

# Corporate Governance

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## Chairman's Governance statement



*Last year, we reported the steps taken to refresh our non-executive representation on the Board to address a number of planned retirements. This year, the Board's primary focus was on executive succession.*

### Dear Shareholder

I am pleased to present our Corporate Governance Report for 2016.

The Board remains committed to the highest standards of corporate governance and integrity. Our governance structure operates from the Board across the Group, and we believe that it is critical in underpinning our ability to deliver our strategy and to create long-term value for our shareholders.

### CEO and executive management succession

Last year, we reported the steps taken to refresh our non-executive representation on the Board to address a number of planned retirements. This year, the Board's primary focus was on executive succession. The review of Talent and Leadership Strategy has been an annual item of Board and Nominations Committee discussion and oversight. When Sir Andrew Witty indicated, in March 2016, his intention to retire from the Board in early 2017, we were well placed to accelerate an orderly CEO succession and transition plan. The process we followed is described in the report of our Nominations Committee on pages 94 to 96.

The Board was unanimous in supporting the appointment of Emma Walmsley, who previously led GSK's Consumer Healthcare business, as our new CEO. It was felt that her leadership skills, history of delivering growth and driving performance and fresh thinking made her an ideal choice.

Under Sir Andrew's leadership, GSK has successfully developed market-leading positions in Vaccines and Consumer Healthcare. These provide excellent platforms for sustainable, long-term growth, and we are confident Emma will successfully build on these strengths and further strengthen the Pharmaceuticals business. Since her appointment as CEO Designate in September 2016, and in the run up to assuming the role of CEO on 1 April 2017, she is focusing completely on the transition. She is spending time with Sir Andrew so he can share his knowledge and experience and make key introductions, while also deepening her understanding of the business, especially R&D, Pharmaceuticals and Vaccines. She has also started to meet with major shareholders to listen to their views on GSK. She will share her strategic overview and vision for the Group later in the year. Details of her induction plan are set out on page 91.

A further change was made to our executive representation on the Board when Dr Moncef Slaoui, Chairman, Global Vaccines, indicated his intention to retire from the Board in 2017. In addition, Dr Patrick Vallance, President, R&D, has been appointed to the Board.

I would like to express my gratitude to both Sir Andrew and Moncef for their dedication and service to GSK over the years and their professionalism and support in facilitating an orderly Board succession process.

### Review of our Board governance arrangements

The Board keeps the functioning of its governance framework under regular review. During the year, it made the following enhancements:

**Science Committee:** The Board decided to establish a Science Committee to look at our science, pipeline and R&D capital allocation priorities. It is chaired by Dr Jesse Goodman, one of our designated Scientific and Medical Experts, and its members all have a background in life sciences from either a specialist or commercial perspective. This matter has been under consideration for some time and the timing of its implementation has been driven by the following considerations:

- science and innovation underpins each of our businesses in Pharmaceuticals, Vaccines and Consumer Healthcare;
- our R&D organisation continues to deliver significant innovation for the Group, with a number of decisions for potential new medicines and vaccines coming up in the next two years. This Committee can help bring a greater focus to the Board's deliberations on R&D at a critical phase for the company;
- the Board is looking to further increase its scientific capabilities with a search for a third Scientific and Medical Expert and establishing this Committee is in step with this approach.

**Finance Committee:** After reviewing the role of our Finance Committee, the Board decided that a specific committee was no longer required. Its responsibilities have been reassigned to the Board or our Audit & Risk Committee.

### Culture and values

As Chairman, I am responsible for leading and ensuring we have an effective Board. I also actively encourage a culture and environment in the boardroom that facilitates debate and where our Non-Executive Directors are able to provide constructive challenge to management. I am pleased to advise that I believe the Board is hard-working and engaged, with an appropriate balance of skills and experience. The newer appointees are bringing fresh insights and perspectives to further improve our decision making. Our recent annual Board evaluation exercise was carried out by the Company Secretary and centred on identifying further performance improvements. The evaluation outcomes are set out on page 92. Our 2017 Board evaluation will be undertaken by an independent external Board review specialist. The last such independent evaluation was carried out in 2014.

No less important for myself, in setting the tone of the organisation from the top, is promoting the values-based conduct and behaviours of our people that flow from the Boardroom through every artery of the business.

I seek to ensure that everything that we as a Board do is guided by our commitment to our values and to being in compliance with the local laws and regulations within which we operate. GSK's Code of Conduct (Code) draws together a number of our key policies that lay the foundations of these commitments and provides a working guide for the way in which we apply our values across our global operations.

Indeed, the Board felt it was important to lead by example and has chosen to undertake the same annual training on our Code obligations as our employees. The latest version of the Code, which was updated and strengthened in April 2016, is available in the governance area of [www.gsk.com](http://www.gsk.com).

### UK Corporate Governance Code compliance

I am pleased to report that we were in full compliance with the requirements of the Financial Reporting Council's 2014 UK Corporate Governance Code (UK Code) – a copy of the UK Code is available on [www.frc.org.uk](http://www.frc.org.uk). The following pages outline our approach to corporate governance.

I commend this report to all of our shareholders.



**Philip Hampton**  
Chairman

13 March 2017

# Our Board

## Board composition

### Gender diversity

#### Board

As at date of publication		As at 1 April 2017	
Male	69%	Male	64%
Female	31%	Female	36%

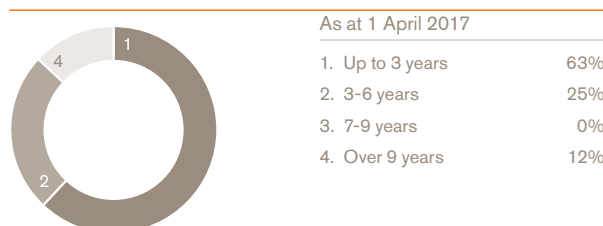
#### Executive

As at date of publication		As at 1 April 2017	
Male	80%	Male	67%
Female	20%	Female	33%

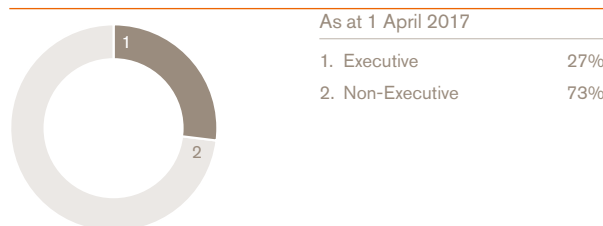
#### Non-Executive

As at date of publication		As at 1 April 2017	
Male	62%	Male	62%
Female	38%	Female	38%

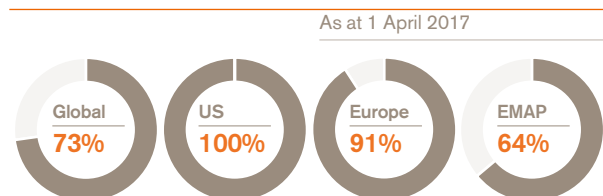
### Tenure Non-Executive



### Composition



### International experience



### Key

- Committee Chair
- Ⓝ Nominations
- ⓐ Audit & Risk
- Ⓡ Remuneration
- Ⓢ Corporate Responsibility
- Ⓜ Science



**Sir Philip Hampton 63**  
Non-Executive Chairman



**Sir Andrew Witty 52**  
Chief Executive Officer

Ⓝ

### Nationality

British

### Appointed

1 January 2015. Deputy Chairman from 1 April 2015 and Non-Executive Chairman from 7 May 2015

### Skills and experience

Prior to joining GSK, Sir Philip chaired major FTSE 100 companies, including The Royal Bank of Scotland Group plc and J Sainsbury plc. He has also served as Group Finance Director at Lloyds TSB Group, BT Group plc, BG Group plc, British Gas plc and British Steel plc. Sir Philip was previously appointed an Executive Director of Lazards and a Non-Executive Director at RMC Group Plc and Belgacom SA. Until 2009, he was Chairman of UK Financial Investments Limited, which manages the UK Government's shareholdings in banks.

### External appointments

Sir Philip is currently the Senior Independent Director of Anglo American Plc, Chairman of its Remuneration Committee and member of its Audit Committee. Sir Philip is also Chair of the Hampton-Alexander Review on FTSE Women Leaders, an independent review on improving gender balance in FTSE leadership.

### Nationality

British

### Appointed

31 January 2008. Chief Executive Officer from 21 May 2008. Sir Andrew is retiring from the Board on 31 March 2017.

### Skills and experience

Sir Andrew joined GSK in 1985. He has worked in the UK, South Africa, the US and Singapore in various senior roles. In 2003, he was appointed President of Europe and joined GSK's Corporate Executive Team. Andrew has served in numerous advisory roles to Governments around the world, including South Africa, Singapore, Guangzhou China and the UK, where he was a member of the Prime Minister's Business Advisory Group from 2010-2015. He was awarded a Knighthood for services to the economy and to the UK pharmaceutical industry in the 2012 New Year Honours List.

### External appointments

Sir Andrew is a UK Business Ambassador and serves on the China-Britain Business Council Advisory Council and the EDB International Advisory Committee, Singapore. Sir Andrew is also Co-Chair of a UK EU Life Sciences Steering Group to advise the UK Government on life science priorities in the context of the UK leaving the EU, Visiting Professor to the Institute of Global Health Innovation at Imperial College, London, and Chancellor of the University of Nottingham.



**Emma Walmsley 47**  
CEO Designate

#### Nationality

British

#### Appointed

1 January 2017. Chief Executive Officer from 1 April 2017

#### Skills and experience

Emma joined GSK in 2010 with responsibility for Consumer Healthcare, Europe and was subsequently appointed President of GlaxoSmithKline Consumer Healthcare. She has been a member of GSK's Corporate Executive Team since 2011 and, in 2015, was appointed CEO of GSK Consumer Healthcare, a joint venture between GSK and Novartis. Emma joined the GSK Board on 1 January 2017 and will formally succeed Sir Andrew Witty as GSK CEO when he retires on 31 March 2017.

Prior to joining GSK, Emma worked with L'Oreal for 17 years where she held a variety of marketing and general management roles in Paris, London and New York. From 2007, she was based in Shanghai as General Manager, Consumer Products for L'Oreal China. Emma was a Non-Executive Director of Diageo plc from 1 January to 21 September 2016. She holds an MA in Classics and Modern Languages from Oxford University.

#### External appointments

None



**Simon Dingemans 53**  
Chief Financial Officer

#### Nationality

British

#### Appointed

4 January 2011. Chief Financial Officer from 1 April 2011

#### Skills and experience

Prior to joining GSK, Simon had over 25 years of experience in investment banking at SG Warburg and Goldman Sachs. Simon advised GSK for over a decade before his appointment and was closely involved in a number of GSK's key strategic projects.

#### External appointments

Simon is Deputy Chairman of the 100 Group of Finance Directors, having been Chairman from 2014 to early 2017.



**Dr Moncef Slaoui 57**  
Chairman, Global Vaccines

#### Nationality

Moroccan, Belgian & American

#### Appointed

17 May 2006. Moncef is retiring from the Board on 31 March 2017.

#### Skills and experience

Moncef joined GSK Vaccines in 1988 where he engineered the development of a robust vaccines pipeline. He then led Worldwide Business Development for pharmaceutical products before his appointment to lead R&D in 2006. He was given overall responsibility for GSK's Oncology Business in 2010; for GSK Vaccines in 2011; and for all Global Franchises in 2012. Moncef is Chairman of the Board of Directors of Galvani Bioelectronics, the company launched in November 2016 that GSK jointly owns with Verily Life Sciences.

Moncef has advised the US President's Council of Advisors on Science and Technology, was a member of the Board of the Agency for Science, Technology & Research (A\*STAR) until January 2011, the PhRMA Foundation Board from 2008 to 2016 and the Advisory Committee to the Director of National Institutes of Health from 2011 to 2016.

He has a PhD in Molecular Biology and Immunology from Université Libre de Bruxelles and has published more than 100 scientific papers and presentations. Prior to joining GSK, Moncef was Professor of Immunology at the University of Mons, Belgium.

#### External appointments

Moncef is a member of the Biotechnology Industry Organization Board in the US. He is also an adviser to the Qatar Foundation, and a member of the Qatar Biomedical Research Institute Scientific Advisory Committee. Moncef serves as a Non-Executive Director for the International AIDS Vaccine Initiative (IAVI) and is a member of the Board of Artizan Biosciences Inc.



**Dr Patrick Vallance 56**  
President, R&D

#### Nationality

British

#### Appointed

1 January 2017

#### Skills and experience

Patrick joined GSK in 2006 as Head of Drug Discovery and was subsequently appointed Senior Vice President, Medicines Discovery and Development. He has been a member of GSK's Corporate Executive Team since 2010 and was appointed President, Pharmaceuticals R&D in January 2012. Patrick joined the GSK Board on 1 January 2017.

Prior to joining GSK, Patrick was a clinical academic and, as Professor of Medicine, led the Division of Medicine at University College London. He has over 20 years' experience of research clinical medicine, general internal medicine, cardiovascular medicine and clinical pharmacology. He was elected to the Academy of Medical Sciences in 1999.

#### External appointments

Patrick is a Non-Executive Director of Genome Research Limited and UK Biobank.

# Our Board continued



**Manvinder Singh (Vindi) Banga 62**  
Senior Independent  
Non-Executive Director

(N) (A) (R)

**Nationality**  
Indian

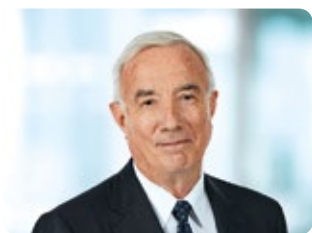
**Appointed**  
1 September 2015 and as Senior  
Independent Non-Executive Director  
from 5 May 2016

**Skills and experience**

Prior to joining GSK, Vindi spent 33 years at Unilever plc, where his last role (amongst several senior positions) was President of the Global Foods, Home and Personal Care businesses, and he was a member of the Unilever Executive Board. Vindi sat on the Prime Minister of India's Council of Trade & Industry from 2004 to 2014, and was on the Board of Governors of the Indian Institute of Management (IIM), Ahmedabad. Vindi is also the recipient of the Padma Bhushan, one of India's highest civilian honours. Between 2015 and 2016, Vindi was a Non-Executive Director of Thomson Reuters Corp and a member of its HR committee.

**External appointments**

Vindi is a Partner at private equity investment firm Clayton Dubilier & Rice. He is also Chairman of the Supervisory Board of Mauser Group, Chairman of Kalle GmbH, Senior Independent Director of Marks & Spencer Group plc and a member of its Nominations and Remuneration Committees. Vindi is on the Governing Board of the Indian School of Business (ISB), Hyderabad, and is a member of the Indo UK CEO Forum.



**Professor Sir Roy Anderson 69**  
Independent Non-Executive  
Director & Scientific Expert

(N) (C) (S)

**Nationality**  
British

**Appointed**  
1 October 2007

**Skills and experience**

Professor Sir Roy is a world-renowned medical scientist with advanced knowledge of infectious disease epidemiology, and is currently Professor of Infectious Disease in the Faculty of Medicine, Imperial College, London. He is a Fellow of the Royal Society, the Academy of Medical Sciences and the Royal Statistical Society. He is an Honorary Fellow of the Institute of Actuaries and a Foreign Associate Member of the National Academy of Medicine at the US National Academy of Sciences and the French Academy of Sciences. Professor Sir Roy brings scientific expertise to the Board's deliberations.

**External appointments**

Professor Sir Roy is a member of the International Advisory Board of Holdingham Group and he is a member of the Science Advisory Board of the Natural History Museum, London. He is also a member of the Vaccine International Advisory Board (VACCIAB) of AJ Pharma Holding Sdn. Bhd in Malaysia, the International Alzheimer's Consortium at Harvard University, Boston, and Chairman of the Scientific Advisory Board (SAB) of the Netherlands Centre for One Health (NCOH).



**Dr Vivienne Cox 57**  
Independent Non-Executive  
Director

(R) (C)

**Nationality**  
British

**Appointed**  
1 July 2016

**Skills and experience**

Vivienne has wide experience of business gained in the energy, natural resources and publishing sectors. She also has a deep understanding of regulatory and government relationships. She worked for BP plc for 28 years, in Britain and Continental Europe, in posts including Executive Vice President and Chief Executive of BP's gas, power and renewable business and its alternative energy unit. Vivienne was previously a Non-Executive Director of BG Group plc and Rio Tinto plc. Vivienne was appointed Commander of the Order of the British Empire in the 2016 New Year Honours for services to the UK Economy and Sustainability.

**External appointments**

Vivienne is Senior Independent Director of Pearson plc, a Non-Executive Director of Stena International and Chairman of the Supervisory Board of Vallourec, a supplier to the energy industry. She is also Lead Independent Director at the UK Government's Department for International Development.



**Lynn Elsenhans 60**  
Independent Non-Executive  
Director

(C) (N) (A)

**Nationality**  
American

**Appointed**  
1 July 2012

**Skills and experience**

Lynn has a wealth of experience of running a global business and significant knowledge of the global markets in which GSK operates. She served as Chair, President and Chief Executive Officer of Sunoco Inc. from 2009 to 2012. Prior to joining Sunoco in 2008 as President and Chief Executive Officer, Lynn worked for Royal Dutch Shell, which she joined in 1980, and where she held a number of senior roles, including Executive Vice President, Global Manufacturing from 2005 to 2008.

**External appointments**

Lynn is a Non-Executive Director of Baker Hughes Inc. and Flowserve Corporation, a Director of the Texas Medical Center, and a Non-Executive Director of The First Tee of Greater Houston. She is also a Trustee of the United Way of Greater Houston.

**Key**

- Committee Chair
- (N) Nominations
- (A) Audit & Risk
- (R) Remuneration
- (C) Corporate Responsibility
- (S) Science



**Dr Jesse Goodman 65**  
Independent Non-Executive  
Director & Scientific Expert

S C

**Nationality**  
American

**Appointed**  
1 January 2016

#### Skills and experience

Dr Goodman previously served in senior leadership positions at the US Food and Drug Administration (FDA), including most recently as the FDA's Chief Scientist and previously as Deputy Commissioner for Science and Public Health and as Director of the Center for Biologics Evaluation and Research (CBER).

Dr Goodman played a leadership role in developing the FDA's Regulatory Science and Medical Countermeasures Initiatives and has worked collaboratively with industry, academia, government and global public health and regulatory partners to prepare for and respond to major public health threats, including emerging infectious diseases, disasters and terrorism. He led the FDA's response to West Nile Virus and to the 2009 H1N1 influenza pandemic and served on the Senior Leadership Team for the 2010 White House Medical Countermeasure Review. Dr Goodman brings scientific and public health expertise to the Board's deliberations.

#### External appointments

Dr Goodman, currently Professor of Medicine at Georgetown University, directs the Georgetown University Center on Medical Product Access, Safety and Stewardship (COMPASS) and is an active clinician who serves as Attending Physician in Infectious Diseases. He also serves as President and Member of the Board of the United States Pharmacopeia (USP) and as a member of the Scientific Advisory Board (SAB) of the Coalition for Epidemic Preparedness Innovations (CEPI).



**Judy Lewent 68**  
Independent Non-Executive  
Director

A N R S

**Nationality**  
American

**Appointed**  
1 April 2011

#### Skills and experience

Judy has extensive knowledge of the global pharmaceutical industry and of corporate finance, having joined Merck & Co in 1980 and then served as Chief Financial Officer from 1990 to 2007 when she retired. Judy was previously a Non-Executive Director of Purdue Pharma Inc, Napp Pharmaceutical Holdings Limited and certain Mundipharma International Limited companies until 31 December 2014. Judy previously served as a Non-Executive Director of Dell Inc., Quaker Oats Company and Motorola Inc.

The Board has determined that Judy has recent and relevant financial experience, and agreed that she has the appropriate qualifications and background to be an audit committee financial expert.

#### External appointments

Judy is a Non-Executive Director of Thermo Fisher Scientific Inc and Motorola Solutions Inc. She is also a Trustee of the Rockefeller Family Trust and Chairperson of the Audit Committee of Rockefeller Financial Services, a life member of the Massachusetts Institute of Technology Corporation and a member of the American Academy of Arts and Sciences.



**Urs Rohner 57**  
Independent Non-Executive  
Director

R N

**Nationality**  
Swiss

**Appointed**  
1 January 2015

#### Skills and experience

Urs has a broad range of business and legal experience having served as Chairman on a number of Boards, most recently for Credit Suisse, a world-leading financial services company. Prior to joining Credit Suisse in 2004, Urs served as Chairman of the Executive Board and CEO of ProSieben and ProSiebenSat.1 Media AG. This followed a number of years in private practice at major law firms in Switzerland and the US, having been admitted to the bars of the canton of Zurich in 1986 and the state of New York in 1990.

#### External appointments

Urs is currently Chairman of the Board of Credit Suisse Group AG and of the Chairman's and Governance Committee. He is also Chairman and member of the Board of Trustees of Credit Suisse Research Institute and Credit Suisse Foundation. Urs was appointed Vice-Chairman of the Governing Board of the Swiss Bankers Association in 2015.

#### Other Board members

**Sir Deryck Maughan** was Senior Independent Non-Executive Director and a member of the Nominations, Audit & Risk and Remuneration Committees until his retirement from the Board on 5 May 2016.

**Dr Stephanie Burns** was an Independent Non-Executive Director and a member of the Remuneration and Corporate Responsibility Committees until her retirement from the Board on 5 May 2016.

**Dr Daniel Podolsky** was an Independent Non-Executive Director and a member of the Audit & Risk and Corporate Responsibility Committees until his retirement from the Board on 5 May 2016.

**Hans Wijers** was an Independent Non-Executive Director and a member of the Remuneration and Corporate Responsibility Committees until his retirement from the Board on 5 May 2016.

**Stacey Cartwright** was an Independent Non-Executive Director and a member of the Audit & Risk Committee until her retirement from the Board on 31 December 2016.

## Our Corporate Executive Team



**1. Sir Andrew Witty**  
Chief Executive Officer

**2. Emma Walmsley**  
CEO Designate

**3. Simon Dingemans**  
Chief Financial Officer

**4. Patrick Vallance**  
President, R&D

 For biographical details, see pages 82 and 83.



**David Redfern**  
Chief Strategy Officer

David joined CET as Chief Strategy Officer in 2008 and is responsible for corporate development and strategic planning. He was appointed Chairman of the Board of ViiV Healthcare Ltd. in April 2011 and a Non-Executive Director of Aspen Pharmacare Ltd.

Previously, he was Senior Vice President, Northern Europe with responsibility for GSK's pharmaceutical businesses in that region and, prior to that, was Senior Vice President for Central and Eastern Europe. David joined GSK in 1994.

David has a Bachelor of Science degree from Bristol University in the UK and is a Chartered Accountant.



**Abbas Hussain**  
President, Global Pharmaceuticals

Abbas joined CET in 2008 and was appointed President, Global Pharmaceuticals in 2014, having joined the company as President, Emerging Markets & Asia Pacific in 2008. He joined the ViiV Healthcare Ltd Board in October 2009.

Previously, he spent 20 years at Eli Lilly where he held positions including President, Europe. He also worked for Eli Lilly in Australia, the US, India, Turkey and Germany in several roles, including business development, sales and marketing, and management.

He has a degree in Medicinal Chemistry & Pharmacology from Loughborough University and was born in Madras, India.

In January 2017, GSK announced Abbas' decision to leave the company later in the year.



**Claire Thomas**  
Senior Vice President, Human Resources

Claire was appointed to CET as Senior Vice President, Human Resources in 2008.

Claire joined the company in 1996 as Senior Manager, Human Resources, Sales and Marketing Group, UK Pharmaceuticals before becoming Director of Human Resources for UK Pharmaceuticals in 1997. She was appointed Senior Vice President, Human Resources, Pharmaceuticals Europe in 2001, and Senior Vice President, Human Resources, Pharmaceuticals International in 2006.

Prior to GSK, she worked for Ford Motor Company, holding various positions in Human Resources.

Claire has a Bachelor of Science degree in Economics, Management and Industrial Relations from the University of Wales.



**Dan Troy**  
Senior Vice President & General Counsel

Dan joined GSK and CET as Senior Vice President & General Counsel in 2008.

He was previously a Partner at the Washington law firm Sidley Austin LLP, where he principally represented pharmaceutical companies and trade associations on matters related to the US Food and Drug Administration (FDA) and government regulations. Dan was formerly Chief Counsel for the FDA.

Dan holds a B.S. in Industrial and Labor Relations from Cornell University and a J.D. from Columbia University School of Law. He chairs the US Chamber of Commerce Litigation Center.





**Phil Thomson**  
Senior Vice President, Communications  
and Government Affairs

Phil joined CET in 2011 and was appointed Senior Vice President, Communications and Government Affairs in 2014. He has responsibility for Media Relations, Investor Relations, Corporate Responsibility, Internal Communications, Product Communications, Government Affairs and GSK's Global Brand and Community Partnerships.

He joined the company as a commercial trainee in 1996, moving from pharmaceutical brand marketing to product communications. In 1999, he became Director of Media Relations and was then Director, Investor Relations from 2001 to 2004, when he returned to Corporate Media Relations as Vice President.

In July 2016, he became a Co-Opted Member of the China-Britain Business Council.

Phil earned his degree in English and History from Durham University.



**Roger Connor**  
President, Global Manufacturing  
& Supply

Roger joined CET in 2012 and was appointed President, Global Manufacturing & Supply (GMS) in 2013, after working for a year as President Designate, GMS. Roger joined GSK in 1998 from AstraZeneca and worked in a number of finance and manufacturing strategy roles. Prior to his current position, he was Vice President, Office of the CEO and Corporate Strategy, from February 2010.

He holds a degree in Mechanical and Manufacturing Engineering from Queen's University Belfast and a Masters in Manufacturing Leadership from Cambridge University. He is also a Chartered Accountant.



**Nick Hiron**  
Senior Vice President, Global Ethics  
and Compliance

Nick was appointed to CET in 2014 as Senior Vice President, Global Ethics and Compliance, responsible for compliance, risk management and corporate security and investigations.

Nick joined GSK in 1994 as an International Auditor. He was later Head of Audit & Assurance, where he combined five audit functions into an independent team with a common risk-based methodology. In 2013, Nick relocated to China to establish a governance model for our China business that created a consistent approach to compliance.

Nick is a fellow of the Chartered Institute of Management Accountants.



**Luc Debruyne**  
President, Global Vaccines

Luc joined CET in 2016 as President, Global Vaccines, a role he has held since 2013. He joined GSK in 1991 and worked as a commercial strategy director in R&D, before leading the European Commercial Centre of Excellence in 2005. In 2006, Luc became General Manager of the Netherlands and then in 2010 Senior Vice President and General Manager in Italy. In 2012, he was appointed Senior Vice President, Pharma Europe, prior to his current role. Luc is a member of the International Federation of Pharmaceutical Manufacturers & Associations (IFPMA) Vaccines CEO Roundtable, as well as the Management Committee of the Belgian Federation of Enterprises.

He holds a Master's degree in Physical Education from University of Leuven.



**Brian McNamara**  
CEO, GSK Consumer Healthcare

Brian joined CET in 2016, when he was appointed CEO, GSK Consumer Healthcare. Brian joined GSK in March 2015 as Head of Europe and Americas for GSK Consumer Healthcare, following the creation of a joint venture between GSK and Novartis. Previously, he was head of Novartis's OTC division. Brian began his career at Procter and Gamble. He is a board member of the World Self-Medication Industry Association.

He earned an undergraduate degree in Electrical Engineering from Union College in New York and an MBA in Finance from the University of Cincinnati.

#### Further information

During the year **Dr Moncef Slaoui** was a member of CET and stood down on 31 December 2016 (see page 83).

In January 2017, **Luke Miels** was appointed President, Global Pharmaceuticals; his start date with GSK is to be confirmed.

