described above.

Ceridian is awaiting the filing of an amended complaint. Ceridian intends to appropriately defend itself in the consolidated action. We cannot estimate the possible loss or range of loss from these matters.

SEC Investigation

On January 22, 2004, we filed a Current Report on Form 8-K, under Item 5, stating that we announced that we are responding to a document request from the Securities and Exchange Commission, and that we have been advised that the SEC has issued a formal order of investigation. In February 2004, we provided documents responsive to the SEC. In July 2004, we advised the SEC of the Audit Committee Investigation. We kept the SEC advised on a regular basis of the Audit Committee Investigation. On December 10, 2004, we received a further formal confidential document request from the SEC. The second request has broadened the areas of inquiry to include, among other things, Ceridian s restatements, revenue recognition, capitalization, expense recognition, how we respond to any internal ethics complaints, and Ceridian s accounting policies and procedures. The formal document requests state that the SEC investigation is a non-public, fact-finding inquiry, and that the investigation and document requests do not mean that the SEC has concluded that we have violated any securities laws. We are fully cooperating with the SEC and are in the process of responding to the SEC s additional document request.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth information with respect to our repurchases of our common stock during the three months ended September 30, 2004.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
Month #1 (July 1, 2004-July 31, 2004)				6,350,500
Month #2 (August 1, 2004-August 31, 2004)	3,329(2)	$ 18.00		6,350,500
Month #3 (September 1, 2004-September 30, 2004)	974(2)	$ 18.8854		6,350,500
Total:	4,303(2)	$ 18.2004		6,350,500

(1) On July 24, 2002, our Board of Directors approved a share repurchase program, pursuant to which up to 12,500,000 shares of our common stock may be repurchased. We disclosed this repurchase program in our periodic reports filed with the SEC, including the 2003 Form 10-K/A. The repurchase program is being effected from time to time, depending on market conditions and other factors, through open market purchases and privately negotiated transactions. The total remaining authorization under the repurchase program was 6,350,500 shares as of October 1, 2004; the repurchase program has no set expiration or termination date.

(2) 4,303 shares were repurchased from employees in connection with the payment of withholding taxes due in connection with the vesting of restricted stock awards.

Item 6. Exhibits

(a) Exhibits.

10.01*	Amendment No. 3 to Receivables Purchase Agreement and Amendment No. 1 to Performance Undertaking entered into as of August 4, 2004 among Comdata Funding Corporation, Comdata Network, Inc., Jupiter Securitization Corporation, each Financial Institution party thereto, and Bank One, NA.
10.02*	Amendment No. 4 to Receivables Purchase Agreement and Amendment No. 2 to Performance Undertaking entered into as of September 30, 2004 among Comdata Funding Corporation, Comdata Network, Inc., Jupiter Securitization Corporation, each Financial Institution party thereto, and Bank One, NA.
10.03*	Second Amendment to Credit Agreement dated as of August 4, 2004 among Ceridian Corporation, the several financial institutions party to the Credit Agreement, dated as of January 31, 2001, and Bank of America, N.A.
10.04*	Third Amendment to Credit Agreement dated as of September 30, 2004 among Ceridian Corporation, the several financial institutions party to the Credit Agreement, dated as of January 31, 2001, and Bank of America, N.A.
10.05*	Form of Ceridian Corporation Non-Qualified Stock Option Award Agreement (under the Ceridian Corporation 2004 Long-Term Stock Incentive Plan).
10.06*	Form of Ceridian Corporation Restricted Stock Award Agreement (under the Ceridian Corporation 2004 Long-Term Stock Incentive Plan).
10.07	Form of Ceridian Corporation Non-Statutory Stock Option Award Agreement (under the Amended and Restated 2001 Long-Term Stock Incentive Plan) (incorporated by reference to Exhibit 10.14 to Ceridian s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 001-15168)).
10.08	Form of Ceridian Corporation Restricted Stock Award Agreement (under the Amended and Restated 2001 Long-Term Stock Incentive Plan) (incorporated by reference to Exhibit 10.15 to Ceridian s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 001-15168)).
10.09	Form of Ceridian Corporation Non-Statutory Stock Option Award Agreement (under the Amended and Restated 2001 Director Performance Incentive Plan) (incorporated by reference to Exhibit 10.18 to Ceridian s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 001-15168)).

10.10	Form of Ceridian Corporation Restricted Stock Award Agreement (under the Amended and Restated 2001 Director Performance Incentive Plan) (incorporated by reference to Exhibit 10.19 to Ceridian s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 001-15168)).
10.11*	Amendment No. 5 to Receivables Purchase Agreement and Amendment No. 3 to Performance Undertaking entered into as of November 9, 2004 among Comdata Funding Corporation, Comdata Network, Inc., Jupiter Securitization Corporation, each Financial Institution party thereto, and Bank One, NA.
10.12*	Amendment No. 6 to Receivables Purchase Agreement and Amendment No. 4 to Performance Undertaking entered into as of December 31, 2004 among Comdata Funding Corporation, Comdata Network, Inc., Jupiter Securitization Corporation, each Financial Institution party thereto, and Bank One, NA.
10.13*	Amendment No. 7 to Receivables Purchase Agreement and Amendment No. 5 to Performance Undertaking entered into as of January 14, 2005 among Comdata Funding Corporation, Comdata Network, Inc., Jupiter Securitization Corporation, each Financial Institution party thereto, and JPMorgan Chase Bank, N.A., as successor in merger to Bank One, NA.
10.14*	Fourth Amendment to Credit Agreement dated as of November 9, 2004 among Ceridian Corporation, the several financial institutions party to the Credit Agreement, dated as of January 31, 2001, and Bank of America, N.A.
10.15*	Fifth Amendment to Credit Agreement dated as of December 31, 2004 among Ceridian Corporation, the several financial institutions party to the Credit Agreement, dated as of January 31, 2001, and Bank of America, N.A.
10.16*	Sixth Amendment to Credit Agreement dated as of January 14, 2005 among Ceridian Corporation, the several financial institutions party to the Credit Agreement, dated as of January 31, 2001, and Bank of America, N.A.
31.01**	Certification of our Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02**	Certification of our Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01**	Certification of our Chief Executive Officer required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.02**	Certification of our Chief Financial Officer required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Previously filed with the Form 10-Q.

** Filed herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 on Form 10-Q/A to our Quarterly Report on Form 10-Q for the period ended September 30, 2004, to be signed on its behalf by the undersigned thereunto duly authorized.

CERIDIAN CORPORATION
Registrant

Date: May 4, 2005

/s/ Douglas C. Neve
Douglas C. Neve
ExecutiveVice President and Chief Financial Officer
(Principal Financial and Accounting Officer)