



do more
feel better
live longer

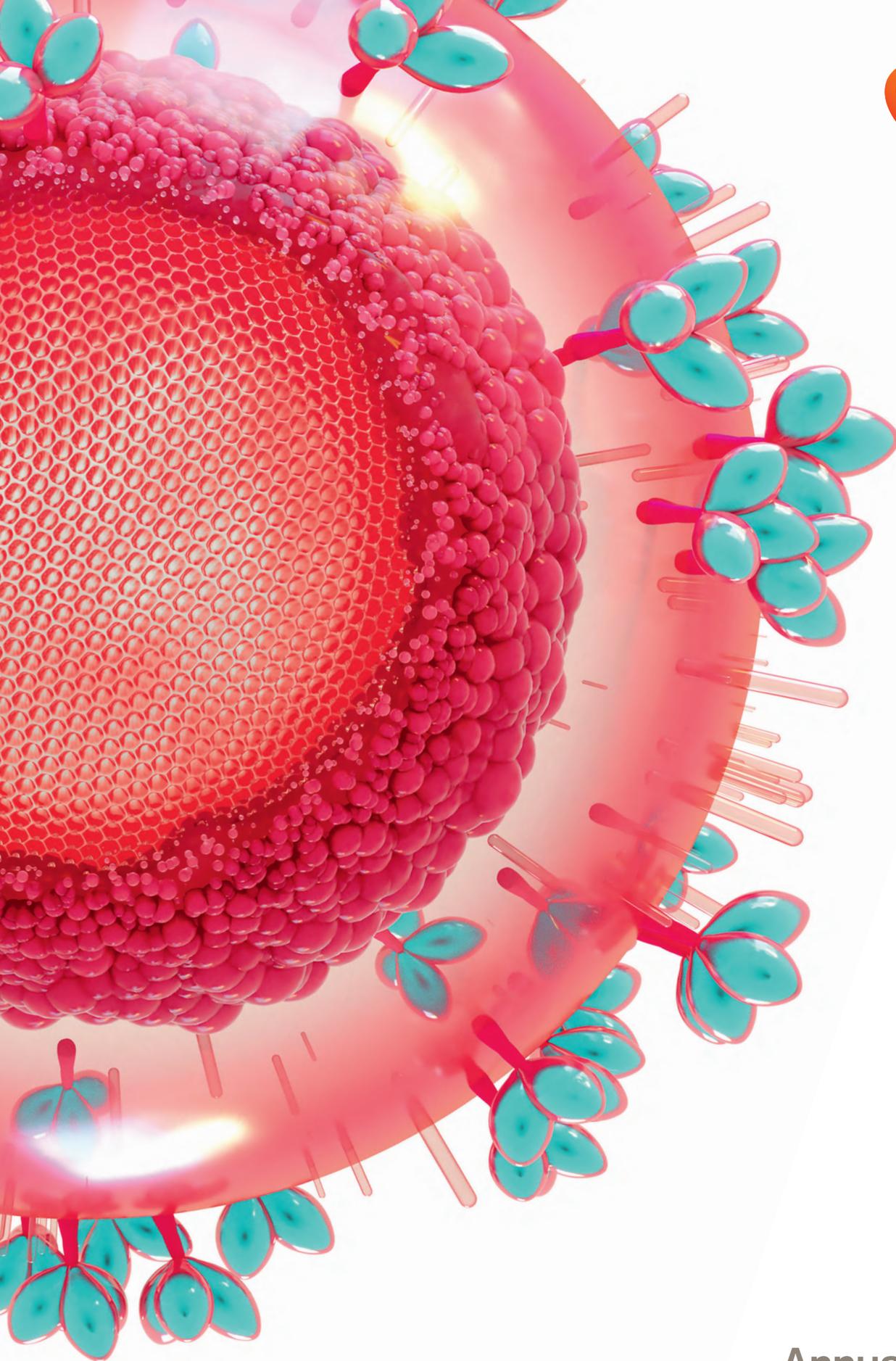


Image HIV virus

Annual Report 2017

GSK is a science-led global healthcare company



In the Strategic report

Our new CEO discusses 2017 performance and our new long-term priorities

> See pages 05–07

Measuring performance and managing risk

> See pages 18–21

How we create long-term value

> See pages 08–09

Innovation and Performance in each of our three businesses

> See pages 22–41

Industry trends

> See pages 10–11

How our three businesses together contribute to our Trust priority

> See pages 42–51

Our new long-term priorities: Innovation, Performance and Trust

> See pages 12–17

Financial review

> See pages 52–78

Cover image

30 years after developing the first HIV medicine, our research into treatment and prevention of HIV continues. We remain at the forefront of helping people living with HIV, driving innovation and working with communities all over the world.