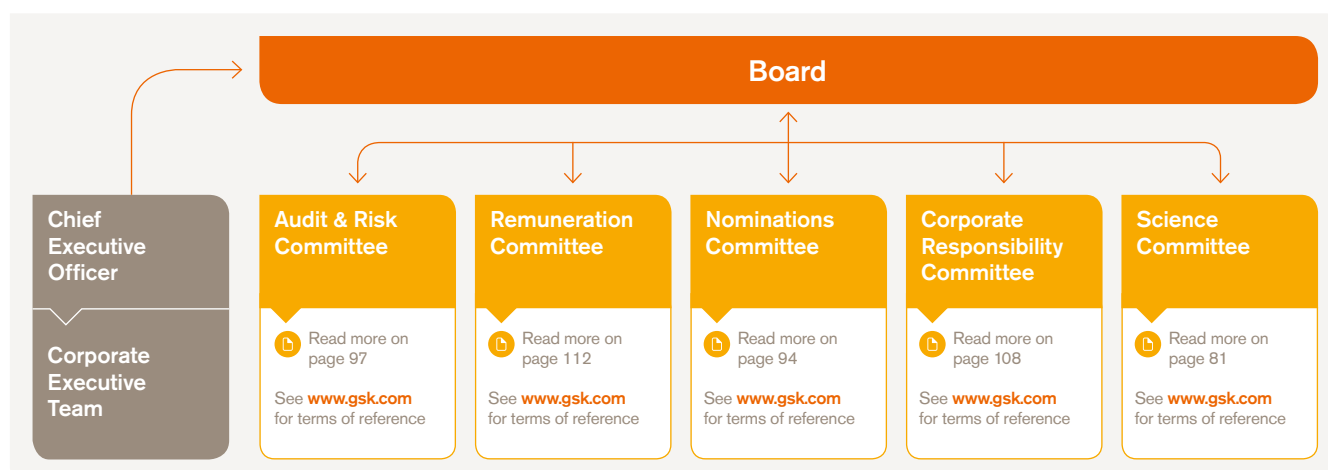
## Corporate Governance continued

## Leadership and effectiveness

## Corporate governance framework

The Board has a coherent corporate governance framework with clearly defined responsibilities and accountabilities. The framework is designed to safeguard and enhance long-term shareholder value and to provide a robust platform to realise the Group's strategy to Grow, Deliver and Simplify. Our internal control and risk management arrangements, which are described on pages 18 to 19, and 105 to 106, are an integral part of GSK's governance framework.

For the Board to operate effectively and to give full consideration to key matters, Board Committees have been established as set out below.



## 2016 Board and Committee meeting attendance

Members	Board		Audit & Risk		Remuneration		Nominations		Corporate Responsibility	
	Attended	Maximum possible	Attended	Maximum possible	Attended	Maximum possible	Attended	Maximum possible	Attended	Maximum possible
Sir Philip Hampton	6	6					6	6		
Sir Andrew Witty	6	6								
Simon Dingemans	6	6								
Dr Moncef Slaoui	6	6								
Professor Sir Roy Anderson	6	6					6	6	4	4
Vindi Banga	6	6	6	6	5	5	5	6		
Dr Vivienne Cox Appointed on 1 July 2016	3	3							3	3
Lynn Elsenhans	6	6	6	6			6	6	4	4
Dr Jesse Goodman	6	6							4	4
Judy Lewent	6	6	6	6	5	5	6	6		
Urs Rohner	5	6			4	5				
Stacey Cartwright Retired on 31 December 2016	5	6	5	6						
Dr Stephanie Burns Retired on 5 May 2016	3	3			2	2			1	1
Sir Deryck Maughan Retired on 5 May 2016	2	3	2	3	2	2	2	3		
Dr Daniel Podolsky Retired on 5 May 2016	2	3	2	3					1	1
Hans Wijers Retired on 5 May 2016	3	3			2	2			1	1

**b** Details of other regular attendees at Committee meetings, such as the Chairman, CEO and other Executive Directors, are set out in the reports of our Committees. These reports are included later in the Corporate Governance Report.







## 2016 Board programme

Areas of focus

Strategic priorities link






### Strategy

The Board's oversight of the execution of our strategy included:

- Reports from our principal businesses, R&D, and GMS organisations 
- Discussion and approval of the strategic combination with Verily Life Sciences to develop bioelectronic medicines, resulting in the Galvani joint venture 
- Holding a joint Board & CET strategy day to discuss the evolution of our strategy, external landscape changes, competitor advantage and governance arrangements 
- Reports on our pensions, insurance, tax and treasury strategies 
- Review of our R&D pipeline and new products 
- Review of our ViV Healthcare joint venture 

### Performance

During the year, the Board regularly discussed:

- Reports from the CEO, the heads of our principal businesses and R&D and GMS organisations 
- The Group's financial performance 
- The annual budget and forward looking three year plan 
- Progress on our Finance transformation programme to enhance our processes and service capabilities 
- Brexit impacts and planning 

### Governance

The Board undertook the following corporate governance duties:

- Received reports from Board Committees
- Approved the 2015 Annual Report
- AGM preparation
- Considered observations and actions from the internal evaluation of the Board's performance
- Received reports on corporate governance and regulatory developments
- Training on our Corporate Integrity Agreement (CIA), the new Market Abuse Regulations (MAR), and our updated Code of Conduct
- Approved the appointment of new CEO and Directors
- Approved the appointment of new auditor with effect from 2018

### Talent and succession

The Head of HR briefed the Board on:

- the Talent and Leadership Development strategy

## Corporate Governance continued

## Leadership and effectiveness continued

## Key Board roles and responsibilities

## Strong leadership

## Chairman

**Philip Hampton**

- Leads and manages the business of the Board
- Provides direction and focus
- Ensures clear structure for effective operation of the Board and its Committees
- Sets Board agenda and ensures sufficient time is allocated to promote effective debate and support sound decision making
- Ensures the Board receives precise, timely and clear information
- Meets with each Non-Executive Director on an annual basis to discuss individual contributions and performance, together with training and development needs
- Shares peer feedback that is provided as part of the Board evaluation process
- Meets with all the Non-Executive Directors independently of the Executive Directors
- Leads discussions with shareholders to whom he is responsible for the Group's performance
- Satisfied the Financial Reporting Council's UK Corporate Governance Code independence test on appointment.

 The Chairman's role description is available on [www.gsk.com](http://www.gsk.com)

## Chief Executive Officer

**Sir Andrew Witty**

- Is responsible for the management of the business
- Develops the Group's strategic direction for consideration and approval by the Board
- Implements the agreed strategy
- Is supported by members of the Corporate Executive Team.

 The Chief Executive Officer's role description is available on [www.gsk.com](http://www.gsk.com)

## Independent oversight and rigorous challenge

## Non-Executive Directors

- Provide a strong independent element to the Board
- Constructively support and challenge management and scrutinise their performance in meeting agreed deliverables
- Shape proposals on strategy and management
- Each has a letter of appointment setting out the terms and conditions of their directorship
- Devote such time as is necessary to the proper performance of their duties
- Are expected to attend all Board meetings and additional meetings as required.

## Independence statement

The Board considers all of its Non-Executive Directors who are identified on pages 84 to 85, including Professor Sir Roy Anderson with tenure of more than nine years, to demonstrate an appropriate degree of independence in character and judgement and to be free from any business or other relationship which could materially interfere with the exercise of their judgement. The independence and commitment of those Non-Executive Directors who have served on the Board for over six years has been subjected to a rigorous review.

## Senior Independent Non-Executive Director

**Vindi Banga**

- Acts as a sounding board for the Chairman and a trusted intermediary for other Directors
- Leads the review annually of the Chairman's performance, canvassing views from the Non-Executive Directors collectively
- Discusses the results of the Chairman's effectiveness review with the Chairman
- Leads the search and appointment process and recommendation to the Board of a new Chairman
- Acts as an additional point of contact for shareholders
- In doing so, maintains an understanding of the issues and concerns of major shareholders through briefings from the Investor Relations team and the Company Secretary.

 The Senior Independent Non-Executive Director's role description is available on [www.gsk.com](http://www.gsk.com)

## Timely support and advice

## Company Secretary

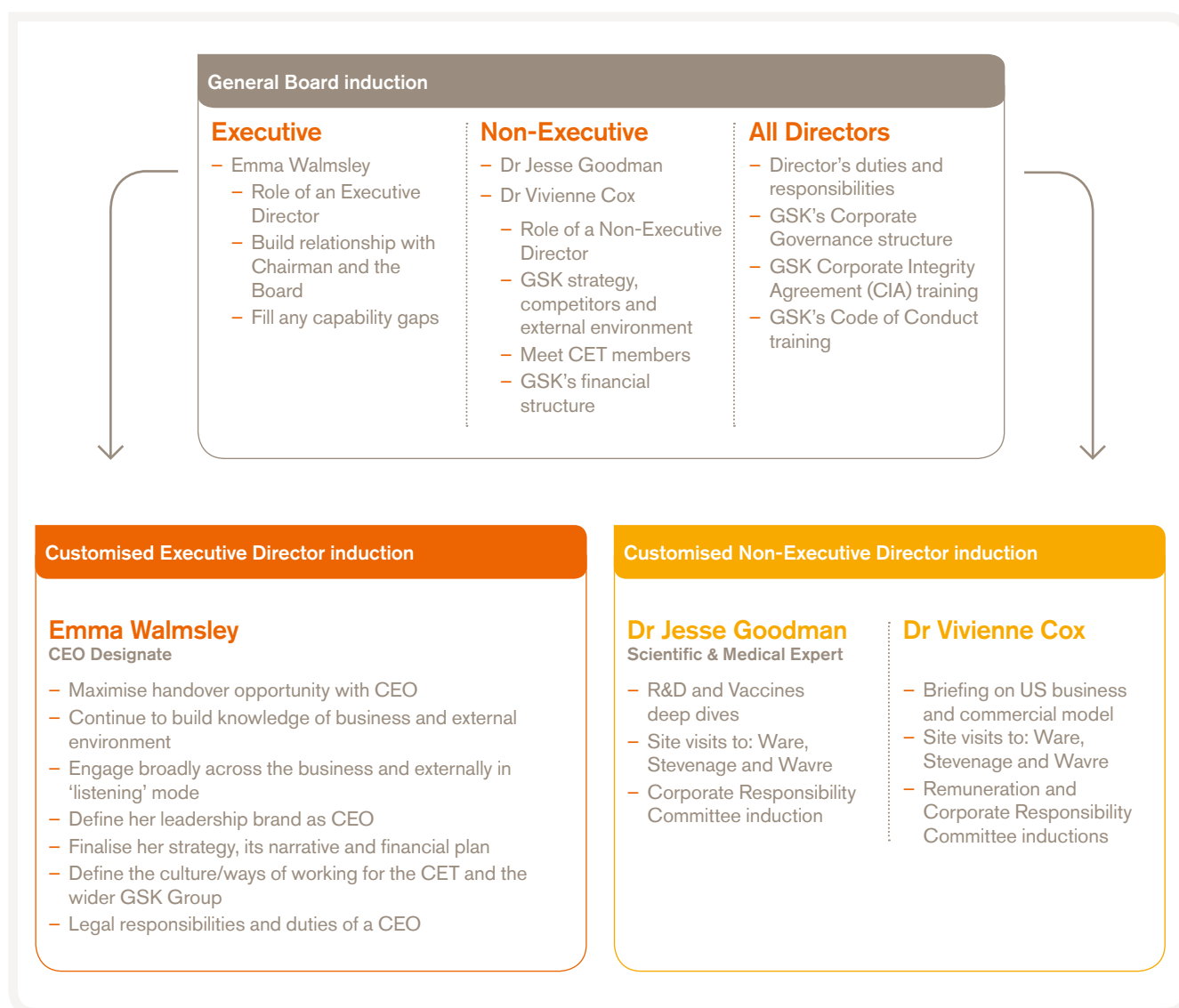
**Victoria Whyte**

- Acts as a Secretary to the Board and all Board Committees
- Supports the Board and Committee Chairmen in annual agenda plan setting
- Ensures information is made available to the Board members in a timely fashion
- Facilitates the flow of information within the Board and Committees and between Non-Executive Directors and management
- Supports the Chairman in designing and delivering Board inductions
- Coordinates ongoing business awareness and training requirements for the Non-Executive Directors
- Undertakes internal Board and Committee evaluations at the request of the Chairman
- Advises the Directors on Board practices and procedures and corporate governance matters
- Chairs the Group's Disclosure Committee
- Acts as a point of contact for shareholders on corporate governance.

## Board induction

The Company Secretary assists the Chairman in individually designing and facilitating induction programmes for new Directors. They are designed with the purpose of orientating and familiarising new Directors with our industry, organisation, governance and strategy to Grow, Deliver & Simplify. During the year, Emma Walmsley, our CEO Designate, Dr Jesse Goodman, a new US-based Science and Medical Expert, and Dr Vivienne Cox, a highly experienced UK-based Non-Executive Director, were all appointed to the Board.

Each new Director receives a general induction. A personalised induction is then devised which is individually tailored to each new Director's background, education, experience and role.



### Board, business awareness and training

To ensure that our Non-Executive Directors develop and maintain a greater insight and understanding of the business, they are invited to attend internal management meetings, including meetings of the CET, Research Advisory Board, the Research & Development Management Team (RDMT), the Portfolio and Discovery Investment Boards, the Global Pharma Operations Committee, the US Commercial Leadership Team and the Risk Oversight and Compliance Council (ROCC). They also meet employees informally during visits to the Group's operations and at receptions held around Board meetings.

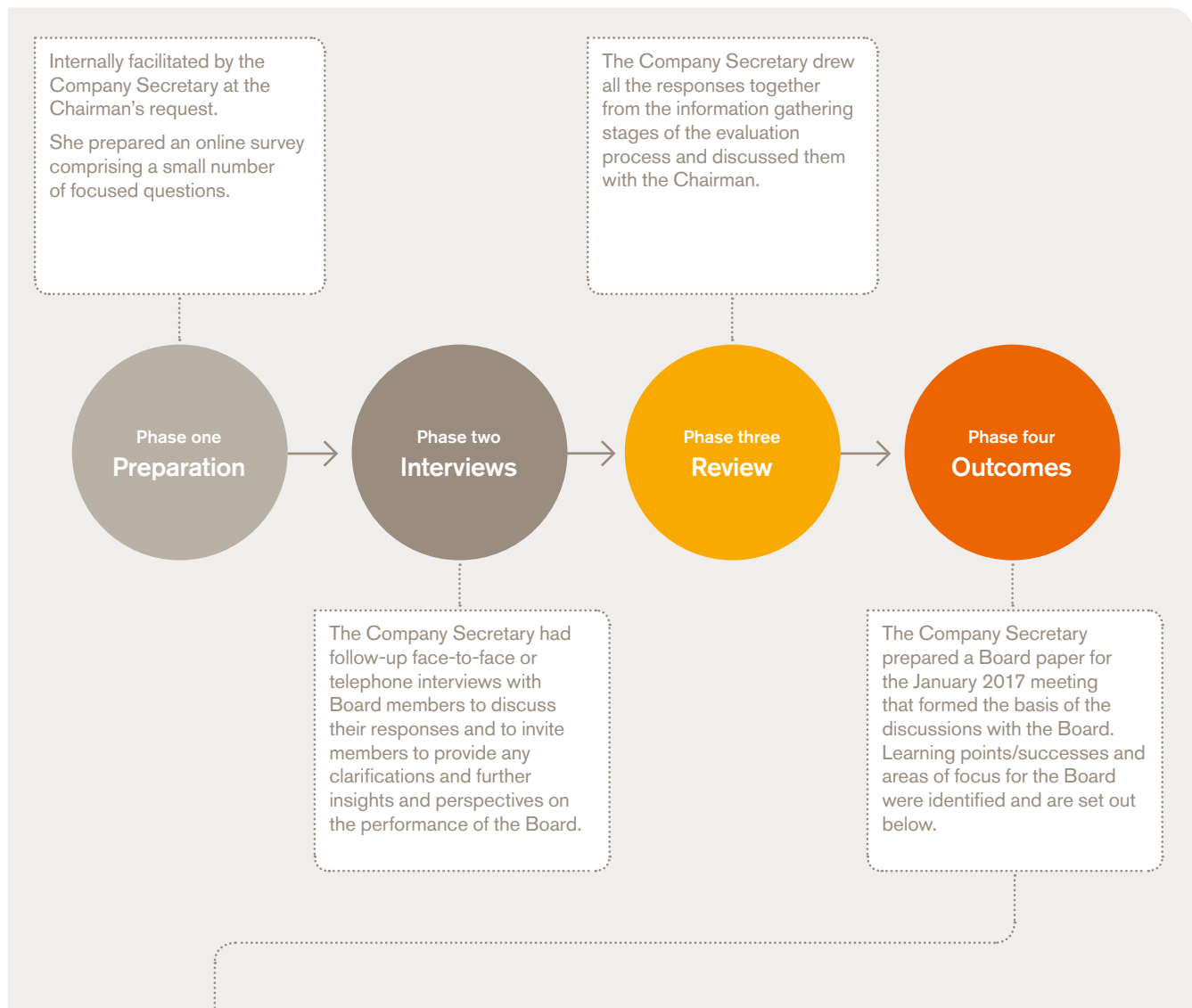
The Chairman meets with each Director annually on a one-to-one basis to discuss his or her ongoing training and development requirements. The Board is kept up-to-date on legal, regulatory and governance matters through regular papers and briefings from the Company Secretary and presentations by internal and external advisers.

During 2016, the Board members undertook specific refresher training on GSK's CIA and on the new MAR regulations and agreed to undertake training on GSK's Code of Conduct.

Corporate Governance continued

# Leadership and effectiveness continued

## 2016 Internal evaluation of the Board



Successes	Areas of focus for 2017
<ul style="list-style-type: none"> <li>- The CEO succession process had been a comprehensive, reflective and informative process, which concluded successfully to schedule.</li> <li>- Work to increase the Board's visibility and understanding of the pipeline and R&amp;D organisation had been appreciated.</li> <li>- The creation and establishment of the Science Committee would further enhance the Board's oversight of the Group's R&amp;D.</li> <li>- New Board members had settled in quickly and made immediate and positive contributions following comprehensive inductions.</li> <li>- The Board had successfully created increased opportunity for strategic debate.</li> </ul>	<ul style="list-style-type: none"> <li>- Create more opportunities for deeper strategic discussions, particularly on the evolution of the pharmaceuticals industry, the competitive landscape, therapy areas and GSK culture and performance.</li> <li>- Identify ways to further improve the Board's decision making.</li> <li>- Further increase Board oversight of science and innovation in collaboration with the new Science Committee.</li> <li>- Consider how data from the new IT systems can contribute to greater understanding and hence help evolve the business strategy.</li> </ul>

## 2016 Board performance action points

Progress against the conclusions of the 2015 Board evaluation review, internally facilitated by our Company Secretary, is set out below.

Action points	Progress/Achievements
<p><b>Strategy</b></p> <ul style="list-style-type: none"> <li>– Assist newer Directors with additional background briefing materials ahead of debates on strategy.</li> <li>– Arrange more regular discussion of medium and longer term strategy with fresh insights from different perspectives.</li> <li>– Implement suggestions to further enhance the effectiveness of the annual Board &amp; CET strategy meetings.</li> </ul>	<p>Additional materials are now provided on the company's Board portal.</p> <p>The Board agenda was compiled to include more opportunities to consider strategy from different perspectives.</p> <p>The Board provided positive feedback on the 2016 meetings held at the newly acquired Siena sites.</p>
<p><b>Executive succession and NED refreshment</b></p> <ul style="list-style-type: none"> <li>– Further increase the focus on executive succession plans and ensure the effectiveness of the disaster recovery plan.</li> <li>– Consider alternative suggestions for Non-Executive Director refreshment.</li> </ul>	<p>The Board was well positioned to operate its executive succession plans, that resulted in appointments to the Board and CET. These are described in more detail in the report of the Nominations Committee on pages 94 to 96.</p> <p>New approaches to identifying potential scientific and medical experts were utilised during 2016, supported by external recruitment experts.</p>
<p><b>Deep dives and sites visits</b></p> <ul style="list-style-type: none"> <li>– Consider further deep dives particularly on: R&amp;D strategy and pipeline, product launches, US pricing, joint ventures, new business models and GMS.</li> <li>– Consider holding one site visit to an operational site each year.</li> </ul>	<p>The 2016 Board meeting programme was adjusted to consider these matters during the year.</p> <p>The joint Board &amp; CET strategy meetings in September 2016 were held in Siena, Italy at the manufacturing and R&amp;D facilities acquired as a result of the Novartis transaction. The Board had the opportunity to meet employees and were able to learn at first-hand how these facilities, people and processes had been integrated into the wider Group.</p>
<p><b>Shareholders</b></p> <ul style="list-style-type: none"> <li>– Review and look to further enhance how the company communicates with shareholders.</li> </ul>	<p>During the year, the Board and Audit &amp; Risk Committee continued to enhance quarterly reporting to assist shareholders' understanding of the company's performance and standing.</p>
<p><b>Board materials and logistics</b></p> <ul style="list-style-type: none"> <li>– Continue the drive to make Board/Committee materials more concise and also effective in highlighting issues and concerns.</li> <li>– Aim to have less presentation time and more time for discussion and debate at meetings.</li> <li>– Allow for social time for Board members to get to know each other better given the number of new Board members.</li> </ul>	<p>The Chairman, Committee Chairmen and the Company Secretary focused on these issues in the preparations for, and when chairing, meetings during 2016.</p>

## Corporate Governance continued

## Leadership and effectiveness continued

## Nominations Committee Report



**Philip Hampton**  
Nominations Committee  
Chairman

**Role**

The Committee reviews and recommends to the Board:

- the structure, size and composition of the Board and the appointment of Directors, members to the Board Committees and the CET
- succession to the Board and the CET.

**Membership**

Committee members	Committee member since
Philip Hampton Chairman	27 January 2015
Professor Sir Roy Anderson	1 October 2012
Vindi Banga	1 January 2016
Lynn Elsenhans	27 January 2015
Judy Lewent	8 May 2014
Urs Rohner	1 January 2017
Sir Deryck Maughan	9 July 2009 to 5 May 2016

**b** Details of the Committee members' skills and experience are given in their biographies under 'Our Board' on pages 84 to 85. See page 88 for Committee member attendance levels.

The Company Secretary is Secretary to the Committee and attends all meetings. Other attendees at Committee meetings may include:

Attendees	Regular attendee	Attends as required
Chief Executive Officer	✓	
Head of Human Resources	✓	
Appropriate external advisers		✓

**Dear shareholder**

2016 was a busy year for the Committee.

Our CEO, Sir Andrew Witty, indicated in March 2016, his intention to retire from the Board in early 2017, after nearly 10 years as CEO and almost 32 years with GSK. Our principal focus for 2016 then became the CEO succession process and related executive management succession planning.

**CEO and executive management succession**

The Committee has for some years annually scrutinised the robustness of succession planning arrangements for the Executive Directors and each executive management role. The annual review of Talent and Leadership Strategy has been a key and regular item of Board and Committee discussion and oversight. The overall aim of this process is for the Board and Committee to seek assurance that there is a continuous and adequate supply of high-quality internal candidates to potentially step up to the Board and CET as required.

The Committee engaged Egon Zehnder and Korn Ferry, who specialise in the recruitment of high calibre Board directors. Using both firms ensured that the review process could be truly global and no companies were inaccessible.

The Committee, with full participation of all the Non-Executive Directors, then spent time considering the future strategic direction of the company and, with input from the executive recruitment firms, compiled a CEO role profile. The profile contained a brief of the requirements and the desired skill-set that a potential successor to Sir Andrew would need. This brief was drafted to emphasise the importance that the Board and Committee placed on the CEO being a great business leader and team builder.

The executive recruitment firms then initiated global searches against this agreed profile across all large global pharmaceutical and healthcare companies. This yielded a pool of internal and external candidates which was reduced to a shortlist of potential candidates. The firms reported regularly to the Committee as the process progressed.

The shortlisted internal and external candidates then met with key Board members first and were subjected to interviews, continuous assessments and reviews over an extended period. Each Non-Executive Director then met each shortlisted candidate at least once.

This culminated in one-to-one discussions between me and each of our Non-Executive Directors to seek their views on the candidates. I was very pleased that each Non-Executive Director made it clear that they considered that the right candidate to succeed Sir Andrew was Emma Walmsley, CEO of GSK's Consumer Healthcare division. The Committee then met to agree a proposal for the Board to recommend Emma's appointment as CEO Designate.

The recommendation received unanimous Board approval and on 20 September 2016 it was announced that Emma would join the Board as an Executive Director with effect from 1 January 2017 and would become CEO with effect from 1 April 2017.



## Nominations Committee Report continued

The Committee was well-positioned to appoint Emma's successor and Brian McNamara, Head of Americas and Europe for GSK Consumer Healthcare, succeeded her at the end of September 2016. Brian became a CET member with immediate effect. He joined GSK in March 2015 after the completion of the Novartis transaction.

Since 1 October, Emma has focused her attention completely on her transition into the role of GSK's next CEO. Details of her transition and induction arrangements can be found on page 91.

During the year, the Committee also conducted a search and appointment process for a new Executive Director when Dr Moncef Slaoui, our Chairman, Global Vaccines, indicated in June 2016 his intention to retire from the company in 2017 after over 10 years on the Board and 28 years with GSK. Moncef will step down from the Board on 31 March 2017 and will retire from the company on 30 June 2017.

The Committee recommended Dr Patrick Vallance's appointment to the Board and on 19 December the Board approved Patrick's appointment. He joined the Board as an Executive Director on 1 January 2017.

In addition, Luc Debruyne, our President, Global Vaccines, since 2013, was appointed a CET member in September 2016 in anticipation of Dr Slaoui's retirement from the CET in December 2016.

Luke Miels has been appointed President, Global Pharmaceuticals and will join GSK and the CET later this year from AstraZeneca where he was Executive Vice President of their European business.

Abbas Hussain, President, Global Pharmaceuticals has decided to leave the company after serving nine years on the CET, and he has agreed that he will leave GSK later this year.

### Enhancing the Board's scientific capabilities

The Board's scientific capabilities have recently been refreshed with the appointment of Dr Jesse Goodman, the former Chief Scientist for the US FDA, who was appointed to the Board on 1 January 2016. He succeeded Dr Daniel Podolsky, who retired as planned, after 9 years of service at our AGM in May 2016, as our designated US-based Scientific and Medical Expert (SME). The Committee is currently seeking to further enhance the Board's science capabilities by engaging Korn Ferry to conduct a global search for a further Non-Executive Director as an SME.

In addition, a new wholly independent Board Committee, the Science Committee, was established in December 2016 to provide oversight of GSK's R&D pipeline and scientific research strategy. The Committee recommended to the Board that the Science Committee be chaired by Dr Jesse Goodman. Other Non-Executive Directors appointed to the Science Committee included our UK-based SME, Professor Sir Roy Anderson, and Judy Lewent. The SME currently being recruited will also be appointed to the Science Committee. In light of this new Board Committee and to ensure effective continuity, Professor Sir Roy Anderson, who joined the Board in 2007, has agreed to stand for re-election by shareholders before stepping down from the Board at the 2018 AGM. The Board has confirmed that Professor Sir Roy continues to demonstrate the characteristics of independence in carrying out his role on the Board.

### New Non-Executive Director appointment

During 2016, in addition to the search for two new Executive Directors and a US-based SME, the Committee searched for another Non-Executive Director. Egon Zehnder were engaged to conduct the search, which used broad selection criteria, and dossiers of potential Non-Executive appointees were considered by the Committee. Candidates were shortlisted for interview on merit, after assessing their relevant qualifications and time commitments. After interviewing selected candidates, the Committee was pleased to recommend to the Board Dr Vivienne Cox as a Non-Executive Director. She was appointed to the Board with effect from 1 July 2016. The Board considered that her many years of international business experience in global manufacturing organisations with challenging technologies would bring fresh insights to the Board's deliberations.

### Board appointments and retirements

The ongoing refreshment of the Board has led to the following planned changes.

Director	Appointment date	Retirement date
Dr Jesse Goodman	1 January 2016	
Dr Vivienne Cox	1 July 2016	
Emma Walmsley	1 January 2017	
Dr Patrick Vallance	1 January 2017	
Stephanie Burns		5 May 2016
Sir Deryck Maughan		5 May 2016
Dr Daniel Podolsky		5 May 2016
Hans Wijers		5 May 2016
Stacey Cartwright		31 December 2016
Sir Andrew Witty		31 March 2017
Dr Moncef Slaoui		31 March 2017

Egon Zehnder and Korn Ferry provide recruitment consultancy services to the Committee, in addition to recruitment and HR services which they provide to the company.

## Corporate Governance continued

## Leadership and effectiveness continued

## Nominations Committee Report continued

## Board Committee Chairman and membership changes

During the year, the Committee approved the following changes to the membership of our Board Committees.

