

Chairman's statement



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Governance report

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Our Corporate Governance report sets out our corporate governance practices and includes the reports of our Board Committees.

Remuneration

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Our Remuneration report sets out our remuneration arrangements for Executive and Non-Executive Directors and includes our new Remuneration policy for 2017.

Diversity statement

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Our Board's Diversity policy, including gender, sets out measurable objectives which our Nominations Committee monitors and reports progress towards their achievement.

Viability statement

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Our Viability statement sets out our assessment of the prospects of the Group over the next three years.

I am pleased to report that GSK made further good progress during 2016. Operating performance significantly improved in our three businesses and there was continued progress in the late and early stage R&D pipeline. In every important area, it has been a year of solid achievement.

2016 performance

Management continues to make strong progress in driving the sales and cost benefits from the integration of the Novartis businesses in Vaccines and Consumer Healthcare. These businesses have been transformed through the transaction and are now true global leaders in their respective markets, well positioned strategically and improving financially.

In Pharmaceuticals, new product sales have shown very good momentum, particularly in HIV and Respiratory. New products now make up around a quarter of total pharmaceutical sales. This is important given the pricing pressure faced generally by pharmaceutical companies and the potential introduction of generic competition to *Advair* – for many years the Group's biggest single source of profits – in the US during 2017.

The Group's improved operational performance also contributed to markedly increased cash generation. Operational cash flow also benefited strongly from the devaluation of Sterling following the Brexit vote in June, although the value of non-sterling liabilities for debt funding and contingent consideration, has also increased.

Ordinary dividends of 80p per share have been declared for 2016, the same level as 2015. The company expects to maintain the same payment in 2017, in accordance with the statements made in 2015. This level of distribution still exceeds the free cash flow generated by the business despite the material improvement in cash generated in 2016 referred to above. Given that 2017 is the last year of the three year dividend commitment made in 2015, the Board will be considering the appropriate dividend policy for 2018 and beyond during the course of the year.

CEO succession

A key area of focus for the Board through 2016 has been to manage the CEO succession as Sir Andrew steps down after 33 years with the company and into a tenth year as CEO. The Board conducted a thorough, global search for a successor, which included internal and external candidates.

The Board was unanimous in its decision to appoint Emma Walmsley, previously Head of GSK's Consumer Healthcare business, as the new CEO. Emma has very strong leadership skills and a clear track record of delivery on performance. The Board believe Emma will bring new thinking to how the Group operates in today's healthcare environment, whilst at the same time harnessing the momentum evident in current performance.

I want to thank Sir Andrew again for his dedicated service to GSK. Through his commitment and leadership GSK has built a balanced set of businesses with fine prospects and delivered very significant rewards to shareholders with substantial cash returns. He has also led efforts to address the most pressing concerns the industry faces, ranging from reforming our commercial model, increasing transparency of trial results, and ensuring medicines are priced more fairly and made more accessible to patients worldwide. He will be much missed within GSK and we wish him well in his future endeavours.

Board changes during the year

We continue to refresh the Board. In 2016 we welcomed two new Non-Executive Directors: Dr Jesse Goodman and Dr Vivienne Cox. Jesse is Professor of Medicine at Georgetown University and a leader in public health, and Vivienne brings many years experience in complex global manufacturing organisations. Meanwhile, Stacey Cartwright stepped down from the Board at the end of December. My thanks go to Stacey for nearly six years of dedicated service to the Board.

As we enter a critical period of pipeline activity, we have reflected this on the Board with the creation of a new Board Science Committee, chaired by Dr Goodman. In addition, Dr Patrick Vallance, President R&D, has joined the Board. Later this year, Moncef Slaoui will step down from the Board after 28 years with the company. Moncef is a scientist of global repute and has been a remarkable presence at GSK, particularly in the Vaccines business. We wish him, too, well in the future.

In closing, I would like to thank all GSK's employees and partners for their hard work and dedication. The business has outstanding people and they have made 2016 a very successful year.

Philip Hampton
Chairman