Cautionary statement

See the inside back cover of this document for the cautionary statement regarding forward-looking statements.

Our financial performance in 2017^a

£30.2bn

Group turnover

AER +8%

CER +3%

£6.7bn

New product sales^b

AER +51%

CER +44%

£4.1bn

Total operating profit

AER +57%

CER +39%

£8.6bn

Adjusted operating profit

AER +12%

CER +5%

31.4p

Total earnings per share

AER +67%

CER +36%

111.8p

Adjusted earnings per share

AER +11%

CER +4%

£6.9bn

Net cash flow from operating activities

£3.4bn

Free cash flow

£3.9bn

Dividends declared for 2017

80p

2017 dividend per share

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Footnotes

- ^a AER growth rates represent growth at actual exchange rates. We use a number of adjusted, non-IFRS, measures to report the performance of our business, as described on page 58, including Adjusted results, free cash flow and CER growth rates. These measures are used by management for planning and reporting purposes and may not be directly comparable with similarly described measures used by other companies. Adjusted results exclude a number of items and are presented as management believes that Adjusted results allow the key trends and factors driving that performance to be more easily and clearly identified by shareholders. Non-IFRS measures may be considered in addition to, but not as a substitute for or superior to, information presented in accordance with IFRS. A reconciliation of Total results to Adjusted results is set out on page 67.
- ^b As defined in 2015, new products are as follows: Pharmaceuticals: *Relvar/Breo Ellipta, Incruse Ellipta, Anoro Ellipta, Arnuity Ellipta, Eperzan/Tanzeum, Nucala, Tivicay, Triumeq*. Vaccines: *Menveo, Bexsero, Shingrix*.

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GSK at a glance

Our purpose

To help people do more, feel better and live longer.

Our goal

To be one of the world's most innovative, best performing and trusted healthcare companies.

Our strategy

Bring differentiated, high-quality and needed healthcare products to as many people as possible, with our three global businesses, scientific and technical know-how and talented people.

Our values and expectations

Our values and expectations are at the heart of everything we do and form an important part of our culture.

Our values

Patient focus
Transparency
Respect
Integrity

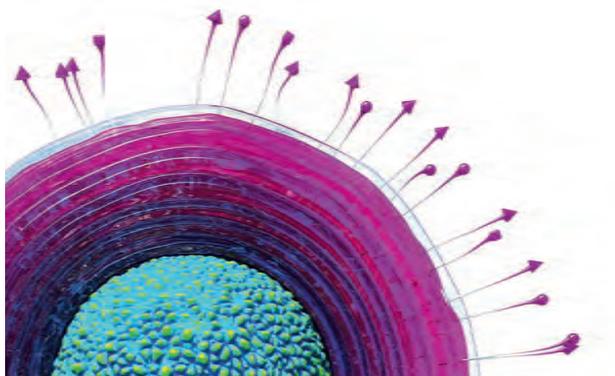
Our expectations

Courage
Accountability
Development
Teamwork

Three global businesses



Immune system T-cells attacking a cancer cell



Herpes zoster virus of shingles



Novamin, a key technology in *Sensodyne Repair and Protect*

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Pharmaceuticals

Leading positions in Respiratory and HIV

% of Group turnover



> Read more page 22

Vaccines

Broadest portfolio with leading position in meningitis and opportunity in shingles

% of Group turnover



> Read more page 30

Consumer Healthcare

Category leadership in Respiratory, Pain relief and Oral health

% of Group turnover



> Read more page 36

Focused on our new long-term priorities

Innovation > See pages 12–13

Performance > See pages 14–15

Trust > See pages 16–17

Chairman's statement



“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.”

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

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

> See pages 86 to 87

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

Footnote

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

How we create long-term value

1

As a science-led global healthcare company our three businesses have the common aim of improving health. On this page we describe the resources we rely on, how our business activities span the lifecycle of a product, and how we create long-term value for shareholders and society.