Director	Committee membership	Appointment date	Retirement date
Vindi Banga	Nominations, Audit & Risk and Remuneration Committees member	1 January 2016	
Professor Sir Roy Anderson and Dr Jesse Goodman	Corporate Responsibility Committee members	1 May 2016	
Dr Vivienne Cox	Corporate Responsibility Committee member	1 July 2016	
Dr Jesse Goodman	Science Committee Chairman	1 January 2017	
Professor Sir Roy Anderson and Judy Lewent	Science Committee members	1 January 2017	
Dr Vivienne Cox	Remuneration Committee member	1 January 2017	
Urs Rohner	Nominations Committee member	1 January 2017	
Stephanie Burns	Remuneration and Corporate Responsibility Committees member		5 May 2016
Sir Deryck Maughan	Nominations, Audit & Risk and Remuneration Committees member		5 May 2016
Dr Daniel Podolsky	Remuneration and Corporate Responsibility Committees member		5 May 2016
Hans Wijers	Remuneration and Corporate Responsibility Committees member		5 May 2016
Stacey Cartwright	Audit & Risk Committee member		31 December 2016

## Board composition and diversity

The Committee has sought to balance the composition of the Board and its Committees and to refresh them progressively over time so that it can draw upon the experience of longer serving Directors and benefit from new external perspectives and insights which more recent appointees can bring to the Board's deliberations.

Non-Executive Directors are drawn from a wide range of industries and backgrounds, including pharmaceuticals and R&D, vaccines, consumer products and healthcare, medical research and academia and financial services, and have a wealth of experience of complex organisations with global reach. The majority of our Board have a scientific or mathematical background and are attuned to the industry in which we operate.

We are committed to the diversity of our boardroom just as GSK is committed to equal opportunities for all our employees at all levels of the organisation. The Board and management seek to encourage a diverse and inclusive culture throughout GSK.

A key requirement of an effective board is that it comprises a range and balance of skills, experience, knowledge, gender and independence, with individuals that are prepared to challenge each other and work as a team. This needs to be backed by a diversity of personal attributes, including character, intellect, sound judgement, honesty and courage.

The Committee is responsible for developing measurable objectives to support the implementation of the Board's diversity policy, including gender, and monitoring progress towards the achievement of these objectives. Our diversity policy is in line with Lord Davies' new voluntary target of at least 33% female Board level representation by 2020. We currently have 31% women on our Board and 14% on our Corporate Executive Team. Closing this gap between Board and CET gender representation and further increasing the pipeline of female direct reports to the CET is a particular area of attention. Female pipeline development was also a central theme of my review, together with Dame Alexander, across the FTSE 350, which is continuing and developing the valuable work that Lord Davies initiated in 2011.

The representation of women in management positions at GSK is illustrated on page 49 as part of the gender diversity of GSK's global workforce and alongside initiatives to promote diversity and inclusion throughout the organisation. We also support the engagement of executive search firms such as Egon Zehnder and Korn Ferry who have signed up to the Voluntary Code of Conduct on gender diversity and best practice.

We have also noted the recommendation set out in the Parker Review Committee's report 'Beyond One by '21', published in November 2016, that each FTSE 100 board should have at least one director of colour by 2021 and have adjusted our diversity policy accordingly to reflect this new target.

## Committee evaluation

The Committee's annual evaluation was internally facilitated by the Company Secretary on behalf of the Committee Chairman, and supplemented by a questionnaire circulated to Committee members. It was concluded that the Committee continued to operate effectively.

It was agreed for 2017 that the Committee would seek to identify another experienced Scientific and Medical Expert and additional consideration would be given on an ongoing basis to performance and succession planning for the CET and top talent and GSK's performance culture. The Committee would continue to plan for Non-Executive Director retirements based on the evolution of Group strategy.

**Philip Hampton**  
Nominations Committee Chairman

13 March 2017

# Accountability

## Audit & Risk Committee Report



**Judy Lewent**  
Audit & Risk Committee  
Chairman

### Role

The Committee reviews and is responsible for:

- financial and internal reporting processes
- the integrity of the financial statements, including the Annual Report and quarterly results announcements
- the system of internal controls
- identification and management of risks and external and internal audit processes
- initiating audit tenders, the selection and appointment of external auditors, their remuneration and oversight of their work.

### Membership

Committee members	Committee member since
<b>Judy Lewent</b> Chairman	1 April 2011
<b>Vindi Banga</b>	1 January 2016
<b>Lynn Elsenhans</b>	1 January 2014
<b>Stacey Cartwright</b>	1 April 2011 to 31 December 2016
<b>Sir Deryck Maughan</b>	21 January 2005 to 5 May 2016
<b>Dr Daniel Podolsky</b>	1 January 2007 to 5 May 2016

**i** Details of the Committee members' financial, accounting or scientific experience and expertise are given in their biographies under 'Our Board' on pages 84 to 85. See page 88 for Committee member attendance levels.

The Company Secretary is Secretary to the Committee and attends all meetings. The entire Board is invited to attend the Committee meetings and other attendees include:

Attendee	Regular attendee	Attends as required
General Counsel	✓	
Financial Controller	✓	
Head of Audit & Assurance	✓	
Head of Global Ethics and Compliance	✓	
Chief Medical Officer	✓	
Chief Product Quality Officer		✓
External auditor	✓	

In accordance with the FRC's Code, the Board has determined that Judy Lewent has recent and relevant financial experience. The Board has also agreed that Judy Lewent has the appropriate qualifications and background to be an audit committee financial expert as defined by the US Sarbanes-Oxley Act of 2002, and has determined that she is independent within the meaning of the US Securities Exchange Act of 1934, as amended.

In addition, Judy Lewent and Vindi Banga are also members of the Remuneration Committee, which allows them to provide input on the Committee's review of the Group's performance and oversight on any risk factors relevant to remuneration matters.

### Dear Shareholder

In the following pages of this report, we aim to share insights into the activities undertaken or overseen by the Audit & Risk Committee (the Committee) during the year. The Committee has worked largely to a recurring and structured programme of activities. I devise this programme with the Company Secretary and agree its content with management and the external auditors at the start of each year. It is then adapted as appropriate as the year progresses.

Running and concluding a successful tender of the external audit contract was a significant undertaking for the Committee, supported by management, during the year. This exercise, together with the Committee's scrutiny of further enhancements and simplifications to our internal control, risk management and financial reporting systems and processes, is covered below.

### External auditors

**Conclusion of audit tender:** Last year, we advised shareholders that the Committee was putting the external audit contract out to a competitive tender process, which the Committee initiated in July. The process was concluded in December 2016 when the Board appointed the Committee's preferred choice of Deloitte LLP (Deloitte) as the company's new auditors. Our current external auditor, PricewaterhouseCoopers LLP (PwC), was not invited to participate in the tender due to the prevailing rules on audit firm rotation. They will continue in office during 2017. Subject to their reappointment by shareholders at our 2017 AGM, they will retire after completing the 2017 audit.

From GSK's 2018 financial year onwards, Deloitte will be appointed in PwC's place, subject to shareholder approval. We wish to thank each firm that participated in the tender for the professionalism and commitment they demonstrated through the process.

A full report on the key steps, governance arrangements and outputs from the audit tender process is given on page 102. The Committee's judgement was that Deloitte was best placed to succeed PwC and deliver a high quality audit for GSK.

The Committee is currently overseeing the transition from PwC to Deloitte to ensure that:

- PwC continues to discharge its auditing responsibilities effectively to the end of its time in office; and
- Deloitte takes the necessary steps to ensure that it is independent of GSK by the time it begins to observe PwC at an appropriate juncture in 2017.

I look forward to reporting to shareholders on discharging the activities associated with this transition in GSK's 2017 Annual Report.

## Corporate Governance continued

## Accountability continued

## Audit &amp; Risk Committee Report continued

**The Financial Reporting Council Audit Quality Review:**

The Committee's confidence in the external auditor's delivery of a high quality and effective audit for GSK was reinforced by the outcome of the FRC's Audit Quality Review team's (the AQR) review of PwC's audit of GSK's 2015 financial statements. The GSK audit was selected as part of the AQR's annual inspection of the audit quality of the largest audit firms in the UK. The Committee discussed the results and outcome of the review. The AQR's findings corroborated the results of the Committee's own independent evaluation of PwC, which concluded that the external auditor was effective. The Committee received a report from PwC detailing how the 2016 audit would address the small number of findings identified by the AQR team and was satisfied with PwC's planned response.

**Competition and Markets Authority compliance statement:**

The Committee considers that, during 2016, the company has complied with the mandatory audit processes and audit committee responsibility provisions of the Competition and Markets Authority Statutory Audit Services Order 2014. This report describes the work of the Committee in discharging these responsibilities.

**Pre-approval of non-audit services:** The Committee reviewed and discussed adapting the company's approach to its existing non-audit services policy, to comply with new requirements set out in the FRC's revised Ethical Standards and the implementation of the EU Audit Regulation for GSK's 2017 financial year. In particular, we agreed changes to our non-audit services pre-approval process in line with the new restrictions on auditors supplying non-audit services to UK listed companies. These changes are outlined on page 104.

**Internal framework for control and risk management developments**

This is a core discipline for the Committee. In 2016, the following developments in the business units and across the enterprise in the areas of communication, reporting, training and analytics helped strengthen our culture of compliance and risk management.

**Anti Bribery And Corruption (ABAC) and Third Party Oversight (TPO) programmes:** These are a high priority for the Committee and it has overseen the following areas of progress made during the year:

- **ABAC Global Risk Assessment:** This new programme was launched to significantly enhance the way our ABAC risk is identified and prioritised across the Group. Existing ABAC data has been centrally pooled by our Global Risk Office to help how our ABAC risk exposure is measured. This has enabled management to target risk mitigation techniques on the company's highest risk activities, business units and regions.
- **TPO programme:** This provides a standard framework which governs all third party relationships and has moved from design to deployment phase. This supplier assessment programme operates in a large majority of our Latin America and South East Asia markets. It is applied across our range of third parties and is used in particular to assess suppliers deemed by GSK to be high risk. Risk levels and corrective and preventative action tracking are now managed via an easy-to-use reporting system by our employees who are enrolled in this programme.

During 2017, the TPO programme is expected to cover our global operations. This will ensure continued risk management improvements in respect of our third party relationships, embedding a basic TPO capability into our Supplier Lifecycle Management software and introducing further buying experience simplifications.

**SEC settlement:** In 2016, GSK entered into a settlement with the US Securities and Exchange Commission (SEC) in relation to its inquiry into past sales and marketing practices in China. Under this settlement, the company has obligations to provide the SEC with information on the framework and evolution of our ongoing ABAC programme for monitoring purposes. The Committee reviews and considers updates before they are provided to the SEC, as agreed under the settlement.

**InfoProtect:** To reflect a fast evolving landscape and its potential impacts on this key enterprise risk, our multi-year InfoProtect programme was refreshed in 2016. Heightened attention is being paid to those areas of our business that have the highest risk exposure. Improvements have been prioritised for delivery to achieve the greatest risk reduction and improve the maturity of our information security and privacy processes. Our Chief Information Security Officer (CISO) and our CFO (who has Board-level responsibility for this enterprise risk) continue to ensure our cyber security defences remain strong and effective. The CFO and CISO brief the Committee regularly on developments.

**Enhanced governance around reporting:** The Committee and Risk Oversight & Compliance Council (ROCC) receive internal control and risk management reports throughout the year. These are based on their respective governance responsibilities within the wider organisational internal risk governance framework. The efficiency and quality of this upward reporting mechanism is crucial in assisting the Committee in properly monitoring GSK's internal framework for control and risk management. During 2016, the Global Risk Office has implemented the following Committee and ROCC reporting improvements into business units and across our risk enterprise exposures.

The Committee reporting schedules have been improved so that risk management reports from the business units are presented to the ROCC after they have been submitted to the Committee. This means that the Committee's feedback can be properly incorporated into management's deliberations at the ROCC. In addition, our business units now provide six monthly updates to the ROCC that concentrate on progress against their top three risk management commitments. This simplification has helped foster a more focused discussion at the ROCC on each business unit's risk management priorities.

To help the Committee improve its understanding of our enterprise risk strategies, GSK's enterprise risk owners are encouraged to provide commentary on the organisation's risk tolerance in respect of the specific risk they are responsible for mitigating. In addition, the development of risk performance dashboards for ABAC, Product Quality and Research Practices, has further enhanced the Committee's ability to understand and monitor our risk exposure levels on an ongoing basis.

**Compliance activities**

**Building trust by embedding our Values:** Our Global Ethics & Compliance (GEC) function continues to embed its 'Living our Values and Building Trust' strategy to help motivate employees to put the company's core values at the heart of every decision they make. In particular, GEC deployed enterprise-wide training for employees to coincide with the release in April 2016 of GSK's updated Code of Conduct. This is at the heart of our compliance programme and focuses on GSK's core values of Patient Focus and Integrity, Respect for People and Transparency.

## Audit & Risk Committee Report continued

In addition to delivering training to our employees across the enterprise, GEC has also introduced the following training tools specifically aimed at team leaders to help reinforce values based conduct in their teams:

- **Leader Led Discussion toolkit:** This has been launched to enable leaders and teams to have meaningful discussions on the importance of GSK's values and 'right first time' culture. These discussions are informal and short in length, provide opportunities to explore GSK's values and for leaders and their teams to think about what quality means in their part of the company's business. The toolkits use a combination of external events and research such as academic studies around why good employees can sometimes make poor decisions.
- **Values Maturity Assessment:** This is a leadership team self-assessment tool which allows teams to assess how well values are embedded into the business and establishes a values improvement plan based on the outcome of the assessment. During 2016, Values Maturity Assessments (VMA) were undertaken by GEC across a third of GSK's business units, in line with a values objective set by the Corporate Executive Team. This VMA roll out is continuing in 2017 across all our business units.

**GM certifications:** The General Manager (GM) confirmation process across Pharmaceuticals and Vaccines has continued throughout 2016, requiring GMs to confirm their adherence to GSK's Internal Control Framework. A revised confirmation process was launched in September 2016. It focused on specific risk areas, including TPO, Health Care Professional and government official interactions, embedding ABAC, and other risks associated with pricing and commercial terms. In 2016, Consumer Healthcare implemented a similar process for its GMs to confirm the operation of our internal control framework for key risks and minimum controls.

**Corporate Integrity Agreement:** The Committee has oversight of the company's responsibilities under a US Corporate Integrity Agreement (CIA) signed with the US Department of Health and Human Services in 2012, which is now in its final year, although commitments with certain States regarding salesforce compensation extend into 2019. During 2016, the Committee continued to receive quarterly CIA compliance and assurance updates from the Head of GEC. It also reviewed and recommended to the Board the adoption of the annual resolutions that confirm adherence to the terms of the CIA for inclusion in the certification reports the company provides to the appropriate US regulatory authorities each year.

Given the success of the GM confirmation and CIA certification processes so far and because the CIA is due to end in 2017, the Committee is keen to retain the best practice compliance disciplines of the CIA. As a result it is assessing GEC's proposal to roll-out a tailored Business Unit Confirmation that combines the principles of these two processes. This proposed simplification is designed to provide the Committee with consolidated assurance that our internal control framework requirements are identified and understood, and that any possible gaps are identified and addressed at each of our business units.

### Global reporting system platforms

The Committee was pleased to oversee significant progress being made in moving towards more standardised, global systems which support our end-to-end processes. Management continued to deploy upgrades as planned, with a major system deployment completed during the first half of 2016 to schedule and on budget. The remaining deployments under this multi-year programme are being completed during 2017 and early 2018, with an increasing focus on capturing the benefits that these new standardised systems and processes generate for GSK.

### My role

Finally, my role as Chair of the Committee continues to be busy and varied. During the year, I had significant interactions with key senior executives and our auditors, and attended a range of management meetings, including those of the ROCC, Consumer Healthcare, Finance GEC and Global Manufacturing & Supply leadership teams. I also led the audit tender process and met the bidding firms' audit partners and teams to familiarise myself with their qualities and capabilities and to gain an impression of what it could be like to work with them.

Along with my Board colleagues, I was pleased to visit our manufacturing and R&D facilities in Siena, Italy that had been acquired as part of the Novartis transaction in 2015. We met local senior executives and employees and were able to learn at first-hand how these facilities, people and processes have been integrated into the wider Group. I was also pleased to learn how GSK's internal control and risk management practices have been translated and embedded in the business.

On a personal note I would like to acknowledge Sir Andrew's contribution to the company. He has been a visionary leader driving GSK's values during his term as CEO and he led positive change in established industry ways of working. I would like to wish him well in his next endeavours and I very much look forward to working with his successor, Emma Walmsley, when she succeeds him as CEO from 1 April 2017.

**Judy Lewent**  
Audit & Risk Committee Chairman

13 March 2017

## Corporate Governance continued

## Accountability continued

## What the Committee did during 2016

Areas of Committee focus	Items discussed	Frequency
<b>Financial reporting</b>	– Reviewed integrity of draft financial statements, appropriateness of accounting policies and going concern assumptions	(A)
	– Considered approval process for confirming and recommending that 2015 Annual Report is fair, balanced and understandable	(A)
	– Reviewed and recommended approval of 2015 Annual Report and Form 20-F	(A)
	– Reviewed and approved Directors' expenses	(A)
	– Reviewed and recommended approval of quarterly and preliminary results announcements and dividends	(Q)
	– Reviewed significant issues in relation to the quarterly and preliminary results	(Q)
	– Considered evolving market practice on the Viability Statement requirements	(A)
	– Reviewed and recommended inclusion of the Viability Statement for the 2015 Annual Report	(P)
	– Reviewed accounting developments and their impacts and key accounting issues	(P)
	– Reviewed GAAP vs Non-GAAP reporting	(P)
<b>Global internal control &amp; compliance</b>	– Reviewed Global Pharmaceuticals, Vaccines, R&D, GMS and Consumer Healthcare business unit assurance reports	(A)
	– Reviewed GSK's internal control framework	(A)
	– Confirmed compliance with Sarbanes-Oxley Act	(A)
	– Reviewed Audit & Assurance work during 2015 and approved the planned work for 2016	(A)
	– Undertook Corporate Integrity Agreement (CIA) training	(A)
	– Undertook new Market Abuse Regulation training	(A)
	– Received and renewed CIA compliance and assurance reports	(Q)
	– Reviewed reports on the Operational Excellence programme	(Q)
	– Reviewed the implementation of new systems for Group Support Functions	(P)
	– Received litigation reports and updates	(S)
	– Received ABAC investigation status reports	(S)
<b>External auditors</b>	– Reviewed and approved audit/non-audit expenditure incurred during 2015	(A)
	– Considered the auditors' report on the 2015 annual results	(A)
	– Performed evidence-based assessment of external auditors and the effectiveness of 2015 external audit	(A)
	– Considered qualifications, expertise and independence of the external auditors	(A)
	– Recommended the re-appointment of the external auditor and for the Committee to agree auditors' remuneration	(A)
	– Approved the 2016 audit plan and audit fee proposal and set performance expectations for auditors	(A)
	– Considered initial results of 2016 audit	(P)
	– Reviewed and agreed pre-approval of budget for auditors to provide non-audit services for 2017	(Q)
	– Undertook a competitive audit tender process and recommended to the Board two audit firms, including a preferred firm, to be appointed for the audit of the 2018 financial statements	(S)
<b>Risk</b>	– Reviewed risk management framework compliance	(A)
	– Reviewed risk elements of Group treasury, pensions, risk and insurance and tax policies	(A)
	– Received status reports on following enterprise risks: ABAC, Commercialisation, Crisis and Continuity, EHSS, Information Protection, Management and Financial Controls and Reporting, Product Quality and Research Practices	(P)
	– Received an update on integration following the Novartis transaction	(P)
	– Received terrorism risk assessment reports	(P)
	– Received update on Brexit implications	(P)
	– Received Risk Oversight Compliance Council meeting updates	(S)
	– Considered emerging risks	(S)
<b>Governance and other matters</b>	– Confirmed compliance with UK Corporate Governance Code	(A)
	– Discussed evaluation exercise of Committee, agreed action plan to further improve operation of Committee	(A)
	– Reviewed the Committee's terms of reference	(A)
	– Met privately and separately with the Heads of Global Ethics & Compliance and Audit & Assurance	(A)
	– Confirmed that the Committee's terms of reference had been adhered to during 2016	(A)
	– Received corporate governance updates	(P)
	– Reviewed and approved the approach to the Modern Slavery Act 2015	(P)
– Met privately with the external auditors at the end of each meeting	(S)	

## Significant issues relating to the financial statements

In considering the quarterly financial results announcements and the financial results contained in the 2016 Annual Report, the Committee reviewed the significant issues and judgements made by management in determining those results. The Committee reviewed papers prepared by management setting out the key areas of risk, the actions undertaken to quantify the effects of the relevant issues and the judgements made by management on the appropriate accounting required to address those issues in the financial statements.

The significant issues considered in relation to the financial statements for the year ended 31 December 2016 are set out in the following table, together with a summary of the financial outcomes where appropriate. In addition, the Committee and the external auditors have discussed the significant issues addressed by the Committee during the year and the areas of particular audit focus, as described in the Independent Auditors' Report on pages 149 to 157.

Significant issues considered by the Committee in relation to the financial statements	How the issue was addressed by the Committee
<b>Going concern basis for the preparation of the financial statements</b>	The Committee considered the outcome of management's half-yearly reviews of current and forecast net debt positions and the various financing facilities and options available to the Group. Following a review of the risk and potential impact of unforeseen events, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate.
<b>Revenue recognition, including returns and rebates (RAR) accruals</b>	The Committee reviewed management's approach to the timing of recognition of revenue and accruals for customer returns and rebates. The US Pharmaceuticals and Vaccines accrual for returns and rebates was £2.2 billion at 31 December 2016 and the Committee reviewed the basis on which the accrual had been made and concurred with management's judgements on the amounts involved. A fuller description of the process operated in the US Pharmaceuticals and Vaccines business in determining the level of accrual necessary is set out in 'Critical accounting policies' on page 76.
<b>Provisions for legal matters, including investigations into the Group's commercial practices</b>	The Committee received detailed reports on actual and potential litigation from both internal and external legal counsel, together with a number of detailed updates on investigations into the Group's commercial practices. Management outlined the levels of provision and corresponding disclosure considered necessary in respect of potential adverse litigation outcomes and also those areas where it was not yet possible to determine if a provision was necessary, or its amount. At 31 December 2016, the provision for legal matters was £0.3 billion, as set out in Note 29 to the financial statements, 'Other provisions'.
<b>Provisions for uncertain tax positions</b>	The Committee considered current tax disputes and areas of potential risk and concurred with management's judgement on the levels of tax contingencies required. At 31 December 2016, the Group's balance sheet included a tax payable liability of £1.3 billion.
<b>Impairments of intangible assets</b>	The Committee reviewed management's process for reviewing and testing goodwill and other intangible assets for potential impairment. The Committee accepted management's judgements on the intangible assets that required writing down and the resulting impairment charge of £29 million in 2016. See Note 19 to the financial statements, 'Other intangible assets' for more details.
<b>Valuation of contingent consideration in relation to Viiv Healthcare</b>	The Committee considered management's judgement that following the further improved sales performance of <i>Tivicay</i> and <i>Triumeq</i> and the significant weakening of Sterling in the latter part of the year, it was necessary to increase the liability to pay contingent consideration for the acquisition of the former Shionogi-Viiv Healthcare joint venture. At 31 December 2016, the Group's balance sheet included a contingent consideration liability of £5.3 billion in relation to Viiv Healthcare. See Note 39 to the financial statements, 'Contingent consideration liabilities' for more details.
<b>Consumer Healthcare put option</b>	The Committee considered management's judgement on the valuation of the liability recognised in respect of Novartis' put option over its shareholding in the Consumer Healthcare Joint Venture. This included a review of the unwinding impact of the discounting of the liability and the increase in the liability caused by the significant weakening of Sterling in the latter part of the year.
<b>Viiv Healthcare put options</b>	The Committee considered the amendments to the Viiv Healthcare Shareholders' Agreement made during the year which resulted in the recognition of the put options held by Shionogi and Pfizer in Q1 2016 and the subsequent de-recognition of the Shionogi put option in Q4 2016. The Committee reviewed and agreed the accounting for the put options and concurred with management's judgement on the valuation of the Pfizer put option of £1,319 million at 31 December 2016.

Corporate Governance continued

# Accountability continued

## Audit tendering

PwC has been the auditor of the company and the Group since the inception of each in 2000. Their performance has been reviewed annually and audit partner rotation requirements have been observed.

As indicated in last year’s Annual Report, GSK decided to undertake an external audit tender in 2016 with a view to replacing PwC from our 2018 financial year onwards. This was done in the best interests of our shareholders and to comply with the audit firm rotation requirements.

A robust governance structure was implemented, headed by the Audit & Risk Committee (ARC), to manage, support and deliver a successful audit tender process.

Judy Lewent chaired the Executive Steering Committee (ESC), which has overseen the audit tender process, evaluated the audit firms and liaised with the ARC. The other members of the ESC were the CFO, Group Financial Controller and Company Secretary. The Group Financial Controller chaired the Operations Steering Committee, which was made up of finance heads, and coordinated the audit tender process and a cross-functional Planning Team has provided day-to-day support and advice. These levels of governance and their purpose are illustrated in last year’s Annual Report on page 92.

The key objective of the ARC was to deliver a fair, transparent and successful audit contract tender process with minimum disruption to the business. It endorsed weighted selection criteria and evaluation methodology based on GSK’s expectations for the external auditors. These were equally divided into Audit Quality and Service and Audit Team Capability and Competence.

In addition, five critical success factors were prioritised and guided the Committee and the Board in making their final recommendation and decision which comprised:

- Audit Approach and Strategy;
- High Quality Independent Audit;
- Effective Partnership;
- Risk in Transitioning Auditors ‘in’ and ‘out’; and
- Value for Money

After a detailed market assessment, a number of audit firms, including some firms outside the Big Four, were approached to participate in this process. Judy Lewent then made the final pre-selection of Audit Lead Partners before the Request for Proposal and data room were issued and opened to the bidding firms in July 2016. Site meetings took place at GSK House over three days in September 2016, which was an opportunity for our finance and functional leaders to meet with the bidding firms’ teams face-to-face.

These meetings, which Judy Lewent oversaw with her ESC colleagues, were a means of discussing GSK’s audit requirements with each firm to help them develop their proposals, and to evaluate their technical knowledge, strengths and weaknesses and get a feel of what it could be like to work with them. Feedback from GSK’s participants was discussed with the Committee and shared with the audit partners prior to the submission of their audit tender proposals in October 2016.

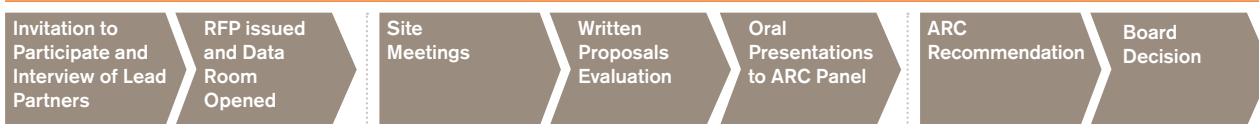
The bidding firms’ proposals were subject to detailed evaluation with key areas to probe identified for discussion with the audit partners and their teams at their oral presentations to the Committee and other GSK attendees that took place in November 2016. All information from the evaluation stages of the process – site meetings, written proposal submissions and oral presentations – were shared with and discussed by the ARC at the conclusion of the process. This enabled the ARC to recommend to the Board the appointment of Deloitte as the preferred new auditor from two shortlisted bidding firms, a recommendation which the Board subsequently endorsed.

GSK has now entered the transition phase of the process leading up to Deloitte taking on the external audit contract with effect from 1 January 2018 and an update on these activities will be disclosed in our 2017 Annual Report.

### 2016 External Audit Tender Process



#### Key steps



#### Governance

ARC Chair, CFO and Group Financial Controller	Executive and Operations Steering Co	Executive and Operations Steering Co	ARC, Executive and Operations Steering Co	ARC and Executive Steering Co	ARC	Board
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#### Outputs

Short listing and pre-selection of Lead Partners	Knowledge building by firms	Initial feedback shared with Lead Partners as input to development of their proposals	Proposal Evaluation and ‘Exam Questions’ For Oral Presentations	Debrief and Final Evaluation of each firm	Recommended two firms for appointment, with a preference expressed for one firm	Successful firm appointed with effect from 1 January 2018
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## Auditors' appointment

### Ongoing effectiveness and quality of external audit process

The Committee is committed to ensuring on an ongoing basis that GSK receives a high quality and effective audit. In evaluating the effectiveness of the audit process prior to making a recommendation on the re-appointment of the external auditor, the Committee reviews the effectiveness of their performance against criteria which it agrees, in conjunction with management, at the beginning of each year's audit.

