

# CEO's statement



“Our ambition is to drive a high-performance culture, putting science at the heart of GSK, remaining true to our values and our purpose: to help people do more, feel better, live longer.”

**Emma Walmsley**  
Chief Executive Officer

## Our long-term priorities

**Innovation** > See page 12

**Performance** > See page 14

**Trust** > See page 16

## Our three businesses

**Pharmaceuticals** > See page 22

**Vaccines** > See page 30

**Consumer Healthcare** > See page 36

I'm delighted to be introducing GSK's 2017 Annual Report; my first as CEO.

Since starting in this role it has become increasingly clear to me that while the healthcare industry remains an attractive sector, it is entering a period of significant change bringing both challenges and opportunities. In addition, despite improved delivery in recent years, it is also clear there are several areas of the company that need to be strengthened.

That's why, in July, I set out three long-term priorities which everyone in the company is focused on: Innovation, Performance and Trust. I believe these priorities enable us to focus on areas we can improve and allow us to respond more effectively to our operating environment. They will focus us on delivering improved performance and better returns for shareholders over both the short and long term, as well as a broader societal contribution.

### 2017 performance

Group sales were £30.2 billion, up 8% at actual rates and 3% at constant exchange rates (CER), with growth across all three businesses. This is the first time Group sales have reached more than £30 billion in a year.

New Pharmaceutical and Vaccine product sales were £6.7 billion, with continued strong performances from our HIV medicines, *Tivicay* and *Triumeq*, our *Ellipta* portfolio and biologic medicine *Nucala* in Respiratory, and our meningitis vaccines.

The performance of these new products is a great demonstration of what we can achieve when our commercial organisation has clear focus.

Consumer Healthcare sales were driven by our power brands which continued to outpace market growth. Sales from new GSK innovations represented approximately 13% of turnover.

Total earnings per share were 31.4p after accounting charges of £1.6 billion related to US tax reform, with Adjusted earnings per share up 11% AER, 4% CER to 111.8p.

Group Adjusted operating margin improved, reflecting effective management of costs and successful integrations of our new businesses in Vaccines and Consumer Healthcare.

We have renewed our emphasis on cost and cash discipline and I was pleased to see our free cash flow for the year was £3.4 billion, an improvement of over £400 million on the previous year. We met our expectation of paying a dividend of 80 pence per share for 2017 and we expect to deliver the same for 2018.

### Pipeline progress

Towards the end of 2017 we received approvals for three key new products: *Shingrix*, our new vaccine which represents a new standard for the prevention of shingles; *Juluca*, the first in a series of 2-drug regimens for HIV which reduces the number of drugs patients take as they are now living longer with what is becoming a more chronic disease; and *Trelegy Ellipta*, which is the first once a day inhaler to combine three medicines in one device to treat chronic obstructive pulmonary disease (COPD).

Our focus in 2018 is to successfully launch these new products which bring significant benefits to patients, and to continue to maximise our current portfolio.

### Footnote

We use a number of adjusted, non-IFRS, measures to report performance, as described on page 58.

## CEO'S statement continued

I have been clear that we need to strengthen our Pharmaceutical business and pipeline as this will ultimately drive sustainable, long-term growth for the company.

During 2017, we set out how we are refocusing our R&D organisation on four areas: two where we are a world leader – Respiratory and HIV; and two potential areas – Oncology and Immuno-inflammation. Our pipeline in these potential areas is innovative but early, and over the next 2 to 3 years we will continue to receive data from a number of key assets which will inform how we progress them.

### New external appointments

I am delighted that we appointed Dr Hal Barron to be our Chief Scientific Officer and President, R&D. He joins us from Calico, an Alphabet-funded company, and before that spent many years at Roche and Genentech where he gained an exceptional reputation for leading highly productive R&D teams. I would like to thank Dr Patrick Vallance, our outgoing President of R&D, for his contribution over the last 12 years and for ensuring a smooth transition with Hal. I wish him well in his new role as the UK Government's Chief Scientific Adviser, for which he is uniquely qualified.