Our resources

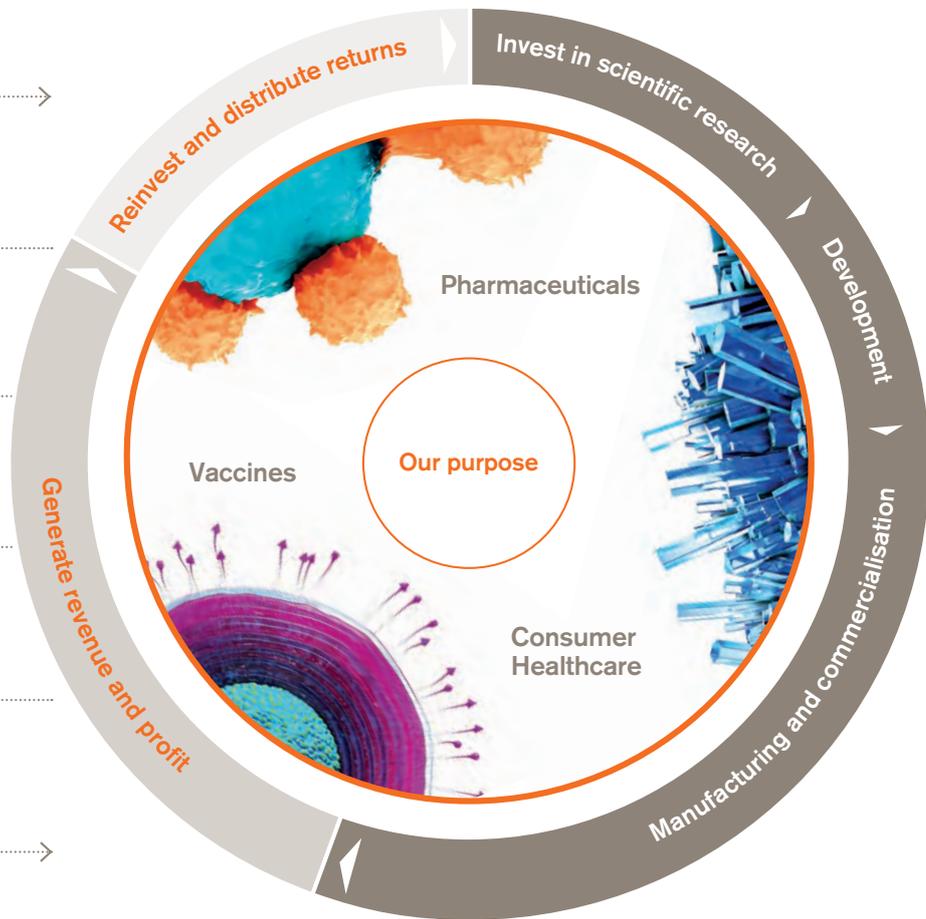
Talented people

Scientific and technical know-how

Effective capital allocation

External collaborations

Supply chain



Our long-term priorities

Innovation
Performance
Trust

Our values

Patient focus
Transparency
Respect
Integrity

Our expectations

Courage
Accountability
Development
Teamwork

2

Industry trends

3

Our long-term priorities

4

How we measure success

5

How we manage risk

How we create value

Invest in scientific research

We invested £3.9 billion in research and development to bring new medicines, vaccines and consumer healthcare products to patients, payers and consumers. Strategic business development, including external partnerships and joint ventures, supports our in-house scientific research.

Generate revenue and profit

We generate revenue by executing new product launches brilliantly and from the sales of our existing portfolios. Each of our three businesses now has an integrated strategy with one P&L, which enables us to drive competitive costs, margins and cash flow across the company.

Reinvest and distribute returns

As part of our capital allocation framework we reinvest in our three businesses and also provide returns to shareholders in the form of dividends.

The value we create

For shareholders

We aim to deliver sustained industry-leading growth with competitive costs, margins and cash flow. We distribute capital to shareholders in the form of dividends.

31.4p

Total earnings per share

111.8p

Adjusted earnings per share

£3.9bn

2017 dividends declared

80p

2017 dividend per share

For patients and consumers

We aim to bring our differentiated, high-quality and needed healthcare products to as many people as possible.