The activities the Committee typically undertakes each year to satisfy itself of external audit quality and effectiveness, together with their timelines, are set out below.



The detailed criteria the Committee uses for judging the effectiveness of the external auditor and their overriding responsibility to deliver a smooth running, thorough and efficiently executed audit are set out below:

### Performance expectations for GSK's external auditor

<b>Specific auditor responsibilities</b>	<ul style="list-style-type: none"> <li>– Discuss approach and areas of focus in advance with early engagement on understanding the implications of GSK's new operating model</li> <li>– Ensure Sarbanes-Oxley scope and additional procedures are discussed and endorsed by management and communicated on a timely basis within GSK and PwC</li> <li>– Avoid surprises through timely reporting of issues at all levels within the Group</li> <li>– Ensure there is clarity of roles and responsibilities between the auditor and local management</li> <li>– Respond to any issues raised by management on a timely basis</li> <li>– Meet agreed deadlines</li> <li>– Provide continuity and succession planning of key employees of the auditor</li> <li>– Provide sufficient time for management to consider draft auditor reports and respond to requests and queries</li> <li>– Employ consistent communication between local and central audit teams.</li> </ul>
<b>Wider auditor responsibilities</b>	<ul style="list-style-type: none"> <li>– Provide up-to-date advice on the new Viability statement requirement</li> <li>– Provide up-to-date knowledge of technical and governance issues, including evolving market practice on the Viability statement requirements</li> <li>– Serve as an industry resource; communicating best practice and industry trends in reporting and integrated reporting</li> <li>– Adhere to all independence policies (including GSK's policies, the Financial Reporting Council's ISA 240 and applicable Securities and Exchange Commission standards)</li> <li>– Deliver a focused and consistent audit approach globally that reflects local risks and materiality</li> <li>– Liaise with GSK's Audit &amp; Assurance team to avoid duplication of work and Global Ethics and Compliance team to ensure common understanding of audit outcomes</li> <li>– Provide consistency of advice at all levels of the organisation</li> <li>– Ultimately provide a high quality service to the Board, be scrupulous in their scrutiny of the Group and act with utmost integrity.</li> </ul>

## Corporate Governance continued

# Accountability continued

### Non-audit services

The Sarbanes-Oxley Act of 2002 prohibits the engagement of the external auditor for the provision of certain services such as legal, actuarial, internal audit outsourcing or financial information systems design. Where the external auditor is permitted to provide non-audit services (such as audit-related, tax and other services), the Committee ensures that auditor objectivity and independence are safeguarded by a policy requiring pre-approval by the Committee for such services. There were no contractual or similar obligations restricting the Group's choice of external auditor.

All non-audit services over £50,000 are put out to competitive tender with financial service providers other than the external auditor, in line with the Group's procurement process, unless the skills and experience of the external auditor make them the only suitable supplier of the non-audit service under consideration. In this case, a request for proposal is submitted by the relevant CET member to the CFO for approval. Non-audit services spending is monitored by the Committee on a quarterly basis and discussed with the Committee Chairman.

The following policy guidelines on engaging the external auditor to provide non-audit services are observed:

- ascertaining that the skills and experience of the external auditor make them a suitable supplier of the non-audit services;
- ensuring adequate safeguards are in place so that the objectivity and independence of the Group audit are not threatened or compromised; and
- ensuring that the total fee levels do not exceed 50% of the annual audit fee, except in special circumstances where there would be a clear advantage in the company's auditor undertaking such additional work.

This policy, which has been maintained for a number of years by the Committee, was reviewed in December 2016 for compliance with the Financial Reporting Council's (FRC's) revised Ethical Standards and the EU Audit Regulation (new regulations). The following three key policy guidelines were considered by the Committee as part of its review:

**Fee cap:** GSK's existing non-audit services fees cap of 50% of the annual audit fee in GSK's policy is more stringent than the FRC's new fees cap set at 70% of the average of the audit fees for the preceding three year period. GSK's existing policy cap of 50% has been retained.

**Prohibitions:** GSK's policy has been updated so that the 'black list' of prohibited non-audit services in the new regulations are applied across the Group for GSK's 2017 financial year onwards. This is subject to those exceptions outside the EU that the Committee can approve.

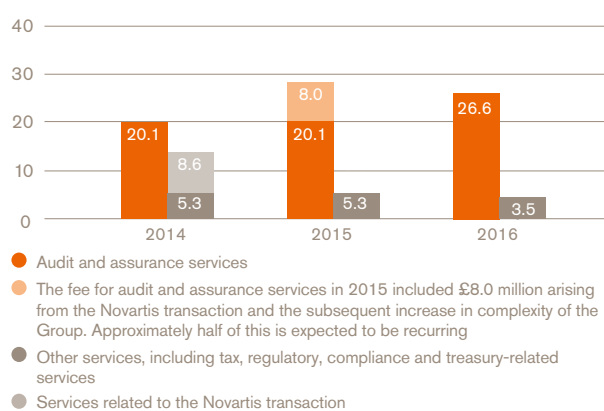
**Pre-approval:** The FRC's new guidance for audit committees restricts the category-wide pre-approval process in GSK's policy from 2017. This policy has been updated so that all non-audit services:

- over £50,000 are pre-approved by the Committee Chairman and CFO as delegated by the Committee;
- between £25,000 and £50,000 are pre-approved by the Group Financial Controller; and
- under £25,000 are approved by a designate of the Group Financial Controller.

Fees paid to the company's auditor and its associates are set out below. Further details are given in Note 8 to the financial statements, 'Operating profit'.

Where possible, other accounting firms are engaged to undertake non-audit services.

Audit/non-audit services three year comparison graph (£m)



### Fair, balanced and understandable assessment

One of the key compliance requirements of a group's financial statements is for the Annual Report to be fair, balanced and understandable. The coordination and review of Group-wide contributions into the Annual Report follows a well established and documented process, which is performed in parallel with the formal process undertaken by the external auditor.

The Committee received a summary of the approach taken by management in the preparation of GSK's 2016 Annual Report to ensure that it met the requirements of the FRC's Code. This enabled the Committee, and then the Board, to confirm that GSK's 2016 Annual Report taken as a whole is fair, balanced and understandable.

#### Code of Conduct and reporting lines

We also have a number of well established policies, including a Code of Conduct, which is available on the governance section of our website, and confidential 'Speak Up' reporting lines for the reporting and investigation of unlawful conduct. An updated version of the Code of Conduct was published in April 2016.

#### Committee evaluation

The Committee's annual evaluation was internally facilitated by the Company Secretary, and supplemented by a questionnaire circulated to Committee members on behalf of the Committee Chairman. It was concluded that the Committee continued to operate effectively. In terms of enhancements to the Committee's deliberations the following improvement points were agreed:

The Committee would focus on ways to further improve the transparency of the company's reporting to reflect best practice.

The Committee considered its ways of working and agreed enhancements to reflect the Committee's changing agenda.

The Committee asked management to continue to improve the crispness of reports it received.

The Committee was keen to continue to receive regular updates on cyber security and to understand how data analytics and technology could help to monitor employee and supplier behaviour against the company's values.

## Internal control framework

The Board recognises its obligation to present a fair, balanced and understandable assessment of GSK's current position and prospects. The Board is accountable for evaluating and approving the effectiveness of the internal controls, including financial, operational and compliance controls, and risk management processes operated by the Group.

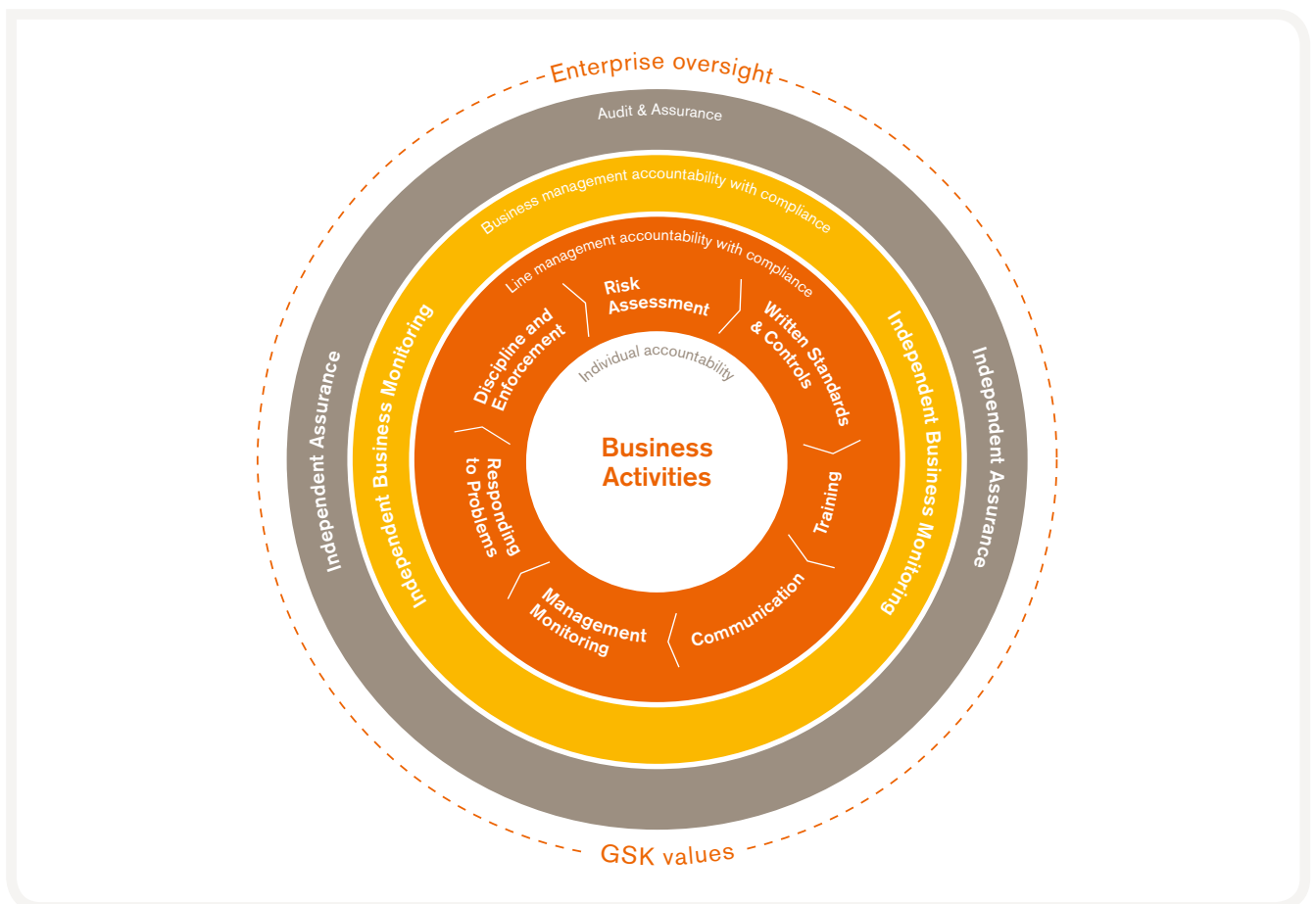
The Internal Control Framework (the Framework) is the means by which the Group ensures compliance with laws and regulations, the reliability of financial reporting and comprehensive risk management. The Framework supports the continuous process of the Board's identification, evaluation and management of the Group's Principal Risks, as required by the Financial Reporting Council's (FRC's) UK Corporate Governance Code (UK Code), and is designed to manage, rather than eliminate, the risk of not achieving business objectives.

A fit for purpose Framework, in conjunction with our values and 'Speak Up' processes, ensures that the risks associated with our business activities are actively and effectively controlled in line with the agreed risk appetite. We believe the Framework provides reasonable, but not absolute, assurance against material misstatement or loss.

To ensure effective governance and promote an ethical culture, the Group has in place the Risk Oversight and Compliance Council (ROCC). This team of senior leaders is authorised by the Board to assist the Audit & Risk Committee (the Committee) in overseeing risk management and internal control activities. It also provides the business units with a framework for risk management and upward escalation of significant risks. Each business unit has a risk board structure which reports to the ROCC. The business unit Risk Management and Compliance Boards (RMCBs) are responsible for promoting the local 'tone from the top' and risk culture, as well as ensuring effective oversight of internal controls and risk management processes.

Each Principal Risk has an assigned risk owner who is a member of senior management. The risk owner is responsible for reporting on the risk management strategy for their respective Principal Risk to the ROCC and the Committee at least once every two years.

The ROCC and the RMCBs are assisted by the Global Ethics and Compliance division (GEC), which is responsible for advancing risk management and the development of practices that drive compliance with policies and support risk-based decision making. GEC actively promotes ethical behaviours through enabling all members of the organisation to operate in accordance with our values, and to comply with applicable laws and regulations.



Corporate Governance continued

# Accountability continued

## Internal control framework continued

The Audit & Assurance division (A&A), in line with an agreed assurance plan, provides independent assurance to senior management and the Board on how risk is being managed across the Group. This assurance helps senior management and the Board to meet their oversight and advisory responsibilities in fulfilling the Group's strategic objectives and building trust with patients and other stakeholders. A&A has a dual reporting line into the Chief Financial Officer and the Committee.

The Committee receives regular reports from business units, Principal Risk owners, GEC and A&A on areas of significant risk to the Group and on related internal controls. These reports provide an assessment on the internal control environment within each Principal Risk area, including enhancements to strengthen the control environment. Following the consideration of these reports, the Committee concludes on the effectiveness of the control environment and reports to the Board annually.

In accordance with the FRC's UK Code provisions, the Board, through the authority delegated to the Committee, has conducted a robust assessment of the Group's Principal Risks. This includes the consideration of the nature and extent of risk it is willing to take in achieving the Group's strategic objectives. The Board, through the Committee, has maintained oversight to ensure the effectiveness of the internal control environment and risk management processes in operation across the Group for the whole year, and up to the date of the approval of this Annual Report.

The Board's review focuses on the company and its subsidiaries and does not extend to material associated undertakings, joint ventures or other investments, although it considers the risk of the company's participation in these activities. There are established procedures and controls in place to identify entities whose results must be consolidated with the Group's results.

We believe the process followed by the Board, through the Committee, in reviewing regularly the system of internal controls and risk management processes is in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the FRC.

A review of the Group's risk management approach is further discussed in the 'How we manage risk' section of the Strategic report on pages 18 to 19. Our management of each Principal Risk is explained in 'Principal risks and uncertainties' on pages 253 to 262. The Group's viability is discussed in the Group financial review section of the Strategic report on page 56.

### Governance structure of risk management



## Corporate Governance continued

## Relations with shareholders

## Engagement activities

We work to engage effectively with shareholders through our regular communications, the AGM and other investor relations activities.

We announce our financial results on a quarterly basis. The annual results are included in our Annual Report. All shareholders receive an Annual Summary which advises them that our Annual Report and Notice of our Annual General Meeting are available on our website.

During the year, Sir Andrew Witty and Simon Dingemans gave presentations to institutional investors, analysts and the media on the full year results, which are also available via webcast and teleconference. After the first, second and third quarter results, we hold webcast teleconferences for the same audience. Our results are available on our website.

Our Investor Relations (IR) department, with offices in London and Philadelphia, acts as a focal point for communications with investors. The CEO, CFO and the Chairman maintain an active dialogue with institutional shareholders on performance, plans and objectives through a programme of regular meetings. During the year they held over 24 individual meetings with investors and they have also hosted approximately 13 group meetings with investors and potential investors.

The Company Secretary acts as a focal point for communications on corporate governance matters. We also have a small central Corporate Responsibility (CR) team which coordinates strategy, policy development and reporting specifically with respect to CR matters. Meanwhile, the IR department communicates with socially responsible investors and other stakeholders.

The Chairman also meets regularly with institutional shareholders to hear their views and discuss issues of mutual importance, and communicates their views to the other members of the Board. The Senior Independent Non-Executive Director (SID) and all the Non-Executive Directors are available to meet with shareholders.

## Governance and remuneration meetings

A cornerstone of our investor calendar is the annual meetings that we hold with our top 30 shareholders, key investment industry bodies and influential proxy advisory firms to discuss corporate governance and remuneration matters. These sessions in December 2016, which were attended by the Chairman, our SID, and our Committee Chairs, covered a broad range of governance issues and were held morning and afternoon to allow UK and overseas investors a convenient opportunity to participate in the discussions.

Philip Hampton, the Chairman, shared updates on key areas of focus for the Board including:

- oversight of management's execution of strategy and performance;
- R&D delivery and the assessment of the pipeline;
- CEO and executive team succession, including CEO transition activities; and
- the wider evolution and refreshment of the Board.

Urs Rohner, our Remuneration Committee Chairman, took the opportunity to discuss progress with the Remuneration Committee's review of executive remuneration ahead of our Remuneration policy vote at our AGM in May 2017. In addition, Judy Lewent, who chairs our Audit & Risk Committee, and Lynn Elsenhans, who chairs our Corporate Responsibility Committee, provided an overview of the work of their respective committees.

Finally, Vindi Banga, our SID, provided his insights and perspectives into the Board's culture and dynamics, together with his impressions of GSK's senior team, its people and businesses.

Listening to the views of our shareholders and receiving their feedback at and after these sessions held in the run up to the corporate reporting and AGM season helps us to shape key areas of our corporate governance and remuneration disclosures.

## Annual General Meeting

All shareholders are invited to attend our Annual General Meeting which this year, like last, will be held in May at the QEII Centre, London. It provides an opportunity to put questions to our Board and the Chairmen of each of our Board Committees during the formal AGM proceedings, while providing shareholders the chance to meet informally with our Board directors who will make themselves available before and after the meeting.

## Corporate Governance continued

## Corporate Responsibility Committee Report



**Lynn Elsenhans**  
Corporate Responsibility  
Committee Chairman

**Role**

The Committee reviews:

- external issues that have the potential for serious impact upon GSK's business
- reputation management
- annual governance oversight of GSK's responsible business commitments

**Membership**

Committee members	Committee member since
Lynn Elsenhans Chairman	1 October 2012
Professor Sir Roy Anderson	1 May 2016
Dr Vivienne Cox	1 July 2016
Dr Jesse Goodman	1 May 2016
Dr Stephanie Burns	6 December 2007 until 5 May 2016
Dr Daniel Podolsky	1 July 2006 until 5 May 2016
Hans Wijers	10 October 2013 until 5 May 2016

 See page 88 for Committee member attendance levels.

The Company Secretary is Secretary to the Committee and attends all meetings. Other attendees at Committee meetings may include:

Attendee	Regular attendee	Attends as required
Chief Executive Officer	✓	
Company Chairman	✓	
Chairman, Global Vaccines	✓	
General Counsel	✓	
Head of Communications & Government Affairs	✓	
Head of Pharmaceuticals		✓
Head of Pharmaceuticals R&D		✓
Head of Human Resources		✓
Head of External & Market Communication		✓
Head of Global Corporate Responsibility	✓	
Other Executives		✓
Independent external corporate responsibility adviser	✓	

To augment our engagement with stakeholder opinion, in May 2013, Sophia Tickell was appointed as an independent external adviser to the Committee, a position that she had previously held from March 2009 to July 2011. Ms Tickell has extensive experience in the pharmaceuticals industry in improving health systems productivity, sustainability in energy supply and distribution, climate change policy and short-termism in financial markets.

She is the co-founder and Director of Meteos, from where she directs the Pharma Futures Series, which aims to align better societal and shareholder value. She holds a number of other board and advisory roles.

Ms Tickell attended meetings of the Committee and provided independent advice and guidance on corporate and social responsibility matters to both the Chairman and the CEO.

**Dear Shareholder**

The Committee acts as custodian of the policies and practices that define and safeguard the reputation of the company and as Chair of the Committee I continue, together with my fellow Committee members, to challenge and shape the company's responsible business agenda.

The Committee members bring a wide range of experience and insight from across different sectors to provide oversight of the company's responsible business opportunities and risks. During the year, long serving Committee members Dr Stephanie Burns and Dr Daniel Podolsky stood down from the Committee when they retired from the Board in May. Hans Wijers, who had served on the Committee for three years, also stood down at the same time when he retired from the Board. We have greatly appreciated the knowledge and insights they have brought to the work of the Committee in that time.

We are pleased to welcome Professor Sir Roy Anderson, Dr Jesse Goodman and Dr Vivienne Cox as new members of the Committee. Roy and Jesse, as world-renowned medical scientists and researchers, have helped to maintain a continuity of scientific advice to the Committee's deliberations, while Vivienne brings a deep knowledge of sustainable business practices developed over many years of service, predominantly in the energy and natural resources sectors.

The work of the Committee has this year again focused on issues that are material to GSK's mission, strategy and values. Our discussions have included exploring how the company seeks to balance the need for a return on investment in innovation with the need to price its products appropriately to drive access for a broad range of patients. In addition, we have considered the many ways in which GSK seeks to operate with transparency and integrity – from its approach to R&D, to its commercial selling model and relationships with third parties.

This year we have continued to enjoy positive engagement with investors on our Responsible Business approach and performance, with a particular focus on how these are integrated into the Group's business model and strategy to help enhance investment value, create business opportunities and mitigate risk, as well as create broader social and environmental value.

**Lynn Elsenhans**  
Corporate Responsibility Committee Chairman

13 March 2017

## Corporate Responsibility Committee Report continued

**Main responsibilities**

The Committee has a rolling agenda and receives reports from members of the CET and senior managers to ensure that progress in meeting our Responsible Business Commitments within four areas of focus is reviewed on an annual basis:

- **Health for all:** innovating to address currently unmet health needs; improving access to our products, irrespective of where people live or their ability to pay; and controlling or eliminating diseases affecting the world's most vulnerable people.
- **Our behaviour:** Putting the interests of patients and consumers first, driven by our values in everything we do and backed by robust policies and strong compliance processes.

- **Our people:** Enabling our people to thrive and develop as individuals to deliver our mission.
- **Our planet:** Growing our business while reducing our environmental impact across the value chain.

In addition, at each meeting the Committee considers possible emerging issues that may have a bearing on the company's reputation and interaction with its stakeholders. The Committee also reviews and approves the Responsible Business Supplement which is available for reference on [www.gsk.com/responsibility](http://www.gsk.com/responsibility).

**Work of the Committee during 2016**

During 2016, the Committee focused primarily on the matters set out below:

Areas of Committee focus	Items discussed
<b>Health for all</b>	<ul style="list-style-type: none"> <li>– Flexible and open R&amp;D approach for diseases of the developing world and other areas of great medical need, such as antibiotics and dementia</li> <li>– GSK's approach to pricing, in particular how to balance returns for investment in innovation alongside the need to support access to medicines</li> <li>– Vaccines strategy to support global public health priorities, including pricing models, Malaria vaccine and Ebola response</li> </ul>
<b>Our behaviour</b>	<ul style="list-style-type: none"> <li>– Changes to how GSK engages with healthcare professionals</li> <li>– Global incentive compensation program and selling competency model</li> <li>– Further embedding values-based decision making in the organisation, including training and compliance</li> <li>– Progress on work to align third parties with GSK's standards and expectations</li> <li>– Conduct and public disclosure of clinical research, transparency of detailed data behind trial results and patient safety</li> <li>– Replacement, refinement and reduction in use of animals in research and development</li> </ul>
<b>Our people</b>	<ul style="list-style-type: none"> <li>– Organisational change and employee relations</li> <li>– Inclusion and diversity</li> <li>– Leadership, development and approach to performance management</li> <li>– Employee health, safety and wellbeing</li> <li>– Insights from the staff survey</li> </ul>
<b>Our planet</b>	<ul style="list-style-type: none"> <li>– Environmental performance across carbon, water and waste impacts</li> </ul>

**Committee evaluation**

The Committee's annual evaluation was internally facilitated by the Company Secretary, and supplemented by a questionnaire circulated to Committee members and the Committee's adviser on behalf of the Committee Chairman. It was concluded that the Committee continued to operate effectively. In terms of enhancements to the Committee's deliberations the following points were agreed:

The Committee's programme and meeting agendas would be devised to ensure additional time to allow fuller discussion of issues. Consideration would be given to monitor the Group's CR work using a scorecard approach.

**Directors**

Our Directors' powers are determined by UK legislation and our Articles of Association, which contain rules about the appointment and replacement of Directors. They provide that Directors may be appointed by an ordinary resolution of the members or by a resolution of the Directors, provided that, in the latter instance, a Director appointed in this way retires at the first AGM following his or her appointment.

Our Articles also provide that Directors should normally be subject to re-election at the AGM at intervals of three years or annually if they have held office for a continuous period of nine years or more. However, the Board agreed in 2011 that all Directors who wish to continue as members of the Board should seek re-election annually in accordance with the UK Corporate Governance Code.

A Director may cease to be a Director if he or she:

- becomes bankrupt
- ceases to be a Director by virtue of the Companies Act or the Articles
- suffers mental or physical ill health and the Board resolves that he or she shall cease to be a Director
- has missed Directors' meetings for a continuous period of six months without permission and the Board resolves that he or she shall cease to be a Director
- is prohibited from being a Director by law
- resigns, or offers to resign and the Board accepts that offer
- is required to resign by the Board.

## Corporate Governance continued

### Directors continued

#### Directors' conflicts of interest

All Directors have a duty under the Companies Act 2006 to avoid a situation in which they have, or could have, a direct or indirect conflict of interest or possible conflict with the company. Our Articles provide a general power for the Board to authorise such conflicts.

The Nominations Committee has been authorised by the Board to grant and regularly review any potential or actual conflict authorisations, which are recorded by the Company Secretary and noted by the Board. Directors are not counted in the quorum for the authorisation of their own actual or potential conflicts.

On an ongoing basis, the Directors are responsible for informing the Company Secretary of any new actual or potential conflicts that may arise or if there are any changes in circumstances that may affect an authorisation previously given. Even when provided with authorisation, a Director is not absolved from his or her statutory duty to promote the success of the company. If an actual conflict arises post-authorisation, the Board may choose to exclude the Director from receipt of the relevant information and participation in the debate, or suspend the Director from the Board, or, as a last resort, require the Director to resign.

The Nominations Committee reviewed the register of potential conflict authorisations in January 2017 and reported to the Board that the conflicts had been appropriately authorised and that the process for authorisation continues to operate effectively. Except as described in Note 35 to the financial statements, 'Related party transactions', during or at the end of the financial year no Director or Person Closely Associated had any material interest in any contract of significance with a Group company.

#### Independent advice

The company has an agreed procedure for Directors to take independent legal and/or financial advice at the company's expense where they deem it necessary.

#### Indemnification of Directors

Qualifying third party indemnity provisions (as defined in the Companies Act 2006) are in force for the benefit of Directors and former Directors who held office during 2016 and up to the signing of the Annual Report.

#### Change of control and essential contracts

We do not have contracts or other arrangements which individually are fundamental to the ability of the business to operate effectively, nor is the company party to any material agreements that would take effect, be altered, or terminate upon a change of control following a takeover bid. We do not have agreements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the company's share plans may cause options and awards granted under such plans to vest on a takeover. Details of the termination provisions in the company's framework for contracts for Executive Directors are given in the full version of the company's 2014 Remuneration policy report which is available at [www.gsk.com](http://www.gsk.com) in the Investors section.

#### Directors' Report

For the purposes of the UK Companies Act 2006, the Directors' Report of GlaxoSmithKline plc for the year ended 31 December 2016 comprises pages 79 to 110 of the Corporate Governance Report, the Directors' statements of responsibilities on pages 148 and 232 and pages 253 to 282 of Investor Information. The Strategic report sets out those matters required to be disclosed in the Directors' Report which are considered to be of strategic importance to the company, as follows:

- risk management objectives and policies (pages 18, 19 and 77 to 78)
- likely future developments of the company (throughout the Strategic report)
- research and development activities (pages 20 to 39)
- diversity and inclusion (page 49)
- provision of information to, and consultation with, employees (page 48)
- carbon emissions (page 50)

The following information is also incorporated into the Directors' Report:

	Location in Annual Report
Interest capitalised	Financial statements, Notes 17 and 19
Publication of unaudited financial information	Group financial review, page 52
Details of any long-term incentive schemes	Remuneration report
Waiver of emoluments by a Director	Not applicable
Waiver of future emoluments by a Director	Not applicable
Non pre-emptive issues of equity for cash	Not applicable
Non pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	Not applicable
Parent company participation in a placing by a listed subsidiary	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waiver of dividends	Financial statements, Notes 15 and 43
Shareholder waiver of future dividends	Financial statements, Notes 15 and 43
Agreements with controlling shareholders	Not applicable

The Directors' Report has been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law. The Directors' Report was approved by the Board of Directors on 13 March 2017 and signed on its behalf by:

**Philip Hampton**  
Chairman

13 March 2017



[Governance and remuneration](#)[Financial statements](#)[Investor information](#)

# Remuneration

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# Remuneration report

## Chairman's annual statement



In developing our new Remuneration policy we have spent considerable time listening to shareholders. The proposed approach provides better alignment, reduced maximum pay levels and greater simplicity.

