

# Chairman's statement



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**Philip Hampton**  
Chairman

I am pleased to report another year of good performance with sales and earnings growth, some important new product approvals and continued cash returns to shareholders in line with expectations.

Following Emma Walmsley's appointment as CEO, from April 2017, the Board conducted a review of the company's strategy with management in the context of the operating environment and industry dynamics in global healthcare. In July, Emma presented the new strategy to investors setting out long-term priorities under three main headings – Innovation, Performance and Trust. Our top priority is to improve performance in the pharmaceuticals business and to seek more growth from pharmaceuticals R&D. The Board believes the renewed focus on innovation will enable GSK to capitalise on the opportunities in our industry to drive long-term value for investors.

Early progress against the strategy has been encouraging and the Board is closely engaged with management on its delivery.

## Capital allocation

The company now has a new capital allocation framework to help shape our strategic priorities. Improving our pipeline of new pharmaceutical products is our main priority and the company has the potential for a marked improvement in performance. We will also invest behind key products in our vaccines business which we expect to drive growth in the coming years. In addition, we may invest further in our Consumer joint venture if our partner Novartis decides to exercise their option to sell their interests to us. Dividends represent an allocation of capital and the Board is mindful of the value that many shareholders attach to dividends. Under our framework, any material acquisitions have a lower priority and would have to meet our strict returns criteria.

Cash generation remains a key focus for the Board and we were pleased to see increased free cash flow for the year. We approved a dividend of 80p per share for 2017 and expect the same for 2018.

I noted in my first letter to shareholders two years ago that cash dividends were in excess of free cash flow generation and that is still the case. The Board has established a policy of achieving, over time, cash dividend cover in the range 1.25x – 1.5x, since investment in growth opportunities should be funded at least in part by cash retentions in the business.

## Culture

Central to ensuring long-term delivery against the strategy is developing a culture which rewards high performance but also seeks to build on the values of the company. The Board was pleased to see employees support this, with a marked increase in employee engagement scores. In the past, there have been some instances where our commercial practices have been disappointing, leading to regulatory intervention. The Board has focused on improving both the framework and the culture for our control environment.

## Executive team

Following the announcement of Emma as our new CEO, the Board was involved with other top executive appointments. Dr Hal Barron, our new Chief Scientific Officer and President, R&D, has joined the Board. We have a new President, Global Pharmaceuticals, Luke Miels; and a new Chief Digital and Technology Officer, Karenann Terrell. The Board has taken a keen interest in the balance between external recruits, and the development of internal succession planning.

## Financial reporting

The Board is mindful of the need to provide clear financial reports. In 2017 we reviewed aspects of our financial reporting framework and made changes to ensure we remain in line with both the latest regulatory requirements and best practice in the industry. Commercial structures and reporting requirements sometimes lead to more complexity in reporting than we would like but we make great efforts to simplify and clarify where possible.

## Board changes during the year

We continue to bring in new skills and capabilities to the Board. During the year, we welcomed Dr Laurie Glimcher as an Independent Non-Executive Director and Scientific and Medical Expert. At this year's AGM, Professor Sir Roy Anderson, who joined the Board in 2007, will step-down. I thank Roy for his excellent contribution, both in his special areas of scientific knowledge, but also more broadly. Dr Patrick Vallance will also step down from the Board at the end of March and leave GSK to become the Chief Scientific Adviser to the UK Government. Patrick has been a fine leader and Board colleague. Sir Andrew Witty and Dr Moncef Slaoui both stepped down after long careers with the company. I thanked them both in my last letter.

The new Science Committee made good progress last year. This is crucial as we enter an important phase for the pipeline in our pharmaceutical and vaccines activities over the next 2 to 3 years. Dr Barron will be working closely with the Committee.

I would like to thank all of GSK's employees and partners for their hard work throughout 2017 and our shareholders and customers for their continued support and look forward to a successful 2018.

**Philip Hampton**  
Chairman