1.9bn

Packs of medicine sold

798m

Vaccines sold

6.2bn

Consumer Healthcare products made

For employees and society

We want to run our company responsibly and ethically, and be a modern employer with strong employee engagement. We make a positive contribution to communities in which we operate through creating employment, working with suppliers and paying tax.

98,462

Employees

£1.34bn

Cash tax paid

Footnote

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

Industry trends

1 — How we create long-term value

2

We are operating in a fast-changing environment with potential for growth. Here we outline some of the key opportunities and challenges which influence our new long-term priorities.

The global healthcare market is growing. Global pharmaceutical sales were £738 billion on a 12-month rolling basis (September 2016–2017), up 3% from September 2015–2016. North America remains the largest pharmaceutical market with a 48% share of global sales.¹ Global vaccine sales totalled approximately £19 billion in 2017, up 6% from 2016.² Sales for consumer healthcare markets in which GSK operates total approximately £135 billion.²

The healthcare industry is entering a period of significant change bringing opportunities and challenges. As life expectancy increases, demographic changes are both supporting market growth and contributing to pressures in the healthcare sector, particularly on pricing and access. While these challenges are not new for the industry, advances in science and technology are transforming the way scientists research diseases and are likely to improve how patients are diagnosed and treated in the future.

Our strategic response

Our strategy is designed to respond to this changing environment: To bring differentiated, high-quality and needed healthcare products to as many people as possible, with our three global businesses, scientific and technical know-how, and talented people. Our new long-term priorities of Innovation, Performance and Trust will help us to deliver our strategy.

Advances in science and technology disruption

Better understanding of human biology and genomics is changing the way scientists research diseases and their ability to develop novel treatments for patients. Advances in digital technology, data and analytics are enabling researchers to explore and interpret ever-larger volumes of biological data much faster than before. Technology is also now central to the way people gain information, and compare and buy healthcare products.



Pricing and access

Increasing demand for healthcare, partly led by demographic change, continues to put pressure on government and payer budgets. This is impacting both developing and developed markets, including Europe and the US where both public and privately funded organisations are looking for ways to address the affordability of medicines.



Positive demographics

Demographic change such as increasing life expectancy and an expanding global population is driving demand for healthcare products. Growing prosperity and changing diets and lifestyles are also fuelling demand for healthcare products – especially for chronic conditions such as respiratory disease.



¹ IMS data

² Internal data

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How we manage risk

Societal expectations

Companies are expected to behave with greater integrity, fairness and transparency and to make a positive contribution to society. For companies to be sustainable they must create long-term value for all of their stakeholders, including shareholders, employees, customers and communities.



Genericism and competition

Patent protection applies to pharmaceutical medicines. As patents expire or challenges are upheld by competition authorities, patients and payers gain access to generic alternatives which are lower priced. This generic competition often results in lower sales of patented products.



Regulatory and political environment

Healthcare is a highly regulated industry reflecting public expectations that products comply to stringent levels of quality, safety and efficacy. Globally, changing national politics are impacting the operating environment particularly as governments are often making healthcare a priority. See page 55 for a summary of the impact of Brexit for GSK.



Our long-term priorities

Innovation

Performance

Trust

Our long-term priorities

1 — How we create long-term value 2 — Industry trends 3 — **Innovation**

Innov

A strong patient and payer focused pipeline, with the most competitive claims and labels, and brilliant execution of our launches.

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How we measure success

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How we manage risk

ation

Read more about Innovation

Innovation in
Pharmaceuticals

> See pages 24–27

Innovation in
Vaccines

> See pages 32–33

Innovation in
Consumer Healthcare

> See pages 38–39

Our long-term priorities

1 — How we create long-term value 2 — Industry trends 3 —



Perform

Sustained industry-leading growth with competitive costs, margin and cash flow.

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formance

Read more about Performance

Performance in
Pharmaceuticals

> See pages 28–29

Performance in
Vaccines

> See pages 34–35

Performance in
Consumer Healthcare

> See pages 40–41

Our long-term priorities

1 — How we create long-term value 2 — Industry trends 3 — **Trust**

Trust

Maximising our social impact, ensuring the reliable supply of our high-quality products to as many people as possible, and having highly engaged employees.