### Dear Shareholder

On behalf of the Board of Directors, I am pleased to present to you our Remuneration report for 2016. This includes my annual statement, our Annual report on remuneration, a summary of our 2017 remuneration policy and the 2017 Remuneration policy report, which provides full details of the new policy.

The Annual report on remuneration and this annual statement will be subject to an advisory vote at the Annual General Meeting (AGM) on 4 May 2017. The Remuneration policy report will be subject to a binding vote.

### Context for Executive remuneration at GSK

2016 has seen GSK perform strongly with good sales growth across our Pharmaceuticals, Vaccines and Consumer Healthcare businesses, excellent new product momentum, disciplined cost control and further pipeline progress. Our results against our key financial measures were above target, with core earnings per share growth being at the top end of our guidance. In addition, Total Shareholder Return (TSR) growth of 22% was achieved which outperformed the FTSE 100 index over the year.

### Remuneration outcomes for 2016

All awards in relation to 2016 were made in accordance with the Remuneration policy approved by shareholders in May 2014. The key decisions made by the Remuneration Committee (the Committee) were as follows:

- The bonus outcomes for the Executive Directors were determined by reference to performance against the agreed financial measures, as well as the Committee's assessment of their individual levels of performance. GSK achieved performance in excess of the relevant financial targets for the year. In conjunction with assessments of individual performance, this has resulted in bonus payments being made above target, but below maximum opportunities. Further details of the bonus outcomes for the year are provided on page 119, including enhanced disclosure of the bonus targets for the year and details of the Individual Performance Multipliers (IPMs) that have been applied for each Executive Director.
- Vesting of the 2014 Performance Share Plan (PSP) awards and the matching awards under the Deferred Annual Bonus Plan (DABP) were based on the agreed measures of relative TSR, adjusted free cash flow and R&D new product performance, each with an equal weighting. Performance was measured over the three years to 31 December 2016. The threshold targets for the TSR and cash flow measures were not met, but the maximum R&D target was achieved, resulting in an overall vesting level of 33.3%. Further details of the vesting outcome for the 2014 PSP and DABP matching awards are provided on page 121.

Governance and remuneration

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### Review of Remuneration policy

During 2016, the Committee reviewed the Remuneration policy with the objective of maintaining alignment with strategic goals and further aligning the policy with best practice. The revised Remuneration policy is designed to:

- Drive the success of the company and the delivery of its business strategy;
- Create shareholder value;
- Simplify pay arrangements;
- Deliver an appropriately competitive package to attract, retain and motivate executive talent; and
- Further align remuneration arrangements across the senior layers of the organisation.

As part of the Remuneration policy review, which included reviewing the packages for the new CEO and President, R&D, the Committee carried out an extensive consultation process with a significant number of our major shareholders. The feedback received from shareholders was greatly valued and given careful consideration by the Committee.

The key changes which we proposed to our Remuneration policy, with a focus on increasing alignment with shareholders and reducing maximum incentive opportunities, included:

- Removal of the bonus matching plan;
- Reduction of maximum potential pay levels;
- Simplification of the Annual bonus scheme; and
- Increase to the CEO's Share Ownership Requirement.

In finalising the proposals and responding to a number of points raised during the shareholder consultation, the Committee were particularly thoughtful about the quantum of the incentives and about how the new policy should be implemented for Emma Walmsley in 2017. Full details of the final changes to the policy are set out in the Remuneration policy report on pages 137 to 146.

### Executive Director changes and implementation of Remuneration policy for 2017

#### New appointments to the Board

As discussed elsewhere in the 2016 Annual Report, Sir Andrew Witty will be stepping down as CEO with effect from 31 March 2017 and will be succeeded by Emma Walmsley. As noted above, the Committee gave careful and detailed consideration to Emma's remuneration package for 2017, taking into account all relevant factors. This included the constructive feedback received from shareholders which resulted in a number of refinements to the original proposals.

Taking into account the fact that this is Emma's first CEO role, reductions have been made to all elements of her remuneration package in comparison to Sir Andrew's current arrangements. Her overall package for 2017 will be c.25% less than that received by Sir Andrew. It is the Committee's intention to keep Emma's package under review in the coming years subject to her development and performance in the role. We would engage with shareholders regarding any changes within the limits set by the Remuneration policy.

A summary of Emma Walmsley's new package is set out after the end of this letter on page 114. Further details are provided in the Annual report on remuneration.

Dr Patrick Vallance joined the Board in his role as President, R&D on 1 January 2017. He will receive a base salary of £780,000 and his pension arrangements, annual bonus and PSP opportunities will be in accordance with those set out in the Remuneration policy.

### Changes to the annual bonus structure for 2017

As part of the Remuneration policy review, the Committee decided to simplify the structure of the annual bonus. The Individual Performance Multiplier has been removed and from 2017, the annual bonus will operate on an additive basis. 70% of the bonus opportunity will be subject to a single profit metric of Core Group PBIT instead of two separate measures of profit which applied in previous years. The remaining 30% will be subject to a scorecard of individual objectives. This ensures that maximum bonus opportunities can only be delivered if maximum targets are achieved in respect of both the financial and individual elements of the plan.

#### Departing executives

As noted above, Sir Andrew Witty will be stepping down as CEO with effect from 31 March 2017. Dr Moncef Slaoui will also be leaving the Board on 31 March 2017, but will remain with the company until 30 June 2017.

No termination payment will be made to either Executive and all outstanding incentive awards will be treated in accordance with the Remuneration policy. A more detailed summary of the treatment of these awards is provided on page 136 and full details of the payments made will be included in future Annual reports on remuneration.

#### AGM

Finally, I would like to thank shareholders for their input and engagement during the Remuneration policy review and I welcome all shareholders' feedback on this report. We look forward to receiving your support for our new Remuneration policy and Annual report on remuneration at our AGM on 4 May 2017.

**Urs Rohner**  
Remuneration Committee Chairman

13 March 2017

# Remuneration report

## Chairman's annual statement continued

### Key changes to our Remuneration policy for 2017

#### Alignment with shareholders

- Increase in the level of mandatory deferral under the annual bonus from 25% to 50%
- Significant increase in Share Ownership Requirement for the CEO from 4x salary to 6.5x salary

#### Reduction in overall maximum opportunity

- The overall maximum incentive opportunity for all Executive Directors has been reduced e.g. the total remuneration package of the new CEO is c.25% less than that received by the current CEO.

#### Simplification

- Removal of matching awards under the DABP plan
- Alignment of all Executive Directors' on-target and maximum bonus opportunities
- Change from multiplicative to additive bonus structure

### Overview of new CEO's 2017 remuneration package

	Overview	Comparison with previous CEO	Rationale
<b>Base salary</b>	- £1,003,000	- 10% reduction	↓ - Lower salary awarded on initial appointment
<b>Pension</b>	- 20% of salary contribution to defined contribution plan (and a further 5% matched contribution on salary up to £33,333 i.e. £1,667)	- Significantly lower pension benefit than the previous CEO's defined benefit arrangement	↓ - No increase in the level of pension contribution provided to Ms Walmsley prior to her joining the Board - Remains aligned with the pension contribution provided to other Executives immediately below the Board
<b>Annual bonus</b>	- Target opportunity of 100% of salary - Maximum opportunity of 200% of salary	- Reduction in the target bonus opportunity from 125% of salary	↓ - Aligns the annual bonus opportunity and structure for all Executive Directors
<b>LTIs</b>	- Maximum opportunity of 550% of salary	- Over 20% reduction in total long-term incentive opportunity from a maximum of 700% of salary (which included awards under the PSP and matching awards under the DABP)	↓ - Removal of matching awards under the DABP simplifies the remuneration package and reduces the overall incentive opportunity - 2017 PSP opportunity is also lower than that previously awarded to Sir Andrew Witty
<b>Share Ownership Requirement</b>	- 650% of salary	- Significantly above the current requirement of 400% of salary	↑ - Aligns the Share Ownership Requirement with the maximum PSP opportunity under the Remuneration policy and further aligns the interests of the CEO with those of shareholders
		<b>Total reduction in package of c. 25%</b>	↓

# Annual report on remuneration

## 2016 at a glance

### Pay for performance

#### Objectives

##### Financial:

Grow a balanced business

##### Non-financial:

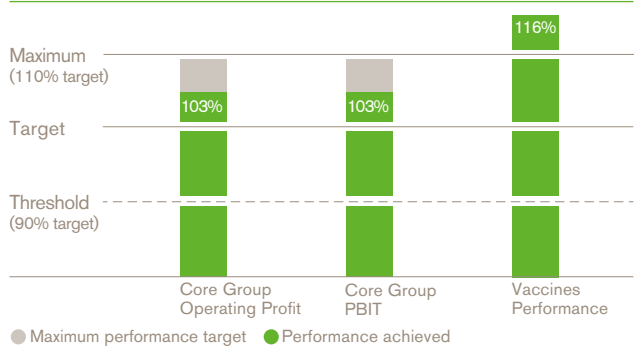
Health for all  
Our behaviour  
Our people  
Our planet

#### KPIs

- Core Group Operating Profit
- Core Group PBIT
- Vaccines performance
- Increase access to healthcare
- Putting patients and consumers first
- Talent, development and diversity
- Reducing environmental impacts

### Incentive scheme outcomes

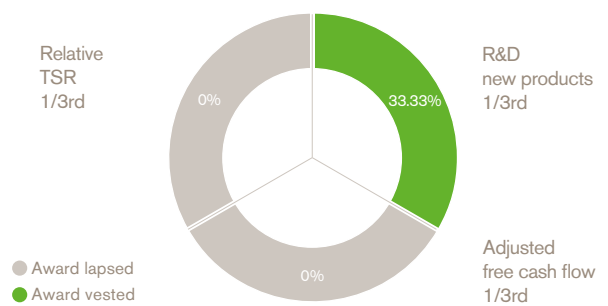
#### 2016 Annual bonus: financial performance



### Long-term strategic objectives:

- Strong R&D innovation - R&D new products
- Efficient global operating model - Adjusted free cash flow
- Three world-leading businesses - Relative TSR

### 2014 LTI outcome – performance period ended 31 December 2016



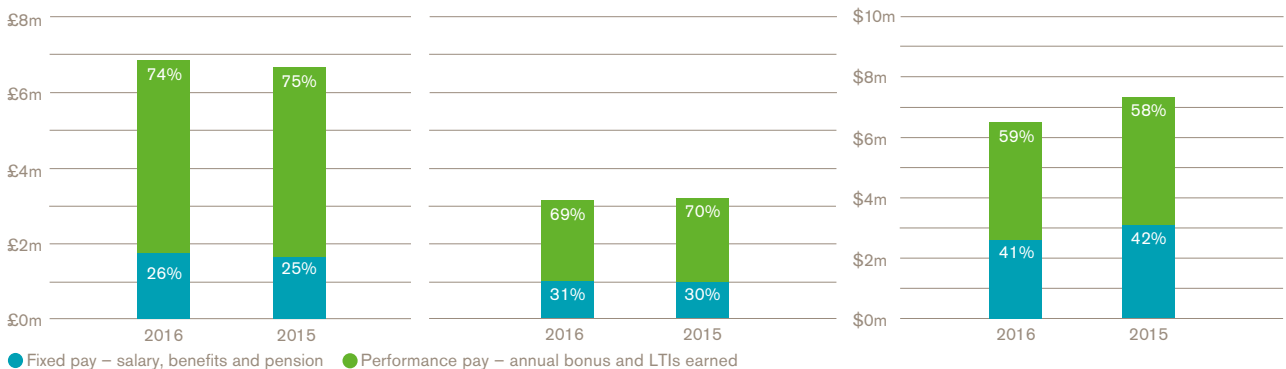
### 2016 highlights summary

The following shows a breakdown of total remuneration paid to Executive Directors in respect of 2016 and 2015:

#### Sir Andrew Witty, CEO

#### Simon Dingemans, CFO

#### Dr Moncef Slaoui, Chairman, Global Vaccines

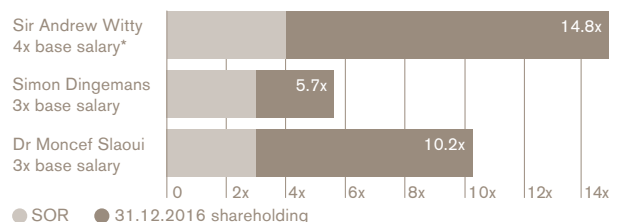


### Executive Directors' shareholdings (audited)

To align the interests of Executive Directors with those of shareholders, they are required to build and maintain significant holdings of shares in GSK over time. Executive Directors are required to continue to satisfy these shareholding requirements for a minimum of 12 months following retirement from the company. CET members are also required to build up a Share Ownership Requirement (SOR) of 2x base salary.

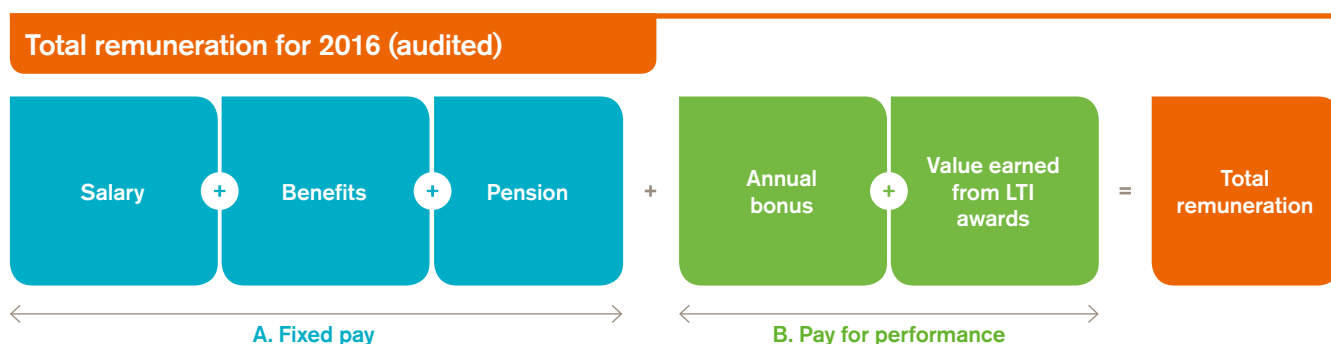
Current shareholdings compared to the SOR are illustrated in the chart opposite.

### Share ownership vs SOR



\* Following her appointment as CEO, the SOR for Emma Walmsley will increase to 6.5x base salary. The SOR for Dr Patrick Vallance will be 3x base salary. Their levels of ownership as at 3 March 2017 were 2.5x and 6.9x their base salaries as CEO and President, R&D respectively.

## Annual report on remuneration continued



The total remuneration for 2016 for each Executive Director is set out in the table below:

	Sir Andrew Witty, CEO		Simon Dingemans, CFO		Dr Moncef Slaoui, Chairman, Global Vaccines	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 \$000	2015 \$000
<b>A. Fixed pay</b>						
Salary <sup>(b)</sup> See page 117	1,115	1,087	736	718	1,242	1,212
Benefits <sup>(b)</sup> See page 117	124	110	92	82	495	545
Pension <sup>(b)</sup> See page 118	520	458	147	144	875	1,316
<b>Total fixed pay</b>	<b>1,759</b>	<b>1,655</b>	<b>975</b>	<b>944</b>	<b>2,612</b>	<b>3,073</b>
<b>B. Pay for performance</b>						
Annual bonus <sup>(b)</sup> See pages 119 and 120	2,167	2,175	915	989	1,726	1,632
<b>LTI awards:</b>						
Matching awards under DABP <sup>(1)</sup>	361	194	119	73	293	274
PSP <sup>(1)</sup> <sup>(b)</sup> See page 121	2,543	2,637	1,119	1,160	1,812	2,345
<b>Total pay for performance</b>	<b>5,071</b>	<b>5,006</b>	<b>2,153</b>	<b>2,222</b>	<b>3,831</b>	<b>4,251</b>
<b>A+B = Total remuneration<sup>(2)</sup></b>	<b>6,830</b>	<b>6,661</b>	<b>3,128</b>	<b>3,166</b>	<b>6,443</b>	<b>7,324</b>

Notes:

(1) Further details in respect of the vesting of PSP and DABP awards are provided on pages 130 to 133.

(2) The Committee may in specific circumstances, and in line with stated principles, apply clawback/malus, as it determines appropriate. Following due consideration by the Committee, there has been no recovery of sums paid (clawback) or reduction of outstanding awards or vesting levels (malus) applied during 2016 in respect of any of the Executive Directors.

Deferral of 2016 annual bonus	Sir Andrew Witty, CEO			Simon Dingemans, CFO			Dr Moncef Slaoui, Chairman, Global Vaccines		
	%	£000	Number of shares	%	£000	Number of shares	%	\$000	Number of ADS
Amount of bonus deferred	25	542		50	458		25	432	
Number of shares or ADS purchased			34,353			29,022			10,760

### Total remuneration for 2016 (audited) continued

The following sections provide details of each element of 'Total remuneration', including how the Committee implemented the approved Remuneration policy in 2016.

#### Comparator groups for pay and TSR

The Committee used two pay comparator groups for all roles when considering executive pay for 2016. The primary group used for each Executive Director was as follows:

UK cross-industry comparator group	Global pharmaceutical comparator group	
Sir Andrew Witty	Dr Moncef Slaoui	
Simon Dingemans		
Anglo American <sup>(1)</sup>	France	Sanofi
AstraZeneca	Switzerland	Novartis
BG Group <sup>(1)</sup>		Roche Holdings
BHP Billiton	UK	AstraZeneca
BP	US	AbbVie <sup>(2)</sup>
British American Tobacco		Amgen <sup>(2)</sup>
Diageo		Bristol-Myers Squibb
Reckitt Benckiser		Eli Lilly
Rio Tinto		Johnson & Johnson
Royal Dutch Shell		Merck & Co
SAB Miller <sup>(1)</sup>		Pfizer
Tesco <sup>(1)</sup>		
Unilever		
Vodafone		

The global pharmaceutical comparator group is also used as the basis for the TSR comparator group, which features in our long-term incentive awards.

- (1) Following a review of the pay comparator group during the year, these comparators have been removed from the group for 2017.
- (2) AbbVie and Amgen are included for remuneration benchmarking, but are not included in the TSR comparator group.

When reviewing the CEO's remuneration, the Committee also references pay for a group of leading European companies whose selection is based on their size and complexity.

### Fixed pay (audited)

#### Salary

The table below sets out the base salaries of the Executive Directors over the last two years. As disclosed last year, the salary increases made in 2016 were aligned with those provided to the wider workforce. Details of salary levels for 2017 are provided on page 135.

	% change	Base salary	
		2016	2015
Sir Andrew Witty	2.5%	£1,114,500	£1,087,300
Simon Dingemans	2.5%	£735,600	£717,700
Dr Moncef Slaoui	2.5%	\$1,242,100	\$1,211,800

#### Benefits

The following table shows a breakdown of the grossed up cash value of the benefits received by the Executive Directors in 2016 and 2015.

Employee benefits include all employee share plans, healthcare, car allowance, personal financial advice and life assurance/death in service cover.

Travel expenses include car, travel and spouse/partner costs associated with accompanying the Executive Director on GSK business, which are deemed to be taxable benefits on the individual.

Other benefits comprise expenses incurred in the ordinary course of business, which are deemed to be taxable benefits on the individual and, as such, have been included in the table below.

	2016 benefits	2015 benefits
<b>Sir Andrew Witty (£000)</b>		
Employee benefits	63	26
Travel	23	48
Other benefits	38	36
<b>Total</b>	<b>124</b>	<b>110</b>
<b>Simon Dingemans (£000)</b>		
Employee benefits	30	29
Travel	38	39
Other benefits	24	14
<b>Total</b>	<b>92</b>	<b>82</b>
<b>Dr Moncef Slaoui (\$000)</b>		
Employee benefits	158	216
Travel	34	86
Other benefits <sup>(1)</sup>	303	243
<b>Total</b>	<b>495</b>	<b>545</b>

(1) For Dr Moncef Slaoui, other benefits include UK accommodation of \$247,875 in 2016 (2015 – \$225,806).

# Annual report on remuneration continued

## Fixed pay (audited) continued

### Pensions

Executive Director	Pension plan type	Member since
<b>Sir Andrew Witty</b>	UK defined benefit <sup>(1)</sup>	1991 <sup>(2)</sup>
<b>Simon Dingemans</b>	Cash payment in lieu of pension <sup>(3)</sup>	–
<b>Dr Moncef Slaoui</b>	US and Belgian plans	1988

(1) Sir Andrew's maximum pension entitlement is two-thirds of final salary. Since 1 April 2013, pensionable salary increases have been limited to 2% p.a. for all members. The plan has been closed to new entrants since 2001.

(2) Since becoming a member, Sir Andrew has built up pensionable service through the different tiers of the Glaxo Wellcome Pension Plan. His current pension entitlement is a product of his service and progression within GSK.

(3) Simon Dingemans receives a cash payment in lieu of pension of 20% of base salary in line with GSK's defined contribution pension plan rates.

The following table shows the breakdown of the pension values set out on page 116.

	Sir Andrew Witty		Simon Dingemans		Dr Moncef Slaoui	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 \$000	2015 \$000
<b>Pension remuneration values<sup>(1)</sup></b>						
UK defined benefit	520	472	–	–	–	–
US defined benefit	–	–	–	–	742	1,191
Belgian defined benefit <sup>(2)</sup>	–	–	–	–	10	57
Employer cash contributions	–	–	147	144	123	68
Member contributions to defined benefit plans	–	(14)	–	–	–	–
<b>Total pension remuneration value</b>	<b>520</b>	<b>458</b>	<b>147</b>	<b>144</b>	<b>875</b>	<b>1,316</b>

(1) The pension remuneration figures have been calculated in accordance with the methodology set out in The Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 (Remuneration Regulations). In calculating the defined benefit pension values for 2016, the difference between the accrued pension as at 31 December 2016 and the accrued pension as at 31 December 2015 increased by inflation (0% for UK defined benefit, 1.7% for US defined benefit, 1.7% for Belgian defined benefit) has been multiplied by 20.

(2) Amounts have been translated from Euros into US Dollars using an exchange rate of 1.11 for 2016 and 1.12 for 2015.

For Sir Andrew and Dr Moncef Slaoui, further details regarding the 2016 pension values are set out in the table below.

Sir Andrew Witty	Accrued pension as at 31 December		Pension remuneration value for 2016 (£000)
	2016 £ (p.a.)	2015 £ (p.a.)	
UK – Funded	71,591	71,648	
UK – Unfunded	670,500	644,459	
<b>Total</b>	<b>742,091</b>	<b>716,107</b>	<b>520</b>

Dr Moncef Slaoui <sup>(1)</sup>	Accrued pension as at 31 December		Pension remuneration value for 2016 (\$000)
	2016 \$ (p.a.)	2015 \$ (p.a.)	
US – Funded	15,434	14,473	14
US – Unfunded	439,393	396,297	728
Belgium – Funded <sup>(2)</sup>	103,230	101,010	10
US – 401(k) & ESSP	–	–	123
<b>Total</b>	<b>558,057</b>	<b>511,780</b>	<b>875</b>

(1) Since becoming a member of these plans, Dr Moncef Slaoui has built up pensionable service in the Belgian Plan, and in the US Cash Balance and Supplemental Pension Plans. Annual employer cash contributions were made to the 401(k) Plan and Executive Supplemental Savings Plan (ESSP). His current pension entitlement is a product of his service and progression within GSK.

(2) Amounts have been translated from Euros into US Dollars using an exchange rate of 1.11 for 2016 and 1.12 for 2015.



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## Pay for performance (audited)

**Annual bonus** The annual bonus opportunity is based on a formal review of performance against stretching financial targets. This outcome is then adjusted to reflect individual performance by applying an Individual Performance Multiplier (IPM). The IPM is set by the Committee taking into account performance against individual objectives. The multiplier may be set between 0% and 150%.

### 2016 performance against targets

For 2016, the financial measures and weightings were as follows:

Performance measure	Weighting			2016 performance		
	Sir Andrew Witty	Simon Dingemans	Dr Moncef Slaoui	2016 Target <sup>(1)(2)</sup>	Outcome (£) <sup>(2)</sup>	Positioning against target
Core Group Operating Profit	75%	75%	–	£6,706m	£6,914m	103%
Core Group PBIT	25%	25%	25%	£6,386m	£6,592m	103%
Vaccines performance	–	–	75%	£1,038m	£1,207m	116%

(1) Threshold and maximum performance targets were set at 90% and 110% of Target respectively.

(2) The Core Group Operating Profit and Core Group PBIT targets and outcomes for the purposes of annual bonus differ from Core Group Operating Profit and PBIT disclosed elsewhere in this Annual Report, primarily because both the target and outcome numbers are calculated applying GSK budget exchange rates and not actual exchange rates.

The following table shows actual bonuses earned compared to opportunity for 2016:

Bonus	2016 bonus opportunity			2016 bonus outcome			
	Base salary £/\$000	Target (% of salary)	Maximum (% of salary)	Financial performance outcome (% salary)	IPM %	Total 2016 (% of salary)	Total 2016 £/\$000
Sir Andrew Witty	£1,115	125	200	162	120	194	£2,167
Simon Dingemans	£736	80	180	104	120	124	£915
Dr Moncef Slaoui	\$1,242	85	200	126	110	139	\$1,726

The table below sets out the matters which the Committee considered in respect of the financial measures and weightings set for the Executive Directors.

#### Financial performance

**Core Group Operating Profit and Core Group PBIT**

- Group turnover increased 6% CER on a reported basis to £27.9 billion and 5% CER on a pro-forma basis.
- Core Group Operating Profit increased by 14% CER on a reported basis and 17% CER on a pro-forma basis. Core Group PBIT grew 14% CER on a reported basis. Both of these were ahead of target performance for 2016 but below the maximum targets.
- Core operating margin of 27.9% was 4.6 percentage points higher than in 2015 and 2.6 percentage points higher in CER terms on a pro-forma basis. This reflected improved operating leverage driven by sales growth and a more favourable mix across all three businesses as well as delivery of restructuring and integration benefits and tight control of ongoing costs, partly offset by continued price pressure, particularly in Respiratory, and supply chain and R&D investments.

**Vaccines performance**

- Vaccines sales increased 14% CER on a reported basis to £4,592 million and 12% CER on a pro-forma basis.
- Overall results benefited from the strong performance of *Bexsero*, as well as higher demand for *Fluarix/FluLaval* in the US and International and *Menveo* in International. Further growth was driven by *Synflorix* due to market expansion in International and a tender award in Europe and *Boostrix*, which grew in Europe and International.
- Vaccines core operating profit increased by 38% in CER terms. The operating profit margin of 31.7% was 7.6 percentage points higher than in 2015 in CER terms on a pro-forma basis.
- The results were driven primarily by improved product mix and enhanced operating leverage from strong sales growth, together with integration and restructuring benefits in costs of sales, SG&A and R&D, and higher royalty income.

# Annual report on remuneration continued

## Pay for performance (audited) continued

In determining the appropriate Individual Performance Multiplier (IPM) that should be applied to the annual bonus outcome for each Executive Director, the Committee took into account performance against a number of key strategic objectives that were set for each individual at the start of the year.