Hal is one of three senior leaders we appointed to the executive team last year. Luke Miels joined as our new President, Pharmaceuticals and is responsible for driving performance in the commercial organisation and will work closely with Hal to ensure alignment with R&D. Karenann Terrell also joined us in a new role as Chief Digital and Technology Officer. Karenann joins at a time when the overlap between healthcare and technology has never been more apparent and potentially transformative. Her role is to ensure GSK is at the forefront of this exciting new opportunity.

We have made a number of other changes in our senior leadership through the year, promoting great internal talent and bringing in fresh expertise from outside the company.

### Performance and values based culture

Our ambition is to drive a high-performance culture, putting science at the heart of GSK, remaining true to our values and our purpose: to help people do more, feel better, live longer. We have a long history in tackling some of the world's biggest health challenges. Our commitment to improving global health and being a responsible business will continue under my leadership.

## Corporate Executive Team



**1. Emma Walmsley**  
Chief Executive Officer

**2. Dr Hal Barron**  
Chief Scientific Officer and  
President, R&D

**3. Roger Connor**  
President, Global Manufacturing  
and Supply

**4. Luc Debruyne**  
President, Global Vaccines

**5. Simon Dingemans**  
Chief Financial Officer

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

**7. Brian McNamara**  
CEO, GSK Consumer Healthcare

**8. Luke Miels**  
President, Global Pharmaceuticals

**9. David Redfern**  
Chief Strategy Officer

**10. Karenann Terrell**  
Chief Digital and Technology Officer

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

**12. Phil Thomson**  
President, Global Affairs

**13. Dan Troy**  
Senior Vice President  
and General Counsel

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Our great people and their commitment are foundational for GSK's culture. During the year, we conducted a new global employee survey, aligned to our priorities, and I was pleased to see a meaningful improvement in employee engagement scores, which are an important driver of performance.

### Outlook

Given the momentum we are seeing in our new products and recent launches, the operating performance improvements we are driving and the benefit of US tax reform, we are increasingly confident in our ability to deliver our 2020 outlook of mid to high single digit growth in Adjusted EPS CAGR (2016–2020 at 2015 CER).

While we could see generic competition to *Advair* in the US in 2018 our guidance for the year reflects this. Aside from *Advair* we do not expect to face significant generic erosion in the US until the mid-2020s.

Finally, I want to say thank you to GSK employees, partners and customers for their work in 2017 and especially for their support to me in my first year as CEO. I very much look forward to working with them in 2018 and beyond to deliver our long-term priorities and improved performance for GSK.



**Emma Walmsley**  
Chief Executive Officer

## Technology is revolutionising healthcare

New frontiers of innovation, such as genomics, are creating major opportunities for us – and patients.

The ability to apply new technology across our R&D activities is creating a major opportunity for GSK. Currently, across the industry almost 90% of medicines entering trials fail and never reach patients. In part this is because we have an incomplete understanding of the link between the biological target of a drug and human disease. Pursuing drug targets with human genetic evidence to support the indication is estimated to double the probability of developing safe and effective medicines, and improve research and development productivity. In recent years, approximately 60% of GSK's new targets have been supported by human genetic evidence. It is also why GSK was one of the first companies to make a multi-million pound investment in UK Biobank to support the generation of new genetic sequencing data from half a million volunteers. The information generated from this ground-breaking health resource will provide vital insights that we hope will inform and support the development of transformative medicines.

We are also maximising the huge amount of data within GSK by applying artificial intelligence and machine learning to allow us to identify patterns that would have been almost impossible to identify using traditional methods. We can now model the right patient population and where to find them for our clinical trials, reduce or eliminate the need for some studies, and in some cases predict outcomes in a virtual patient. It is allowing us to more effectively manage diversity within our clinical trials to align with population demographics by analysing our clinical trials from the last ten years.

GSK is connecting and bringing to life patient data from genomics, wearable devices, social media and other emerging sources, ensuring we can leverage the opportunities presented by these.



Image: Wellcome Images

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