A summary of the principal achievements of each Executive in respect of these objectives is provided in the table below:

### Personal performance 2016 achievements

<b>Sir Andrew Witty</b>	<ul style="list-style-type: none"> <li>– Delivered all key financial objectives ahead of the financial plan.</li> <li>– Achieved strong progress in the integration of the Novartis businesses in Consumer and Vaccines.</li> <li>– New product sales more than doubled to £4.5 billion.</li> <li>– Strong returns on R&amp;D investment during the year with the approval and submission targets for late stage assets exceeded.</li> <li>– Delivered sustained pipeline progress with 4 assets filed in H2 2016 (<i>Shingrix</i>, <i>Closed Triple</i>, <i>Benlysta SC</i> and <i>Sirukumab</i>) and 4 key phase III starts in Q4 for assets in HIV, respiratory and anaemia.</li> <li>– Delivered continued improvement in the quality risk profile across all three businesses.</li> <li>– Fully implemented the new commercial business model and maintained progress on delivering our responsible business commitments, e.g. topping Access to Medicines Index for the 5th consecutive year.</li> <li>– Embedded a number of critical simplification and change programmes, realising benefits from our global platforms.</li> <li>– Provided effective leadership to the Group during a year of significant change, while also successfully transitioning towards a new CEO.</li> </ul>
<b>Simon Dingemans</b>	<ul style="list-style-type: none"> <li>– Delivered strong financial leadership for the Group during 2016.</li> <li>– Continued progress on cost savings made. Total annual cost savings now at £3 billion including currency benefit of £0.2 billion and the Group remains on track to deliver the targeted annual savings of £3 billion at CER by 2017.</li> <li>– Continued successful implementation of new business operating systems. BISON and IPT successfully went live and legacy systems have been decommissioned. CERPS accounting systems were successfully deployed in 22 markets and MERPS system deployed in nine sites.</li> <li>– All but one exit from Novartis transaction related Service Agreements have been completed and Core Commercial cycle integrated into financial planning process.</li> </ul>
<b>Dr Moncef Slaoui</b>	<ul style="list-style-type: none"> <li>– Led a highly successful year in the Vaccines business overall.</li> <li>– Effectively managed the Vaccines' leadership succession and transition to the new Head of Vaccines, Luc Debruyne.</li> <li>– Finalised the successful creation of Galvani, a bioelectronics joint venture with Verily Life Sciences, with significant opportunity to create value for shareholders.</li> <li>– Worked towards the creation of Coalition for Epidemic Preparedness Innovations in support of biopreparedness and established GSK's place on the founding board amongst other major vaccines organisations.</li> <li>– Supported GSK's external reputation building in the global public health arena, working directly with WHO, BARDA, Wellcome Trust, UNGA, and AMR.</li> </ul>

### Malus and clawback policy

The company's policy on malus and clawback is set out in the company's Remuneration policy report, (page 140) and is also available at [www.gsk.com](http://www.gsk.com) in the Investors section.

From 1 January 2015 in respect of each financial year, the Committee discloses whether it (or the Recoupment Committee) has exercised clawback or malus.

Disclosure will only be made when the matter has been the subject of public reports of misconduct, where it has been fully resolved, where it is legally permissible to disclose and where it can be made without unduly prejudicing the company and therefore shareholders.

In line with these disclosure guidelines, neither the Committee (nor the Recoupment Committee) has exercised malus or clawback during 2016.

## Pay for performance (audited) continued

## Value earned from long-term incentives (LTIs)

In line with the Committee's agreed principles, for each measure applicable to the 2014 and 2015 LTI awards, actual performance against targets is reviewed and adjustments made as appropriate to reflect the impact of the Novartis transaction on the business and to ensure that the vesting outcome reflects genuine underlying business performance. The Committee is satisfied that the adjusted targets remain suitably stretching. Further details on any adjustments made will be provided at the time of vesting.

## 2014 awards with a performance period ended 31 December 2016

The Committee reviewed the performance of the PSP and DABP matching awards granted to Executive Directors against the targets set. The performance achieved in the three years to 31 December 2016 and the vesting levels are set out in the table below.

Performance measures and relative weighting	Performance targets	Outcome and vesting level		
		Outcome	% of maximum	% of award
<b>R&amp;D new product performance (1/3rd)</b>	R&D new product sales performance measures aggregate three-year sales for new products launched in the three-year performance period and preceding two years, i.e. 2012-16.	£6.72 bn	100	33.33
<b>Adjusted free cash flow (AFCF) performance (1/3rd)</b>	In line with the company's agreed principles, the AFCF figures included adjustments for a number of material distorting items, including legal settlements, exchange rate movements and special pension contributions.	£9.29 bn	0	0
<b>Relative TSR performance (1/3rd)</b>		Ranked 9th	0	0

<sup>1</sup> TSR comparator group: AstraZeneca, Bristol-Myers Squibb, Eli Lilly, GSK, Johnson & Johnson, Merck & Co, Novartis, Pfizer, Roche Holdings and Sanofi.

<sup>2</sup> The vesting schedule is based on delivering 30% vesting for median performance. In a comparator group of ten companies, median falls between two companies.

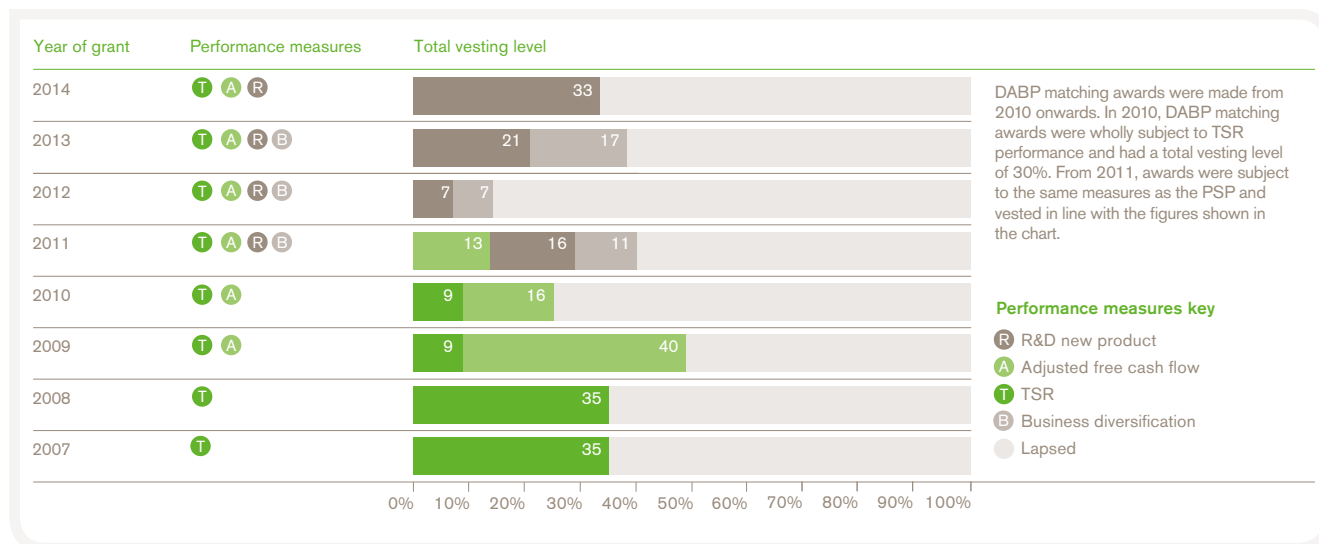
Total vesting in respect of 2014 awards

33.33%

# Annual report on remuneration continued

## Pay for performance (audited) continued

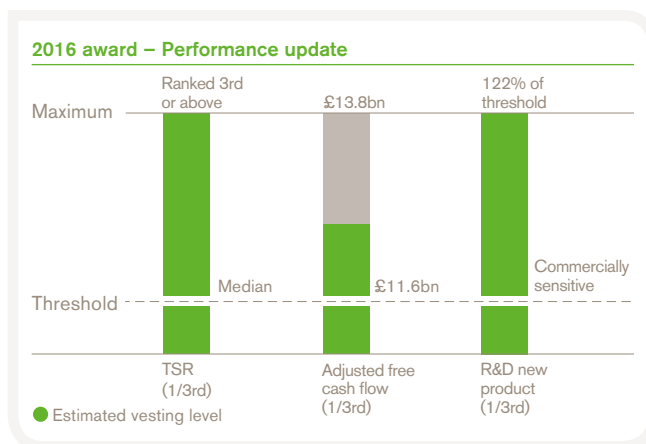
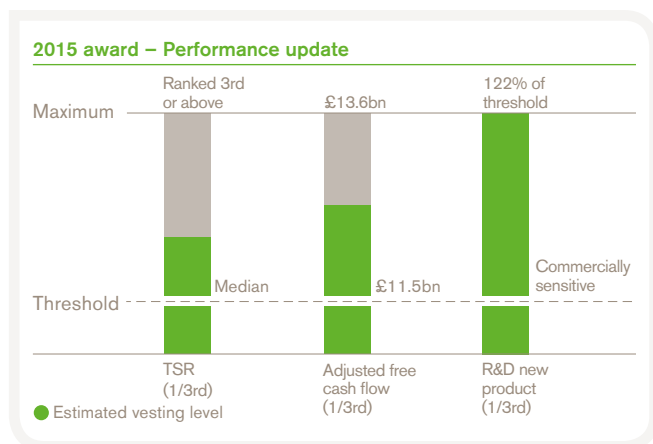
### Historical vesting for GSK's LTIs



### Update on performance of ongoing LTI awards

The Committee also reviewed the performance of the PSP and DABP matching awards granted to Executive Directors in 2015 and 2016. The following charts provide an estimate of the vesting levels taking into account performance to 31 December 2016.

Actual vesting levels will only be determined based on performance over the full three-year performance periods. The indications below should therefore not be regarded as predictions of the final vesting levels.



For threshold performance, 25% of each award will vest in respect of R&D new product and AFCF measures and 30% for the TSR element. The TSR comparator group remains unchanged from that shown on page 121 in respect of the 2014 awards.

### 2016 long-term incentive awards

The levels of participation in the DABP in respect of 2015 are shown in the table below, together with the maximum matching awards granted in 2016 in respect of the deferrals of 2015 bonuses. The table also shows PSP award levels for 2016.

	DABP matching awards				PSP awards	
	2015 % of total bonus deferred	2016 Number of shares/ADSs	2016 Face value of award*	2016 Award level as % of base salary	2016 Number of shares/ADSs	2016 Face value of award*
<b>Sir Andrew Witt</b>	25%	40,003 shares	£0.54m	600%	492,052 shares	£6.69m
<b>Simon Dingemans</b>	50%	36,381 shares	£0.49m	400%	216,512 shares	£2.94m
<b>Dr Moncef Slaoui</b>	50%	20,854 ADSs	\$0.82m	500%	158,714 ADSs	\$6.21m

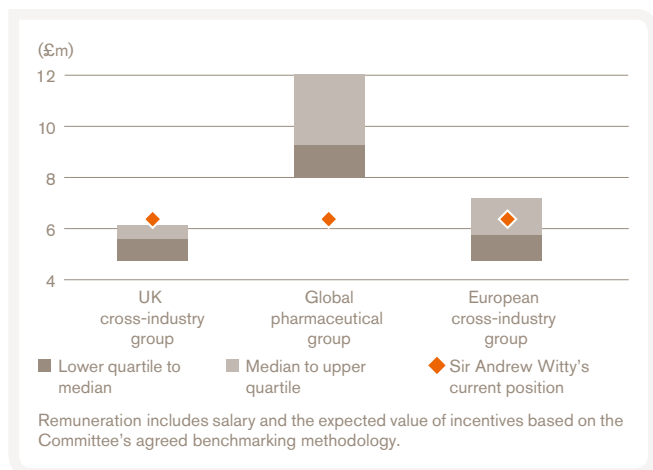
\* The face values of the awards have been calculated based on a share price of £13.59 for share awards and \$39.13 for ADS awards, being the closing prices on 10 February 2016.

\*\* The performance period for the 2016 awards is from 1 January 2016 to 31 December 2018.

\*\*\* DABP matching awards to UK Executives are made in the form of nil-cost options and PSP awards are made in the form of conditional shares. Awards to US Executives are made over ADSs in the form of conditional shares.

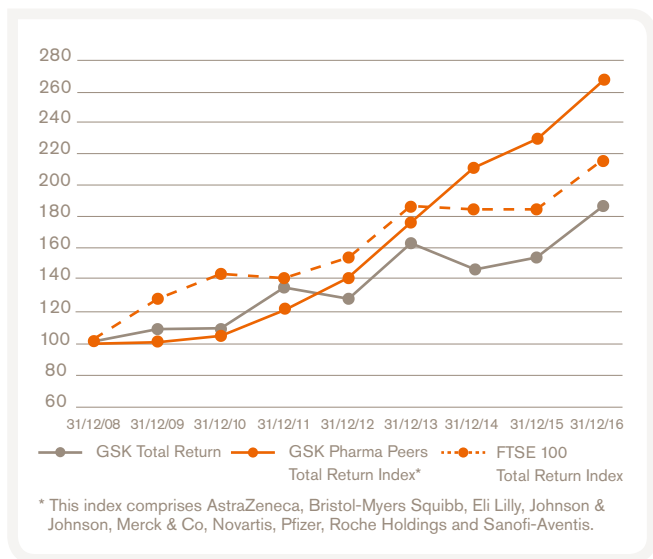
## CEO pay comparison

### 2016 CEO total remuneration positioning



### Performance graph

The following graph sets out the performance of the company relative to the FTSE 100 index and to the pharmaceutical performance comparator group for the eight year period to 31 December 2016. These indices were selected for comparison purposes as they reflect both the primary index of which GSK is a constituent and the industry in which it operates.



### Historic CEO remuneration

	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Single figure of remuneration	6,830	6,661	3,902	7,207	4,386	6,807	4,562	5,790
Annual bonus award <sup>(1)</sup> (% of maximum)	97.2%	100%	42%	88%	44%	100%	59%	100%
Vesting of LTI awards (% of maximum)	33.3%	37.8%	13.5%	31%	24%	70%	35% <sup>(2)</sup>	35% <sup>(2)</sup>

- (1) 2009 and 2010 bonus amounts include amounts paid under the Operational Efficiency Bonus in place for those years. The overall maximum bonus receivable was still subject to a limit of 200% of base salary.
- (2) In respect of the 2007 and 2008 PSP awards. Sir Andrew also had outstanding awards over 195,500 and 525,000 share options, granted in 2007 and 2008 respectively, which lapsed in full. These have not been included in the total vesting percentage due to the distorting effect of aggregating conditional shares and share options.

### Percentage change in remuneration of CEO

	Sir Andrew Witty		UK Employees
	2016 £000	% change	% change
Salary	1,115	2.5%	2.9%
Benefits	124	12.7%	0%
Annual bonus	2,167	0%	(4%)

This reflects salary earned in, benefits received in and annual bonus earned in respect of 2016 compared with 2015. For the wider UK employee population, the salary increase includes the annual salary review as well as any additional changes in the year, e.g. on promotion. The increase in benefits for the CEO is not as a result of a change to his benefit arrangements. The CEO's benefits were higher in 2016 than in 2015 primarily as a result of an increased level of financial planning fees. This was partially offset by a lower level of travel. UK employee benefits are unchanged on the previous year as there have been no changes to our benefit policies or levels. It does not reflect any changes to the level of benefits an individual may have received as a result of a change in role, e.g. promotion. The UK population was considered to be the most relevant comparison as it most closely reflects the economic environment encountered by the CEO.

# Annual report on remuneration continued

## Additional remuneration disclosures

### Relative importance of spend on pay

The table shows the percentage changes in total employee pay and the Group's dividends paid to shareholders.

	2016 £m	2015 £m	% change
Total employee pay	8,212	8,030	2.3
Dividends	4,850	3,874	25.2
Share buyback	–	–	–

The figures in the table above, which reflect payments made during each year, are as set out on pages 174 and 180. However, dividends declared in respect of 2016 were £3,892 million (2015 – £3,872 million plus a special dividend of £969 million), i.e. an increase of 0.5% excluding the special dividend. The company does not expect to make any ordinary share repurchases in 2017.

Total employee pay is based on 99,827 employees, the average number of people employed during 2016 (2015 – 101,192).

### Service contracts

The table below sets out the relevant dates of the Executive Directors' service contracts, which are available for review at the company's registered office during office hours. All Executive Directors' service contracts contain a 12-month notice period, as set out in the Remuneration policy report.

	Date of contract	Effective date	Expiry date
<b>Sir Andrew Witty</b>	18.06.08	22.05.08	31.08.24
<b>Emma Walmsley<sup>(1)</sup></b>	20.12.16	01.10.16	30.06.34
<b>Simon Dingemans</b>	08.09.10	04.01.11	30.04.28
<b>Dr Moncef Slaoui</b>	21.12.10	21.12.10	01.08.19
<b>Dr Patrick Vallance<sup>(1)</sup></b>	19.12.16	01.01.17	31.03.25

(1) Appointed to the Board on 1 January 2017.

### Shareholder votes on remuneration matters

The table below provides details of the shareholder votes for the most recent resolutions in respect of the Annual remuneration report and Remuneration policy report.

2016 AGM	Total votes cast (billion)	Total votes for (%)	Total votes against (%)	Votes withheld (million)
Remuneration report	3.7	84.7	15.3	708

2014 AGM	Total votes cast (billion)	Total votes for (%)	Total votes against (%)	Votes withheld (million)
Remuneration policy	3.5	97.4	2.6	100

### External appointments for Executive Directors

No Executive Directors held remunerated external appointments.

### Payments to past Directors (audited)

None.

### Payments for loss of office (audited)

None.

## Remuneration governance

### Role of the Committee

The role of the Committee is to set the company's remuneration policy so that GSK is able to recruit, retain and motivate its executives.

The Remuneration policy is regularly reviewed to ensure that it is consistent with the company's scale and scope of operations, supports the business strategy and growth plans and helps drive the creation of shareholder value.

### Terms of reference

The Committee's full terms of reference are available on the company's website. The terms of reference, which are reviewed at least annually, were last revised in January 2017 to reflect best practice and corporate governance developments.

### Governance

The Board considers all of the members of the Committee to be independent Non-Executive Directors in accordance with the UK Corporate Governance Code.

### Membership

The membership of the Committee, together with appointment dates, is set out below:

Committee members	Committee member since
<b>Urs Rohner</b> Chairman	1 January 2015
<b>Vindi Banga</b>	1 January 2016
<b>Dr Vivienne Cox</b>	1 January 2017
<b>Judy Lewent</b>	1 January 2013
<b>Dr Stephanie Burns</b>	1 May 2013 to 5 May 2016
<b>Sir Deryck Maughan</b>	1 July 2012 to 5 May 2016
<b>Hans Wijers</b>	10 October 2013 to 5 May 2016

Committee meetings usually include a closed session, during which only members of the Committee are present. Other individuals may also be invited to attend Committee meetings during the year. Executives and other Committee attendees are not involved in any decisions, and are not present at any discussions regarding their own remuneration.

**b** Details of the Committee members' skills and experience are given in their biographies under 'Our Board' on pages 84 to 85. See page 88 for Committee member attendance levels.

## Remuneration governance continued

The Company Secretary is Secretary to the Committee and attends all meetings. Other attendees at the Committee include:

## Committee attendees

Attendee	Regular attendee	Attends as required
CEO		✓
CFO		✓
Head of Human Resources		✓
Head of Reward	✓	
Committee Adviser – Deloitte LLP		✓

Judy Lewent and Vindi Banga, as members of the Audit & Risk and Remuneration Committees, provide input on the Audit & Risk Committee's review of the Group's performance and oversight of all risk factors relevant to remuneration decisions.

## Adviser to the Committee

The Committee has access to external advice as required. The Committee carried out a formal review of the independent advisers to the Committee in 2013. As a result of this review, the Committee reappointed Deloitte LLP (Deloitte) to provide it with independent advice on executive remuneration. The Committee Chairman agrees the protocols under which Deloitte provides advice and the Committee is satisfied that the advice they have received from Deloitte has been objective and independent.

Deloitte is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com).

Deloitte provided independent commentary on matters under consideration by the Committee and updates on market practice and legislative requirements. Deloitte's fees for advice provided to the Committee in 2016 were £205,860. Fees were charged on a time and materials basis. Deloitte also provided other consulting, tax and assurance services to GSK during the year. However, the Committee is satisfied that this does not compromise the independence of the advice they have received from Deloitte.

Following the announcement that Deloitte will replace PricewaterhouseCoopers LLP as auditors of the company, Deloitte will no longer be the named advisers to the Remuneration Committee. The company is currently undergoing a tender process with the intention that new advisers will be appointed by 1 July 2017.

Willis Towers Watson provided additional market data to the Committee.

## Committee evaluation

The Committee's annual evaluation was internally facilitated by the Company Secretary and supplemented by a questionnaire circulated to Committee members on behalf of the Committee Chairman. It was concluded that the Committee continued to operate effectively. In terms of enhancements to the Committee's work, it was agreed that it would seek to gain a deeper understanding of the performance systems and culture and the linkage with remuneration arrangements for the Group's top talent.

## What the Committee did during 2016

## Areas of Committee focus

## Items discussed

## Remuneration policy

The Committee sets the broad structure for the Remuneration policy and determines the remuneration of the Executive Directors, the Chairman and other corporate officers for Board approval.

- Proposed Remuneration policy for 2017
- Engagement with shareholders

## Salary review

The Committee periodically reviews and considers the remuneration environment of Executive Directors & CET, approving annual amendments as necessary.

- Remuneration environment (including wider employee trends)
- Executive Director and CET benchmarking, competitiveness and GSK comparator groups
- Executive Director and CET salary recommendations and increases for 2017

## Annual bonus

The Committee is responsible for setting specific performance measures for the annual bonus.

- CEO, Executive Director & CET 2015 bonus recommendations and 2016 bonus objectives
- R&D annual bonus target metric

## LTI plans

The Committee is responsible for approving LTI plan rule changes, grants, assessments of performance, and the vesting of LTI awards for the Executive Directors, CET and below.

- Deferred Annual Bonus Plan rules
- LTI performance outcomes and vesting of LTI awards for CET and below
- LTI grants for CET and below, including Share Value Plan awards.

## Governance and other areas of focus

The Committee adheres to a robust remuneration governance framework, ensuring alignment between internal actions and external reporting/compliance requirements.

- Committee evaluation process
- Shareholder feedback from Annual Investor Meetings
- 2015 Remuneration report
- Remuneration considerations for 2016
- AGM and Remuneration report feedback, the external remuneration environment and performance target disclosure for incentives plans
- Chairman's fees
- 2016 Remuneration report disclosures

# Annual report on remuneration continued

## 2016 Non-Executive Directors' fees

### Chairman and other Non-Executive Directors

The company aims to provide the Chairman and other Non-Executive Directors with fees that are competitive with those paid by other companies of equivalent size and complexity, subject to the limits contained in GSK's Articles of Association.

### Chairman's fees

Chairman Philip Hampton is paid a fee of £700,000 per annum, of which he has elected to take 25% in GSK shares.

### Non-Executive Directors fees

No changes to Non-Executive Director fees were made during the year and fees remained at the levels set in January 2013. For each Non-Executive Director, a minimum of 25% of fees is delivered as shares deferred until the Non-Executive Director steps down from the Board.

The Non-Executive Directors' fees that applied during 2016 are set out in the table below:

	Per annum
Standard annual fee	£85,000
<b>Supplemental fees</b>	
Chairman of the Audit & Risk Committee	£80,000
Senior Independent Director and Scientific/Medical Experts	£30,000
Chairmen of the Remuneration and Corporate Responsibility Committees	£20,000
Non-Executive Director undertaking intercontinental travel to meetings	£7,500 per meeting

The table below (audited) sets out the value of fees and benefits received by the Non-Executive Directors in the form of cash and shares or ADS. Further details of the Non-Executive Directors' share allocation plan are set out on page 145. Non-Executive Directors fees that are paid other than in GBP are converted using an average exchange rate that is reviewed from time to time.

Non-Executive Directors' emoluments (000) (audited)	2016				2015			
	Fixed fees			Total pay	Fixed fees			Total pay
	Cash	Shares/ADS	Benefits <sup>(3)</sup>		Cash	Shares/ADS	Benefits <sup>(3)</sup>	
Professor Sir Roy Anderson	£92	£31	£7	£130	£98	£32	£10	£140
Vindi Banga	–	£112	£8	£120	–	£28	£1	£29
Dr Vivienne Cox <sup>(1)</sup>	£32	£11	£5	£48	–	–	–	–
Lynn Elsenhans	£14	£128	£54	£196	£14	£122	£63	£199
Dr Jesse Goodman <sup>(1)</sup>	\$165	\$55	\$268	\$488	–	–	–	–
Philip Hampton	£525	£175	£13	£713	£389	£130	£3	£522
Judy Lewent	\$239	\$80	\$218	\$537	\$249	\$83	\$171	\$503
Urs Rohner	£84	£28	£22	£134	£85	£28	£19	£132
Dr Stephanie Burns <sup>(2)</sup>	\$51	\$27	\$21	\$99	\$91	\$91	\$77	\$259
Stacey Cartwright <sup>(2)</sup>	£69	£23	£5	£97	£75	£25	£7	£107
Sir Deryck Maughan <sup>(2)</sup>	\$28	\$55	\$44	\$127	–	\$241	\$146	\$387
Dr Daniel Podolsky <sup>(2)</sup>	\$56	\$50	\$78	\$184	\$60	\$181	\$155	\$396
Hans Wijers	£32	£5	£8	£45	£75	£25	£16	£116

(1) Dr Jesse Goodman joined the Board from 1 January 2016. In accordance with the Non-Executive Directors' Share Allocation Plan, 25% of Dr Jesse Goodman's fees will be retained and will be re-invested in the company's ADSs at a future date, to be mutually agreed. Dr Vivienne Cox joined the Board from 1 July 2016.

(2) Dr Stephanie Burns, Sir Deryck Maughan, Dr Daniel Podolsky and Hans Wijers all retired from the Board at the AGM on 5 May 2016. Stacey Cartwright retired from the Board on 31 December 2016.

(3) Benefits primarily consist of travel and subsistence costs incurred in the normal course of business, in relation to meetings on Board and Committee matters and other GSK-hosted events which are considered to be taxable. For overseas-based Non-Executive Directors, this includes travel to meetings in the UK.



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## Directors' interests in shares (audited)

The interests of the Directors of the company in office at 31 December 2016 and their persons closely associated (PCA) are shown in the tables below.

	Total directors' interests as at			Shares/ADS		Total share plan interests as at 31 December 2016			
	3 March 2017	31 December 2016	1 January 2016	<sup>(a)</sup> Unvested and not subject to performance	Unvested and subject to performance	<sup>(a)</sup> Unvested and not subject to performance	Unvested and subject to performance	Vested but not exercised	Options Exercised in the year
<b>Executive Directors</b>									
<b>Shares</b>									
Sir Andrew Witty <sup>(b,c,d,f,h)</sup>	1,090,542	1,034,521	859,350	70,252	1,462,023	143,640	142,752	–	50,199
Simon Dingemans <sup>(b,c,d,f,h)</sup>	323,181	263,245	179,527	–	643,346	77,523	76,811	–	19,224
Dr Moncef Slaoui <sup>(c,d,e,g)</sup>	28,475	28,473	28,300	–	–	–	–	–	–
Emma Walmsley <sup>(k)</sup>	161,046	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dr Patrick Vallance <sup>(k)</sup>	345,947	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>ADS</b>									
Dr Moncef Slaoui <sup>(c,d,e,g)</sup>	346,846	295,974	234,270	86,519	507,421	–	–	3,810	–
<b>Share allocation plan for Non-Executive Directors</b>									
	Total directors' interests as at			<sup>(i)</sup> Dividends reinvested	Number of shares or ADS				
	3 March 2017	31 December 2016 or date of retirement	1 January 2016 or date of appointment		31 December 2016	Paid out	Allocated 31 December & elected	31 December 2015	
<b>Non-Executive Directors</b>									
<b>Shares<sup>(i)</sup></b>									
Professor Sir Roy Anderson	27,812	25,499	23,969	1,850	25,499	–	–	1,530	23,969
Vindi Banga	44,825	42,705	37,303	271	7,505	–	–	5,402	2,103
Dr Vivienne Cox	669	323	–	4	323	–	–	323	–
Philip Hampton	29,016	25,279	16,696	924	18,361	–	–	8,583	9,778
Urs Rohner	4,097	3,488	2,080	187	3,488	–	–	1,408	2,080
Dr Stephanie Burns <sup>(i)</sup>	–	44	44	–	–	–	–	–	–
Stacey Cartwright <sup>(i)</sup>	–	9,631	8,469	–	9,510	–	–	1,163	8,347
Hans Wijers <sup>(i)</sup>	–	5,223	4,845	–	–	5,223	–	378	4,845
<b>ADS<sup>(i)</sup></b>									
Lynn Elsenhans	20,809	18,205	14,839	1,177	17,205	–	–	3,366	13,839
Dr Jesse Goodman <sup>(i)</sup>	–	–	–	–	–	–	–	–	–
Judy Lewent	20,219	19,052	17,636	626	8,886	–	–	1,417	7,469
Dr Stephanie Burns <sup>(i)</sup>	–	21,263	20,584	–	–	21,198	–	678	20,520
Sir Deryck Maughan <sup>(i)</sup>	–	53,294	51,937	–	–	53,294	–	1,357	51,937
Dr Daniel Podolsky <sup>(i)</sup>	–	38,973	37,745	–	38,973	–	–	1,228	37,745

a) Unvested shares not subject to performance of 70,252 for Sir Andrew represent 25% of the shares awarded at the end of the three year performance periods for the 2012 and 2013 PSP grants, together with subsequent re-invested dividends. These shares are subject to further two-year vesting periods. Sir Andrew's unvested options not subject to performance of 143,640 represent bonus deferrals of 142,752 and Share Save options of 888.

Unvested options not subject to performance of 77,523 for Simon Dingemans represent bonus deferrals of 76,811 and Share Save options of 712.

Unvested ADS not subject to performance of 86,519 for Dr Moncef Slaoui represent bonus deferrals of 56,646, deferrals under the PSP plan of 22,743 and Share Value Plan awards for his PCA of 7,130.

b) Total Directors' interests includes shares purchased through the GlaxoSmithKline Share Reward Plan. During 2016, Sir Andrew Witty and Simon Dingemans were each awarded 99 shares under the plan. The total number of shares held within the plan are as follows:

Share Reward Plan (Shares)	3 March 2017	31 December 2016	1 January 2016
Sir Andrew Witty	3,616	3,541	3,132
Simon Dingemans	1,423	1,375	1,100
Emma Walmsley <sup>(k)</sup>	1,016	N/A	N/A
Dr Patrick Vallance <sup>(k)</sup>	2,984	N/A	N/A

Dr Moncef Slaoui is not eligible to participate in the Share Reward Plan, as this is only open to UK employees.

## Annual report on remuneration continued

### Directors' interests in shares (audited) continued

- c) Total directors' interests includes shares or ADS resulting from the deferral of bonus (and the subsequent re-investment of dividends) under the DABP. The totals shown in the table below include bonus deferrals, but exclude any unvested matching awards which are subject to ongoing performance criteria. The amounts represent the gross share and ADS balances prior to the sale of any shares or ADS to satisfy tax liabilities.

<b>Deferred Annual Bonus Plan (Bonus deferrals)</b>		<b>3 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
Sir Andrew Witty	Shares	110,972	142,752	130,307
Simon Dingemans	Shares	84,317	76,811	49,729
Dr Moncef Slaoui	ADS	46,425	56,646	50,897
Emma Walmsley <sup>(k)</sup>	Shares	73,134	N/A	N/A
Dr Patrick Vallance <sup>(k)</sup>	Shares	72,299	N/A	N/A

- d) Total directors' interests at 3 March 2017 includes any shares or ADS which vested due to performance being met under elements of the DABP and PSP (2014-2016 awards), less those sold to satisfy tax liabilities on the vested amounts (see pages 130 to 133 for further details).
- e) For Dr Moncef Slaoui, total directors' interests includes ADS purchased within the 401(k) Plan and the US Executive Supplemental Savings Plan (ESSP), and ADS awarded to Dr Moncef Slaoui's PCA under the SVP. The relevant balances are as follows:

<b>Dr Moncef Slaoui (ADS)</b>		<b>3 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
US Retirement Savings Plans		16,839	16,452	13,431
Share Value Plan		4,830	7,130	7,820

As an Executive Director, Dr Moncef Slaoui is not eligible to receive awards under the SVP. The SVP awards shown above reflect the holdings of Dr Slaoui's PCA, who is also an employee of GSK. The awards are subject to three-year vesting periods and vesting is contingent on continued employment within GSK. Any gains arising on vesting are not included in Dr Moncef Slaoui's total remuneration figures. During the year, his PCA was granted 2,300 ADS on 22 September 2016 at a grant price of \$43.58 (face value of \$100,234). Dr Moncef Slaoui's total share plan interests also include PSP awards held by his PCA. These awards are subject to performance criteria relevant to employees below the CET. As at 31 December 2016, his PCA held 6,777 ADS under the PSP, comprising awards made in 2014 (2,384 ADS), 2015 (2,258 ADS) and 2016 (2,135 ADS), all amounts including dividend re-investment.

- f) **Share Save Plan**  
For Sir Andrew Witty and Simon Dingemans, the unvested options not subject to performance include holdings of 888 and 712 respectively in the Share Save Plan, in which they participate on the same terms as all other employees. No Share Save options were granted to Sir Andrew Witty during 2016. Simon Dingemans was granted 208 options under the plan on 30 November 2016.
- g) The ADS vested but unexercised options totalling 3,810 for Dr Moncef Slaoui represent the ADS options held by his PCA.

## Directors' interests in shares (audited) continued

- h) The following table sets out details of options (including nil-cost options under the DABP) exercised during 2016 by Executive Directors. Dr Moncef Slaoui did not exercise any options during the year.

Type of award	Date of grant	Number of shares under option	Date of exercise	Grant price	Market price at exercise	Gain on exercise ('000)
Sir Andrew Witty						
DABP – deferral	28.02.13	36,442	18.03.16	–	£13.82	£504
DABP – matching	28.02.13	13,757	18.03.16	–	£13.82	£190
		50,199				£694
Simon Dingemans						
Share Save	30.10.13	216	01.12.16	£12.47	£14.69	–
DABP – deferral	28.02.13	13,799	06.05.16	–	£14.50	£200
DABP – matching	28.02.13	5,209	06.05.16	–	£14.50	£76
		19,224				£276

In respect of options under the Share Save Plan, the remuneration receivable by an Executive Director is calculated on the date that the options first vest. The remuneration is the difference between the amount the Executive Director is required to pay to buy the shares or ADS and the total value of the shares or ADS on the vesting date. If the Executive Director chooses not to exercise the options on the vesting date, any subsequent increase or decrease in the amount realised will be due to movements in the share or ADS price between the vesting date and the date of exercise. This increase or decrease in value is the result of an investment decision by the Executive Director and, as such, is not recorded as remuneration.

In respect of nil-cost options under the DABP, the bonus which is deferred by the Director is recorded as remuneration (under annual bonus) for the year to which it relates. The gain recorded on exercise of the nil-cost option comprises this remuneration, the total of the amounts received in re-invested dividends prior to vesting and the gains or losses resulting from movements in the share price between the dates of grant and exercise for the initial bonus amount deferred and the dates of dividend reinvestment and exercise for the re-invested dividends.

For the matching element of the DABP, the remuneration of the Executive Director is recorded in the year that the performance period ends and represents the number of vested shares multiplied by the price at vesting. The gain recorded on exercise of the nil-cost option comprises the total of this remuneration and the gain or loss resulting from the movement in the share price between vesting and exercise.

For Sir Andrew Witty:

- The gain of £503,628 recorded following the exercise of the 36,442 nil-cost options relating to the deferral of bonus earned in respect of 2012 comprises remuneration of £452,400 recorded in 2012 as annual bonus and a net gain of £51,228 relating to the re-investment of dividends prior to vesting and movements in the share price between grant and dividend re-investment dates and the exercise date.
- The gain of £190,122 recorded following the exercise of the 13,757 nil-cost options relating to the DABP matching award comprises remuneration of £194,111 recorded in 2015 in relation to the DABP (see page 130) and an investment loss of £3,989 relating to the movement in the share price between the vesting and exercise dates.

For Simon Dingemans:

- A gain of £480 resulted from the exercise of 216 options granted under the Share Save Plan.
- The gain of £200,086 recorded following the exercise of the 13,799 nil-cost options relating to the deferral of bonus earned in respect of 2012 comprises remuneration of £171,330 recorded in 2012 as annual bonus and a net gain of £28,756 relating to the re-investment of dividends prior to vesting and movements in the share price between grant and dividend re-investment dates and the exercise date.
- The gain of £75,531 recorded following the exercise of the 5,209 nil-cost options relating to the DABP matching award comprises remuneration of £73,499 recorded in 2015 in relation to the DABP (see page 130) and an investment gain of £2,032 relating to the movement in the share price between the vesting and exercise dates.

- i) For Non-Executive Directors, total interests include shares or ADS received as part or all of their fees under the Non-Executive Directors' Share Allocation Plan. Note that dividends received on shares or ADS under the plan during 2016 and January 2017 were converted into shares or ADS as at 8 February 2017. In accordance with the share allocation arrangements for Non-Executive Directors, 25% of Dr Jesse Goodman's fees will be retained and will be reinvested in the company's ADS at a future date, to be mutually agreed.
- j) Dr Stephanie Burns, Sir Deryck Maughan and Hans Wijers all retired from the Board on 5 May 2016. They elected to receive their shares or ADS from the Non-Executive Directors' Share Allocation Plan immediately upon retiring from the Board. Dividend entitlements in respect of the Q3 and Q4 2015 and the Q1 2016 dividends were paid in cash in accordance with the plan rules. Dr Daniel Podolsky also retired on 5 May 2016, but has not yet been paid out his GSK ADS under the Non-Executive Directors' Share Allocation Plan as he elected to defer payment until after Q1 2017. Stacey Cartwright retired from the Board on 31 December 2016 and elected to receive her GSK shares under the Non-Executive Directors' Share Allocation Plan immediately following retirement.
- k) Emma Walmsley and Dr Patrick Vallance were appointed to the Board from 1 January 2017.

## Annual report on remuneration continued

### Directors' interests in shares (audited) continued

#### Deferred Annual Bonus Plan matching awards

The following tables provide details for each Executive Director in office at 31 December 2016 in respect of DABP matching awards. Market price at grant and at vesting represent the closing share prices from the business day prior to those dates.

Sir Andrew Witty – Shares	Performance period			
	2013-2015	2014-2016	2015-2017	2016-2018
Market price at grant	£14.54	£16.43	£15.20	£13.59
Unvested at 31 December 2015	35,947	62,857	31,503	–
Granted	–	–	–	40,003
Face value at grant (000)	–	–	–	£544
Dividends reinvested	495	4,195	2,103	2,091
Vested	(13,757)	–	–	–
Lapsed	(22,685)	–	–	–
<b>Unvested at 31 December 2016</b>	<b>–</b>	<b>67,052</b>	<b>33,606</b>	<b>42,094</b>
Dividends reinvested	–	814	408	511
Vested	–	(22,621)	–	–
Lapsed	–	(45,245)	–	–
<b>Unvested at 3 March 2017</b>	<b>–</b>	<b>–</b>	<b>34,014</b>	<b>42,605</b>
<b>Vested shares</b>				
Number of shares	13,757	22,621	–	–
Market price at vesting	£14.11	£15.95	–	–
Gain:	(000)	(000)	–	–
Remuneration for 2015	£194	–	–	–
Remuneration for 2016	–	£361	–	–

Simon Dingemans – Shares	Performance period				
	2013-2015	2014-2016	2015-2017	2016-2018	2017-2019
Market price at grant	£14.54	£16.43	£15.20	£13.59	£15.77
Unvested at 31 December 2015	13,611	20,791	15,327	–	–
Granted	–	–	–	36,381	–
Face value at grant (000)	–	–	–	£494	–
Dividends reinvested	187	1,388	1,023	1,901	–
Vested	(5,209)	–	–	–	–
Lapsed	(8,589)	–	–	–	–
<b>Unvested at 31 December 2016</b>	<b>–</b>	<b>22,179</b>	<b>16,350</b>	<b>38,282</b>	<b>–</b>
Granted	–	–	–	–	29,022
Face value at grant (000)	–	–	–	–	£458
Dividends reinvested	–	269	198	465	–
Vested	–	(7,483)	–	–	–
Lapsed	–	(14,965)	–	–	–
<b>Unvested at 3 March 2017</b>	<b>–</b>	<b>–</b>	<b>16,548</b>	<b>38,747</b>	<b>29,022</b>
<b>Vested shares</b>					
Number of shares	5,209	7,483	–	–	–
Market price at vesting	£14.11	£15.95	–	–	–
Gain:	(000)	(000)	–	–	–
Remuneration for 2015	£73	–	–	–	–
Remuneration for 2016	–	£119	–	–	–

## Directors' interests in shares (audited) continued

## Deferred Annual Bonus Plan matching awards continued

Dr Moncef Slaoui – ADS	Performance period			
	2013-2015	2014-2016	2015-2017	2016-2018
Market price at grant	\$44.27	\$54.17	\$46.25	\$39.13
Unvested at 31 December 2015	18,325	20,073	12,500	–
Granted	–	–	–	20,854
Face value at grant (000)	–	–	–	\$816
Dividends reinvested	247	1,321	822	1,076
Vested	(7,011)	–	–	–
Lapsed	(11,561)	–	–	–
<b>Unvested at 31 December 2016</b>	<b>–</b>	<b>21,394</b>	<b>13,322</b>	<b>21,930</b>
Dividends reinvested	–	251	156	257
Vested	–	(7,215)	–	–
Lapsed	–	(14,430)	–	–
<b>Unvested at 3 March 2017</b>	<b>–</b>	<b>–</b>	<b>13,478</b>	<b>22,187</b>
<b>Vested ADS</b>				
Number of ADS	7,011	7,215		
Market price at vesting	\$39.14	\$40.57		
Gain:	(000)	(000)		
Remuneration for 2015	\$274	–		
Remuneration for 2016	–	\$293		

Emma Walmsley and Dr Patrick Vallance were appointed to the Board from 1 January 2017. The following table provides details on their DABP matching awards granted on 15 February 2017.

Granted shares	Emma Walmsley	Dr Patrick Vallance
	2017-2019	2017-2019
Performance period		
Number of shares	31,945	21,632
Market price at grant	£15.77	£15.77
Face value at grant (000)	£504	£341
<b>Unvested at 3 March 2017</b>	<b>31,945</b>	<b>21,632</b>

## Annual report on remuneration continued

### Directors' interests in shares (audited) continued

#### Performance Share Plan awards

The following tables provide details for each Executive Director in office at 31 December 2016 in respect of PSP awards. Market price at grant and at vesting represent the closing share prices on those dates.

Sir Andrew Witty – Shares	Performance period			
	2013-2015	2014-2016	2015-2017	2016-2018
Market price at grant	£14.54	£16.43	£15.20	£13.59
Unvested at 31 December 2015	505,239	437,051	448,125	–
Granted	–	–	–	492,052
Face value at grant (000)	–	–	–	£6,687
Dividends reinvested	6,954	29,171	29,909	25,715
Vested	(193,354)	–	–	–
Lapsed	(318,839)	–	–	–
<b>Unvested at 31 December 2016</b>	<b>–</b>	<b>466,222</b>	<b>478,034</b>	<b>517,767</b>
Dividends reinvested	–	5,656	5,800	6,282
Vested	–	(157,279)	–	–
Lapsed	–	(314,599)	–	–
<b>Unvested at 3 March 2017</b>	<b>–</b>	<b>–</b>	<b>483,834</b>	<b>524,049</b>
<b>Vested shares:</b>				
Number of shares	<b>193,354</b>	<b>157,279</b>		
Market price at vesting	£13.64	£16.17		
Gain:	(000)	(000)		
Remuneration for 2015	£2,637	–		
Remuneration for 2016	–	£2,543		

Simon Dingemans – Shares	Performance period			
	2013-2015	2014-2016	2015-2017	2016-2018
Market price at grant	£14.54	£16.43	£15.20	£13.59
Unvested at 31 December 2015	222,312	192,325	197,197	–
Granted	–	–	–	216,512
Face value at grant (000)	–	–	–	£2,942
Dividends reinvested	3,060	12,836	13,161	11,315
Vested	(85,078)	–	–	–
Lapsed	(140,294)	–	–	–
<b>Unvested at 31 December 2016</b>	<b>–</b>	<b>205,161</b>	<b>210,358</b>	<b>227,827</b>
Dividends reinvested	–	2,489	2,552	2,764
Vested	–	(69,210)	–	–
Lapsed	–	(138,440)	–	–
<b>Unvested at 3 March 2017</b>	<b>–</b>	<b>–</b>	<b>212,910</b>	<b>230,591</b>
<b>Vested shares:</b>				
Number of shares	<b>85,078</b>	<b>69,210</b>		
Market price at vesting	£13.64	£16.17		
Gain:	(000)	(000)		
Remuneration for 2015	£1,160	–		
Remuneration for 2016	–	£1,119		

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## Directors' interests in shares (audited) continued

## Performance Share Plan awards continued

Dr Moncef Slaoui – ADS	Performance period			
	2013-2015	2014-2016	2015-2017	2016-2018
Market price at grant	\$44.27	\$54.17	\$46.25	\$39.13
Unvested at 31 December 2015	154,179	123,242	136,751	–
Granted	–	–	–	158,714
Face value at grant (000)	–	–	–	\$6,210
Dividends reinvested	2,082	8,108	8,996	8,187
Vested	(58,989)	–	–	–
Lapsed	(97,272)	–	–	–
<b>Unvested at 31 December 2016</b>	<b>–</b>	<b>131,350</b>	<b>145,747</b>	<b>166,901</b>
Dividends reinvested	–	1,539	1,708	1,955
Vested	–	(44,292)	–	–
Lapsed	–	(88,597)	–	–
<b>Unvested at 3 March 2017</b>	<b>–</b>	<b>–</b>	<b>147,455</b>	<b>168,856</b>
<b>Vested ADS</b>				
Number of ADS	<b>58,989</b>	<b>44,292</b>		
Market price at vesting	\$39.76	\$40.92		
Gain:	(000)	(000)		
Remuneration for 2015	\$2,345	–		
Remuneration for 2016	–	\$1,812		

# Annual report on remuneration continued

## Directors and Senior Management

Further information is provided on compensation and interests of Directors and Senior Management as a group ('the group'). For this purpose, the group is defined as the Non-Executive and Executive Directors, other members of the CET and the Company Secretary. For the financial year 2016, the following table sets out aggregate remuneration for the group for the periods during which they served in that capacity.

Remuneration for 2016	(£)
Total compensation paid	24,279,911
Aggregate increase in accrued pension benefits (net of inflation)	184,582
Aggregate payments to defined contribution schemes	974,193

During 2016, members of the group (and one PCA who is also an employee of GSK) were awarded shares and ADS under the company's various share plans, as set out in the table below.

Awarded during 2016	Awards		Dividend reinvestment awards	
	Shares	ADS	Shares	ADS
Deferred Annual Bonus Plan	237,822	35,614	33,451	5,281
Performance Share Plan	1,828,527	260,411	323,503	49,964
Deferred Investment Awards <sup>(a)</sup> <sup>(b)</sup>	–	–	13,493	284
Share Value Plan <sup>(b)</sup>	11,060	2,300	–	–

At 3 March 2017, the group and their PCAs had the following interests in shares and ADS of the company. Holdings issued under the various executive share plans are described in Note 43 to the financial statements, 'Employee share schemes' on page 223.

Interests at 3 March 2017	Shares	ADS
Owned	2,262,806	421,300
Unexercised options	179,582	20,170
Deferred Annual Bonus Plan	1,235,336	165,711
Performance Share Plan	3,821,454	708,471
Deferred Investment Awards <sup>(a)</sup> <sup>(b)</sup>	118,012	23,907
Share Value Plan <sup>(b)</sup>	37,132	27,199

(a) Notional shares and ADS.

(b) Executive Directors are not eligible to receive Deferred Investment Awards or participate in the Share Value Plan.

## Other share plans and dilution limits

### All-employee share plans

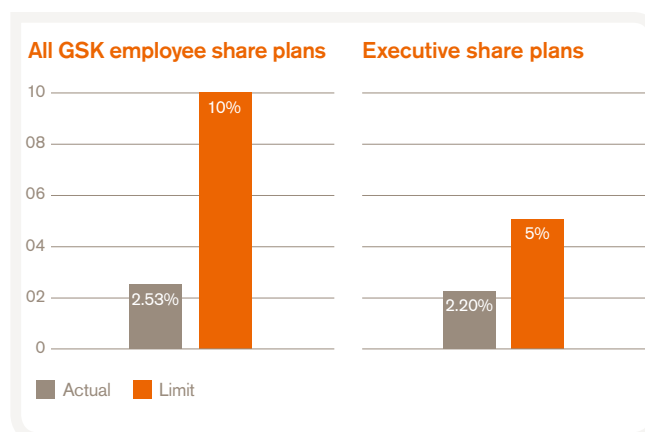
The Executive Directors participate in various all-employee share plans, including Share Save and Share Reward.

The Share Save Plan is an HM Revenue & Customs approved plan open to all UK employees. Participants may save up to £250 a month from their net salaries for a fixed term of three years and at the end of the savings period they have the option to buy GSK shares at a discount of up to 20% of the market price set at the launch of each savings contract. Sir Andrew Witty and Simon Dingemans each contribute £250 and £225 respectively a month into the Share Save Plan.

The Share Reward Plan is an HM Revenue & Customs approved plan open to all UK employees on the same terms. Participants contribute up to £125 a month from their gross salaries to purchase GSK shares and the company matches the number of GSK shares bought each month under this arrangement. Sir Andrew Witty and Simon Dingemans each contribute the maximum of £125 a month to buy shares under the Share Reward Plan.

### Dilution limits

All awards are made under plans which incorporate dilution limits consistent with the guidelines published by the Investment Association. These limits are 10% in any rolling ten year period for all plans and 5% in any rolling ten year period for executive share plans. Estimated dilution from existing awards made over the last ten years up to 31 December 2016 is as follows:





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## Implementation of Remuneration policy for 2017

### Salary

The Committee determined the following salary increases taking into account the average increase for the wider workforce:

	2017	% change
Wider workforce <sup>(1)</sup>	–	2.5
Sir Andrew Witty	£1,114,500	0
Dr Moncef Slaoui	\$1,242,100	0
Simon Dingemans	£754,000	2.5
Emma Walmsley <sup>(2)</sup>	£1,003,000	N/A
Dr Patrick Vallance <sup>(3)</sup>	£780,000	N/A

(1) Based on the average increase budget for employees below the level of CET in the UK.

(2) Effective from appointment to the role of CEO on 1 April 2017 and is 10% lower than that received by Sir Andrew Witty. Emma Walmsley was appointed to the Board on 1 January 2017 as CEO Designate with a base salary of £850,000.

(3) Effective from appointment to the Board on 1 January 2017.

### Benefits

No significant changes to the provision of benefits are proposed for 2017. For full details of the policy in relation to benefits, please refer to the details in the Remuneration policy report on page 138.

### Pension

The table below provides an overview of the pension arrangements for each Executive Director in 2017.

	Pension contribution
Sir Andrew Witty <sup>(1)</sup>	UK defined benefit
Dr Moncef Slaoui <sup>(1)</sup>	US and Belgian plans
Simon Dingemans	20% of base salary in lieu of pension
Emma Walmsley <sup>(2)</sup>	20% of base salary and matching contributions
Dr Patrick Vallance	20% of base salary in lieu of pension

(1) Further details provided on page 118.

(2) As a member of the defined contribution plan, is eligible to receive a matching award of up to 5% on the first £33,333 of her salary in accordance with the terms of the plan (i.e. £1,667).

### Annual bonus plan

A number of changes have been made to the operation of the Annual bonus plan for 2017 to simplify and align it for all Executive Directors.

- The matching awards have been removed from the Deferred Annual Bonus Plan (DABP) and the percentage of the bonus that will be subject to mandatory deferral into shares for a period of three years has increased from 25% to 50%.
- Financial performance will now be measured by reference to just one profit related measure, Core Group PBIT, with operating profit removed as a measure. Group PBIT has been selected as being the profit measure most aligned to shareholders.
- The calculation of the bonus will now operate on an additive basis, with the removal of the Individual Performance Multiplier and the introduction of a scorecard of individual objectives aligned to the strategic goals of the business for the year.

	Bonus opportunity % of salary		Weighting of performance measures	
	Target	Maximum	Core Group PBIT %	Scorecard of individual objectives %
Emma Walmsley				
Simon Dingemans	100	200	70	30
Dr Patrick Vallance				

Inevitably, targets linked directly to the financial and strategic plan are commercially sensitive. The Committee does not consider it appropriate to disclose annual bonus targets during the year as it may result in competitive harm. However, details of the performance targets will be disclosed on a retrospective basis in the 2017 Annual Report.

As Sir Andrew and Dr Moncef Slaoui will cease to be Executive Directors during the year, in accordance with the Remuneration policy they will receive a pro-rata on-target bonus payment for 2017. The Committee has set role specific objectives for them for this period. As the two individuals will cease to be Executive Directors before the new Remuneration policy is approved, the target bonus opportunities will be as set out in the policy approved by shareholders in 2014 (i.e. 125% of salary for Sir Andrew and 85% of salary for Dr Moncef Slaoui).

### Legacy awards – matching awards under the DABP

2017 was the last time matching awards were made under the DABP. These awards relate to 2016 bonus outcomes under the 2014 Remuneration policy.

The table below provides details of the level of participation in the DABP in respect of 2016 annual bonus payments and associated matching awards granted.

Sir Andrew Witty and Dr Moncef Slaoui did not receive matching awards in 2017 as they will cease to be Executive Directors during the year. However, their 2016 annual bonus payments were subject to a 25% mandatory deferral.

	% of total bonus deferred into shares	2017 matching award (number shares)
Emma Walmsley <sup>(1)</sup>	50	31,945
Simon Dingemans	50	29,022
Dr Patrick Vallance <sup>(1)</sup>	50	21,632

(1) Matching awards based on bonus earned in respect of 2016 prior to appointment to the Board.

### Performance Share Plan (PSP) awards

It is intended that awards under the PSP will be made later in the year following the approval of the PSP rules at the AGM on 4 May 2017. No awards will be made in 2017 to Sir Andrew Witty and Dr Moncef Slaoui. Awards to the remaining Executive Directors will be made at the following levels.

	2017 PSP award (% of salary)
Emma Walmsley	550
Simon Dingemans	400
Dr Patrick Vallance	500

### Performance measures

The metrics for the PSP and DABP matching awards remain unchanged. The 2017 awards will continue to be based on three equally weighted measures: R&D new product performance, adjusted free cash flow and relative TSR.

TSR will continue to be measured against global pharmaceutical peers. As in prior years, targets for R&D new products are commercially sensitive at the time of grant. However, the Committee intends to disclose targets in full following the end of the performance period. In addition, the Committee will continue to provide shareholders with interim performance updates for this element over the course of the performance period. The adjusted free cash flow targets will be disclosed to shareholders on a prospective basis at the time of grant, and will thereafter be reported in the 2017 Annual report on remuneration.

## Annual report on remuneration continued

### Implementation of Remuneration policy for 2017 continued

#### Termination arrangements for Sir Andrew Witty and Dr Moncef Slaoui

As announced in 2016, both Sir Andrew Witty and Dr Moncef Slaoui will leave the Board by mutual agreement on 31 March 2017. Dr Moncef Slaoui will remain an employee of the Group until 30 June 2017.

No termination payments will be made to Sir Andrew Witty and Dr Moncef Slaoui. Defined benefit pension arrangements and outstanding incentive awards will be treated in accordance with the Remuneration policy as approved by shareholders in 2014.

Full disclosure of all payments made upon cessation will be included in the 2017 Annual report on remuneration.

Remuneration element	Summary of treatment
2017 Annual bonus	Will receive an on-target bonus payment pro-rated for the proportion of the financial year worked
2017 PSP award and DABP matching award	Will not be granted 2017 PSP awards and no DABP matching awards will be granted in respect of their 2016 bonuses
2016 and 2015 PSP and DABP matching awards	Will vest at the normal vesting dates, subject to the achievement of performance conditions assessed at the end of the performance periods
2016, 2015 and 2014 deferred bonuses	Awards in respect of bonuses deferred in respect of prior years will vest at the normal vesting dates

In addition to the above, both Executive Directors will be required to maintain a shareholding equal to their respective share ownership requirements for at least 12 months after leaving the company.

#### Non-Executive Director fees for 2017

Non-Executive Director fees were reviewed during the year following the last increase in January 2013.

It was agreed to increase the fees for the Chairmen of the Remuneration and Corporate Responsibility Committees from £20,000 to £30,000. The Chairman of the new Science Committee will also receive a fee of £30,000. All other fees remain unchanged. A minimum of 25% of fees will continue to be delivered as shares deferred until the Non-Executive Director steps down from the Board.

## 2017 Remuneration policy summary

### Remuneration policy review

Our first Remuneration policy was approved by our shareholders at our AGM on 7 May 2014. As required under the regulations, shareholders are being asked to approve a new Remuneration policy at our AGM on 4 May 2017 which it is intended will apply for the next three financial years.

During 2016, the Committee reviewed the Remuneration policy to ensure that the Policy continues to:

- Be aligned with best practice;
- Create shareholder value; and
- Drive the success of the company and the delivery of its business strategy.

In addition, changes to the policy have been made to:

- Further align remuneration arrangements across the senior layers of the organisation;
- Deliver an appropriately competitive package to attract, retain and motivate executive talent; and
- Simplify pay arrangements.

The Committee consulted with our largest shareholders in respect of the proposed changes and took shareholders' feedback into account when finalising the revised Remuneration policy. The table below provides an overview of the main changes that are proposed in respect of the Remuneration policy.

The full Remuneration policy that shareholders are asked to approve is set out on pages 138 to 146.

Remuneration element	Proposed changes to policy	Rationale for the change
<b>Mandatory deferral of Annual bonus</b>	<ul style="list-style-type: none"> <li>– Increased from 25% to 50% of any bonus earned.</li> </ul>	<p><b>Alignment with shareholders:</b> Further aligns executives with the long-term interests of shareholders.</p>
<b>Simplification of the Annual bonus</b>	<ul style="list-style-type: none"> <li>– Simplify and align structure for all Executive Directors.</li> <li>– Reduce the level of pay-out for threshold performance to nil.</li> </ul>	<p><b>Simplification:</b> Consistent approach for all Executive Directors, that can be clearly communicated.</p> <p><b>Pay for performance:</b> Ensures that higher levels of bonus pay-out are only received for significant performance.</p>
<b>Annual bonus and Performance Share Plan (PSP) performance measures</b>	<ul style="list-style-type: none"> <li>– Provide additional flexibility for the Committee to determine the performance measures used on an annual basis during the three year life of the Remuneration policy.</li> <li>– The Committee would consult with shareholders prior to changing the performance measures used.</li> </ul>	<p><b>Flexibility:</b> In the context of the appointment of the new CEO, it is considered appropriate to provide sufficient flexibility to ensure performance metrics chosen over the next three years will remain aligned with the key financial and strategic objectives of the company.</p>
<b>LTI opportunities</b>	<ul style="list-style-type: none"> <li>– The matching element of the DABP has been removed.</li> <li>– The maximum LTI opportunity for the CEO will be reduced from 700% to 650% of salary.</li> </ul>	<p><b>Simplification:</b> Going forward, the PSP will be the only long-term incentive plan that is used.</p> <p><b>Reduction in maximum opportunity:</b> Total LTI opportunity for all Executive Directors has been reduced. In 2017, the award to the CEO will be below the maximum opportunity (550% of salary).</p>
<b>Share Ownership Requirements (SOR)</b>	<ul style="list-style-type: none"> <li>– Formally include the shareholding guidelines as part of the Remuneration policy.</li> <li>– Increased SOR for CEO to 6.5x salary.</li> </ul>	<p><b>Alignment with shareholders:</b> To provide further alignment with shareholders.</p>

# Remuneration policy report

## Future policy table

Subject to shareholder approval at the company's AGM on 4 May 2017, the Remuneration Policy for each remuneration element will be as outlined in the table below.

Salary	No material change
<p><b>Purpose and link to strategy</b> To provide a core reward for the role.</p> <p>Set at a level appropriate to secure and retain high calibre individuals needed to deliver the Group's strategic priorities.</p> <p><b>Operation</b> Individual's role, experience, performance and independently sourced data for relevant comparator groups considered when determining salary levels.</p> <p>Salary increases typically take effect in the first quarter of each year.</p> <p>Salaries are normally paid in the currency of the Executive Director's home country.</p>	<p><b>Opportunity</b> There is no formal maximum limit and, ordinarily, salary increases will be broadly in line with the average increases for the wider GSK workforce.</p> <p>However, increases may be higher to reflect a change in the scope of the individual's role, responsibilities or experience. Salary adjustments may also reflect wider market conditions in the geography in which the individual operates.</p> <p>Details of current salary levels are set out in the Annual report on remuneration.</p> <p><b>Performance measures</b> The overall performance of the individual is a key consideration when determining salary increases.</p>
Benefits	No material change
<p><b>Purpose and link to strategy</b> Levels are set to recruit and retain high calibre individuals to execute the business strategy.</p> <p><b>Operation</b> Executive Directors are eligible to receive benefits in line with the policy for other employees which may vary by location. These include, but are not limited to, car allowances, healthcare, life assurance/death in service (where not provided as part of the individual's pension arrangements), personal financial advice and contractual post-retirement benefits. In line with the policy for other employees, Executive Directors may be eligible to receive overseas relocation allowances and international transfer-related benefits when required. Executive Directors are also eligible to participate in all-employee share schemes (e.g. Share Save and Share Reward Plan), under which they are subject to the same terms as all other employees.</p> <p>In order to recognise the high business travel requirements of the</p>	<p>role, Executive Directors are also entitled to car travel and may be accompanied by their spouse/partner on business trips. Other benefits include expenses incurred in the ordinary course of business, which are deemed to be taxable benefits on the individual.</p> <p>Benefit provision is tailored to reflect market practice in the geography in which the Executive Director is based and different policies may apply if current or future Executive Directors are based in a different country.</p> <p><b>Opportunity</b> There is no formal maximum limit as benefits costs can fluctuate depending on changes in provider cost and individual circumstances.</p> <p>Details of current benefits and costs are set out in the Annual report on remuneration.</p> <p><b>Performance measures</b> None.</p>
Pension	No material change
<p><b>Purpose and link to strategy</b> Pension arrangements provide a competitive level of retirement income.</p> <p><b>Operation</b> Pension arrangements are structured in accordance with the plans operated in the country in which the individual is likely to retire. Where the individual chooses not to become a member of the pension plan, cash in lieu of the relevant pension contribution is paid instead.</p> <p>Executive Directors in the UK are entitled either to join the defined contribution pension plan or to receive a cash payment in lieu of pension contribution.</p> <p>Where an individual is a member of a GSK legacy defined benefit plan, a defined contribution plan or an alternative pension plan arrangement and is subsequently appointed to the Board, he or she may remain a member of that plan.</p> <p><b>Opportunity</b> The policy for all current Executive Directors and new external recruits is:</p>	<p>UK:</p> <ul style="list-style-type: none"> <li>– 20% of salary contribution to defined contribution plan and further 5% in matched contributions subject to any relevant cap and in line with implementation principles for other members of the plan; or</li> <li>– 20% of salary cash payment in lieu of pension contribution.</li> </ul> <p>US: Eligible for the same benefits as other US senior executives:</p> <ul style="list-style-type: none"> <li>– Cash Balance Pension Plan and Supplemental Cash Balance Pension Plan, including Executive Pension Credit, provide maximum contribution of 38% of base salary across all pension plans.</li> <li>– GSK 401(k) plan (formerly the US Retirement Savings Plan) and the Executive Supplemental Savings Plan with core contributions of 2% of salary and bonus and matched contributions of 4% of salary and bonus.</li> </ul> <p>Global: – Eligible for appropriate equivalent arrangement not in excess of the US/UK arrangements.</p> <p><b>Performance measures</b> None.</p>

## Future policy table continued

## Annual bonus

Change

**Purpose and link to strategy**

To incentivise and recognise execution of the business strategy on an annual basis.

Rewards the achievement of stretching annual financial and strategic business targets and delivery of personal objectives.

**Operation**

Financial, operational and business targets are set at the start of the year by the Committee and bonus levels are determined by the Committee based on performance against those targets.

Individual objectives are set at the start of the year by the Committee and performance against those objectives is assessed by the Committee.

Executive Directors are required to defer 50% of any bonus earned into shares, or ADS as appropriate, for three years.

Deferred bonus shares are eligible for dividend equivalents up to the date of vesting.

The Committee may apply judgement in making appropriate adjustments to bonus outcomes to ensure they reflect underlying business performance.

Clawback and/or malus provisions apply as described on page 140.

**Opportunity**

The maximum bonus opportunity for Executive Directors is 200% of salary. For threshold performance, the bonus pay-out will be nil.

For target performance, the bonus payout will be 50% of the maximum opportunity.

**Performance measures**

Based on a combination of financial targets and individual/strategic performance objectives, with the majority of the bonus assessed against the financial measures. The weighting between different measures will be determined each year according to business priorities.

Further details, including the measures to be used in the financial year, are provided in the Annual report on remuneration.

## Selection of annual bonus measures

The annual bonus is designed to drive the achievement of GSK's annual financial and strategic business targets and the delivery of personal objectives.

The majority of the annual bonus opportunity is based on a formal review of performance against stretching financial targets with the remainder of the bonus subject to a balanced scorecard of strategic and individual targets which are aligned to the company's key objectives for that financial year.

## Performance Share Plan (PSP)

Change

**Purpose and link to strategy**

To incentivise and recognise delivery of the longer term business priorities, financial growth and increases in shareholder value compared to other pharmaceutical companies.

In addition, to provide alignment with shareholder interests, a retention element, to encourage long-term shareholding and discourage excessive risk taking.

**Operation**

Conditional awards are made annually with vesting dependent on the achievement of performance conditions over three years and are subject to an additional two-year holding period.

Awards are eligible for dividend equivalents up to the date of vesting and release.

The Committee may adjust the formulaic vesting outcome (either up or down) to ensure that the overall outcome reflects underlying business performance over the vesting period.

Clawback and/or malus provisions apply as described on page 140.

**Opportunity**

The normal maximum award limits that may be granted under the PSP to an individual in any one year are set out in the table below:

In 2017, the award to the CEO will be 550% of salary.

	% of salary
CEO	650
CFO	400
Other Executive Directors	500

**Performance measures**

Based on a combination of financial, share price related and strategic performance conditions which are aligned to the company's strategic plan. Up to 30% of awards will vest at threshold performance. Further details, including the performance targets attached to the PSP in respect of each year, are provided in the Annual report on remuneration.

## Selection of long-term incentive measures

The Committee selects performance measures which focus Executive Directors' long-term remuneration on the delivery of GSK's key strategic priorities over the longer term. In addition to setting robust targets, the Committee has implemented a number of safeguards to ensure the targets are met in a sustainable way and performance reflects genuine achievement against targets and therefore represents the delivery of value for shareholders.

For each performance measure, the impact of any acquisition or divestment will be quantified and adjusted for after the event.

Any major adjustment in the calculation of performance measures will be disclosed to shareholders on vesting. The Chairman of the Audit and Risk Committee and other members, who are also members of the Remuneration Committee, provide input on the Audit & Risk Committee's review of the Group's performance and oversight of any risk factors relevant to remuneration decisions.

Details of the rationale behind the performance measures selected and how they are calculated are set out in the Annual report on remuneration.

## Remuneration policy report continued

### Future policy table continued

#### Legacy arrangements – Deferred Annual Bonus Plan (DABP)

Removed from 2017 onwards

##### Purpose

To incentivise and recognise delivery of longer term business priorities and to provide alignment with shareholder interests and encourage long-term shareholding.

##### Operation and maximum opportunity

For bonus payments up to and including the bonus in respect of 2016, Executive Directors were required to defer 25% of any bonus earned into shares for three years. They could also voluntarily defer up to an additional 25% of any bonus earned.

These deferred shares were matched up to a maximum of 1:1 subject to the achievement of performance conditions over three years. Matching awards were conditional shares or nil-cost options and eligible for dividend equivalents.

##### Performance measures

Outstanding matching awards are subject to the same measures as awards made under the PSP in any given year.

Further details of outstanding awards are provided on pages 122 and 135 of the Annual report on remuneration. No matching awards will be made under the DABP in respect of bonus from 2017 onwards.

#### Share Ownership Requirements

Increase in requirement for CEO

To align the interests of Executive Directors with those of shareholders, they are required to build and maintain significant holdings of shares in GSK over time. The requirements for each Executive Director are as follows:

	% salary
CEO	650
Other Executive Directors	300

Executive Directors are also required to continue to satisfy these requirements for a minimum of 12 months following retirement from the company.

#### Clawback and malus

No change

In the event of a 'triggering event' (e.g. significant misconduct by way of violation of regulation, law, or a significant GSK policy, such as the Code of Conduct), the company will have the ability to claw back up to three years' annual and deferred bonuses as well as vested and unvested LTIs. In addition, if a participant in the new 2017 PSP or DABP, which shareholders are asked to approve at the 2017 AGM, is subject to an investigation, then the vesting of their awards may be delayed until the outcome of that investigation.

A separate Recoupment Committee has been established to investigate relevant claims of misconduct. The Recoupment Committee exercises this authority for the wider employee base. It comprises of senior executives with relevant oversight and appropriate experience, including the Senior Vice President, Global Ethics and Compliance, and the Senior Vice President & General Counsel.

In respect of each financial year, the Remuneration Committee will disclose whether it (or the Recoupment Committee) has exercised clawback or malus. Disclosure will only be made when the matter has been subject to public reports of misconduct, where it has been fully resolved, where it is legally permissible to disclose and where it can be made without unduly prejudicing the company and therefore shareholders.

Additionally, where there has been continuity of responsibility between initiation of an adverse event and its emergence as a problem, the adverse event should be taken into account in assessing annual bonus awards and LTI vesting levels in the year the problem is identified and for future periods. The Remuneration Committee (or Recoupment Committee) may make appropriate adjustments to individual annual bonuses as well as grant and vesting levels of LTI awards to reflect this.

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## Approach to recruitment remuneration

The Committee determines the remuneration package of new Executive Directors on a case-by-case basis depending on the role, the market from which they will operate and their experience. Total remuneration levels will be set by reference to a relevant pay comparator group and, where appropriate, will allow for future development in the role.

It is expected that new Executive Directors will participate in short and long-term incentive plans on the same basis as existing directors. However, in exceptional circumstances, the Committee reserves the flexibility to set the incentive limit for a new Executive Director at up to an additional 50% of the existing limits.

The Committee retains this flexibility in recognition of the high levels of variable pay in GSK's global pharmaceutical competitors. However, the Committee will only use this flexibility when it is considered to be in the best interests of the company and its investors.

Pension arrangements for any external recruit as an Executive Director will be as set out in the Remuneration policy table on page 138.

Other benefits will be provided in line with the policy for existing Executive Directors.

Where required to meet business needs, relocation support will be provided in line with company policy.

For any internal appointments, entitlements under existing remuneration elements will continue, including pension entitlements and any outstanding awards. However, where not already the case, internal appointments will be required to move to Executive Director contractual terms, including termination provisions.

The Committee is mindful of the sensitivity relating to recruitment packages and, in particular, the 'buying out' of rights relating to previous employment. It will therefore seek to minimise such arrangements. However, in certain circumstances, to enable the recruitment of exceptional talent, the Committee may determine that such arrangements are in the best interests of the company and its shareholders. Such arrangements will, where possible, be on a like-for-like basis with the forfeited remuneration terms. Arrangements will therefore vary depending on the plans and arrangements put in place by the previous employer and may be in the form of cash or shares and may or may not be subject to performance conditions. Explanations will be provided where payments are made as compensation for previous remuneration forfeited.

The remuneration arrangements for any newly appointed Executive Director will be disclosed as soon as practicable after the appointment.

The following policy and principles apply to the roles of Chairman and Non-Executive Director.

### Chairman

Fees will be set at a level that is competitive with those paid by other companies of equivalent size and complexity. Fees will be paid partly in shares.

### Non-Executive Directors

Fee levels for new Non-Executive Directors will be set on the same basis as for existing Non-Executive Directors of the company. Subject to local laws and regulations, fees will be paid partly in shares.

In the event of a Non-Executive Director with a different role and responsibilities being appointed, fee levels will be benchmarked and set by reference to comparable roles in companies of equivalent size and complexity.

## Remuneration policy report continued

### Loss of office payment policy

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 124.

Notice period on termination by the employing company or the Executive Director is 12 calendar months.

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 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.

Element of Remuneration	Loss of office payment policy
<b>Termination payment</b>	<p><b>Termination by notice:</b> 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.</p> <p>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.</p> <p><b>Redundancy:</b> As above, for termination by notice. In the UK, only statutory redundancy pay will apply. In the US, general severance policy does not apply.</p> <p><b>Retirement, death and ill-health, injury or disability:</b> No termination payment.</p>
<b>LTI awards</b>	<p>PSP and DABP matching awards are governed by the plan rules as approved by shareholders. For awards made prior to the approval of the 2017 PSP and DABP rules, the following provisions will normally apply:</p> <p><b>Termination by notice:</b> Unvested awards will lapse.</p> <p><b>Redundancy and retirement:</b> Generally, awards will continue to vest over the original timescales, subject to the original performance conditions. Awards made in the last 12 months are forfeited.</p> <p><b>Death, ill-health, injury, disability or any other reason:</b> Generally, performance will be assessed following the end of the financial year in which cessation of employment occurs and awards will vest up to 12 months following cessation. Awards may be pro-rated for time.</p> <p>For awards made under the approved rules of the 2017 PSP, the following provisions will normally apply:</p> <p><b>Termination by notice:</b> Unvested awards will lapse.</p> <p><b>Redundancy, retirement, death, ill-health, injury, disability or any other reason:</b> Generally, awards will continue to vest over the original timescales subject to performance and pro-rated for time.</p> <p>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.</p>
<b>Annual bonus</b>	<p><b>Termination by notice by individual:</b> If an individual serves notice and the termination date falls before 31 December, the bonus is forfeited.</p> <p><b>Termination by notice by the company, redundancy, retirement, death, ill-health, injury or disability:</b> 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).</p>
<b>DABP deferred bonus awards</b>	<p>DABP deferred bonus awards are governed by the plan rules as approved by shareholders. For awards made prior to the approval of the 2017 DABP rules, the following provisions will normally apply:</p> <p><b>Termination by notice:</b> Awards will vest in full on the date of termination or original vesting date as determined at the date of grant</p> <p><b>Redundancy, retirement, death, ill-health, injury, disability or any other reason:</b> Generally, awards will vest in full on the original vesting date.</p> <p>For awards made under the approved rules of the 2017 DABP, the following provisions will normally apply:</p> <p><b>Termination for gross misconduct:</b> Generally, unvested awards will lapse</p> <p><b>Any other reason:</b> Generally, awards will vest in full on the original vesting date.</p> <p>In the event of a change of control, awards will vest or may be exchanged for new awards.</p>
<b>Benefits</b>	<p>Generally, benefits will continue to apply until the termination date. The Committee may make payments in connection with an existing legal obligation or in respect of any claim related to the cessation of employment. This may include fees for outplacement assistance, legal and/or professional advice.</p> <p><b>Termination by notice by the company and retirement (US executives):</b> In line with the policy applicable to US senior executives, the Chairman, Global Vaccines may become eligible, at a future date, to receive continuing medical and dental insurance after termination/retirement.</p>

### 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 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.



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### Loss of office payment policy continued

The Committee does not anticipate the exercise of discretion provided by the PSP and DABP plan rules in respect of termination payments in a manner which would benefit an Executive Director. 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.

Where an Executive Director leaves the company, the 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 Committee reserves the right to apply appropriate mechanisms such as clawback 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 (see page 140).

### Differences between remuneration policy for Executive Directors and other employees

When setting remuneration levels for the Executive Directors, the Committee considers the prevailing market conditions, the competitive environment (through comparison with the remuneration of executives at companies of similar size, complexity and international reach) and the positioning and relativities of pay and employment conditions across the broader GSK workforce.

In particular, the Committee considers the range of base salary rises for the workforces of those parts of GSK where the Executive Directors are employed. This is considered to be the most relevant comparison as these populations reflect most closely the economic environments encountered by the individuals.

The same principles apply to the Remuneration policy for Executive Directors and other employees although the remuneration offered to Executive Directors under this policy has a stronger emphasis on performance-related pay than that offered to other employees of the Group.

- Salary and benefits (including pension) are tailored to the local market.
- The annual bonus plan applies to the wider employee population and is based on business and individual performance.
- A combination of performance-related and restricted share plans apply to the wider employee population.
- All-employee share plans are available to employees in the UK, including the HM Revenue & Customs approved UK Share Save and Share Reward Plans.

While employees are not formally consulted in respect of the Remuneration policy, the company conducts regular employee surveys which include feedback on remuneration matters.

In the wider organisation, we have aligned our performance and reward systems with our values and since 2014, our performance system formally evaluates employees on both 'what' they need to do and 'how' they do it. Also, for our most senior people we dis-incentivise unethical working practices using a clawback mechanism that allows us to recover performance-related pay.

# Remuneration policy report continued

## Scenarios for future total remuneration

The charts opposite provide illustrations of the future total remuneration for each of the Executive Directors in respect of the remuneration opportunity granted to each of them in 2017 under the policy. A range of potential outcomes is provided for each Executive Director and the underlying assumptions are set out below.

**All scenarios:**

- 2017 base salary has been used.
- 2016 benefits and pension figures have been used for the CFO, i.e. based on actual amounts received in 2016 in respect of the ongoing policy. As the new CEO and President, R&D were not in role during 2016, the benefits value for each is based on the value of benefits (excluding pensions) provided in 2016 to the current CEO and CFO respectively.
- The amounts shown under value of PSP awards are based on the relevant multiples for 2017. They do not include amounts in respect of dividends reinvested and do not factor in changes to share price over the vesting period.

**Fixed:**

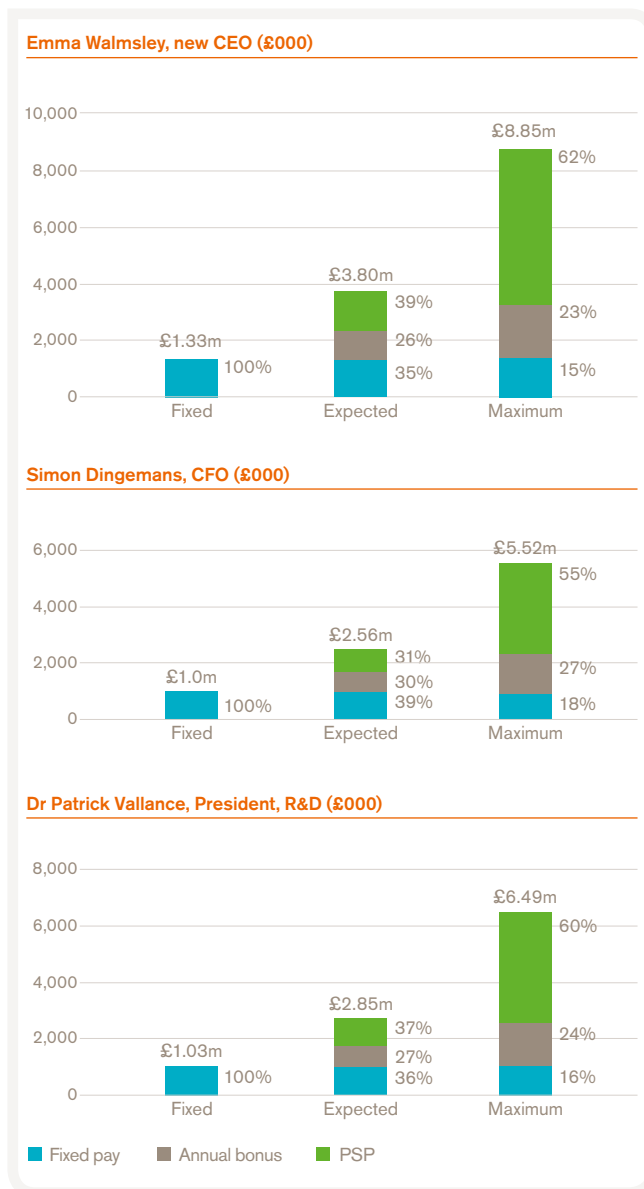
- None of the pay for performance (annual bonus and PSP) would be payable.

**Expected:**

- For the annual bonus, it is assumed that target performance is achieved.
- For the PSP awards, threshold levels of vesting are assumed.

**Maximum:**

- It is assumed that the annual bonus would be payable at the maximum level and that the awards under the PSP would vest in full.



## Non-Executive Director remuneration policy 2017

Element	Purpose and link to strategy	Operation
<b>Chairman's fees</b>	To provide an inclusive flat rate fee that is competitive with those paid by other companies of equivalent size and complexity subject to the limits contained in GSK's Articles of Association.	<p>There is no formal maximum. However, fees are reviewed annually and set by reference to a review of the Chairman's performance and independently sourced market data.</p> <p>The Committee is responsible for evaluating and making recommendations to the Board on the fees payable to the Chairman. The Chairman does not participate in discussions in respect of his fees.</p> <p>Fees can be paid in a combination of cash and/or GSK shares or ADS via the Non-Executive Directors' Share Allocation Plan.</p>
<b>Basic fees</b>	As above	<p>As with the Chairman, fees are reviewed annually and set by reference to independently sourced data.</p> <p>The Chairman and CEO are responsible for evaluating and making recommendations to the Board on the fees payable to the company's Non-Executive Directors.</p> <p>A minimum of 25% is delivered in the form of GSK shares or ADS. Using the Non-Executive Directors' Share Allocation Plan which delivers the shares or ADS to the Non-Executive Director following retirement from the Board.</p>
<b>Supplemental fees</b>	To compensate Non-Executive Directors (other than the Chairman) for taking on additional Board responsibilities or undertaking intercontinental travel.	Additional fees for Committee Chairmen, the Senior Independent Non-Executive Director, Science and Medical Experts and intercontinental travel.
<b>Benefits</b>	To facilitate execution of responsibilities and duties required by the role.	Travel and subsistence costs for Non-Executive Directors are incurred in the normal course of business in relation to meetings on Board and Committee matters and other GSK-hosted events. For overseas-based Non-Executive Directors, this includes travel to meetings in the UK. In the event it is necessary for business purposes, whilst not normal practice, Non-Executive Directors may be accompanied by their spouse or partner to these meetings or events. The costs associated with the above are all met by the company and, in some instances, they are deemed to be taxable and therefore treated as benefits for the Non-Executive Director.

## Remuneration policy report continued

### Operation and scope of Remuneration policy

The proposed Remuneration policy (Policy) is set out on pages 138 to 146 of the 2016 Annual Report and it is intended that the Policy for GSK's Executive and Non-Executive Directors will apply from the close of the company's Annual General Meeting on 4 May 2017 after it has been submitted by the Committee for approval by shareholders.

The Committee has written this Policy principally in relation to the remuneration arrangements for the Executive Directors, whilst taking into account the possible recruitment of a replacement or an additional Executive Director during the operation of this Policy. The Committee intends this Policy to operate for the period set out above in its entirety. However, it may after due consideration, seek to change the Policy during this period, but only if it believes it is appropriate to do so for the long-term success of the company, after consultation with shareholders and having sought shareholder approval at a general meeting.

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed:

- (i) before the AGM on 7 May 2014 (the date the company's first shareholder-approved Directors' Remuneration Policy came into effect);
- (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Remuneration policy in force at the time they were agreed; or
- (iii) at a time when the relevant individual was not a Director of the company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares or ADS, the terms of the payment are 'agreed' at the time the award is granted.

Performance Share Plan and Deferred Annual Bonus Plan awards are subject to the terms of the relevant plan rules under which the award has been granted. The Committee may adjust or amend awards only in accordance with the provisions of the plan rules. This includes making adjustments to reflect one-off corporate events, such as a change in the company's capital structure.

The Committee may also make minor amendments to the Policy set out in this report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for such amendments.

#### Statement of consideration of shareholder views

The Committee engages in regular dialogue with shareholders and holds annual meetings with GSK's largest investors to discuss and take feedback on its Remuneration Policy and governance matters.

The annual meetings were held in December 2016, at which Urs Rohner, the Committee Chairman, shared updates on remuneration matters in the last 12 months and proposals for 2017 onwards. Further shareholder consultations were carried out in February and March 2017 by the Committee Chairman on the proposed Remuneration policy. The Committee took into account the feedback from shareholders in determining the Policy which shareholders are being asked to approve at the AGM on 4 May 2017.

### Basis of preparation

The Directors' Remuneration Report has been prepared in accordance with the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). In accordance with the Regulations, the following parts of the Annual Report on Remuneration are subject to audit: total remuneration figures for Executive Directors including further details for each element of remuneration (salary, benefits, pension, annual bonus and long-term incentive awards); Non-Executive Directors' fees and emoluments received in the year; Directors' interests in shares, including interests in GSK share plans; payments to past Directors; payments for loss of office; and share ownership requirements and holdings, for which the opinion thereon is expressed on page 156. The remaining sections of the Directors' Remuneration Report are not subject to audit nor are the pages referred to from within the audited sections.

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

**Urs Rohner**  
Remuneration Committee Chairman  
13 March 2017