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4 — How we measure success 5 — How we manage risk

Read about Trust across all three businesses

Addressing global health through science > See pages 44–45	Sustainable access to our high-quality products > See pages 46–47
Modern employer > See pages 48–49	Ethical conduct and environmental sustainability > See pages 50–51

How we measure success

1 — How we create long-term value 2 — Industry trends 3 — Our long-term priorities 4

We have identified ten operating Key Performance Indicators (KPIs) to track progress against our new long-term priorities:

Innovation	Innovation sales, pipeline value and progress
Performance	Turnover, profit, cash flow, market share, top talent in key roles
Trust	Supply service levels, employee engagement, corporate reputation

Here we provide performance data for the operating KPIs we are reporting externally. Due to commercial sensitivities, we are not planning to publish data for all operating KPIs.

Pay for performance

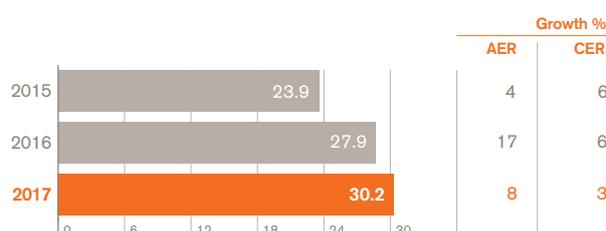
The Remuneration policy used to reward the performance of our executives includes measures linked to our KPIs (see pages 116, 120 and 122).

Group turnover

£30.2bn

AER +8%

CER +3%



How we performed

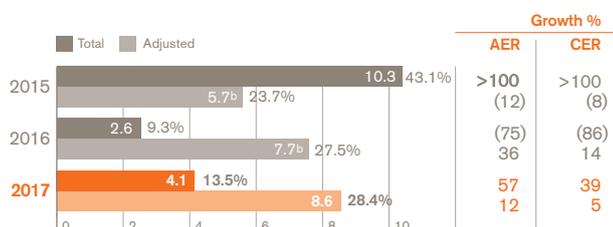
Group turnover for the year increased 8% AER, 3% CER to £30.2 billion, with growth delivered by all three businesses.

Pharmaceuticals sales were up 7% AER, 3% CER reflecting the continued strong growth of the new Respiratory and HIV products, partly offset by declines in older Respiratory products. Vaccines sales were up 12% AER, 6% CER, reflecting a strong performance from meningitis and influenza vaccines. Consumer Healthcare sales grew 8% AER, 2% CER reflecting a strong performance from power brands in the Pain and Oral health categories, partly offset by the impact of continued competitive pressures in the US allergy category and a broader market slowdown.

Operating profit and margin

Total **£4.1bn**

Adjusted^c **£8.6bn**



How we performed

Total operating profit was £4.1 billion, 57% higher on an AER basis, 39% higher CER.

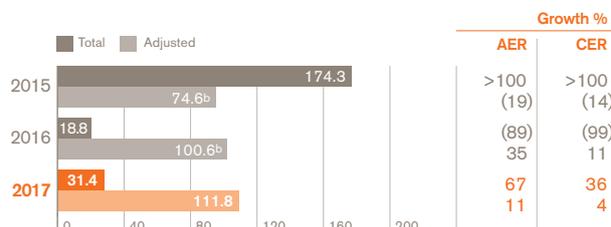
Adjusted operating profit was £8.6 billion, 12% higher on a CER basis, 5% higher AER. The Adjusted operating margin of 28.4% was 0.9 percentage points higher than in 2016 and 0.4 percentage points higher on a CER basis. This reflected improved operating leverage driven by sales growth together with a more favourable mix and continued tight control of ongoing costs across all three businesses.

[Linked to remuneration](#)

Earnings per share

Total **31.4p**

Adjusted^c **111.8p**



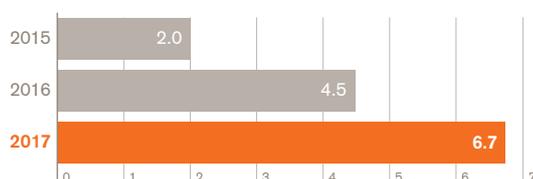
How we performed

The increase in total earnings per share reflected the reduced impact of charges arising from the revaluations of the liabilities for contingent consideration and the put options associated with the Group's HIV and Consumer Healthcare businesses, the benefit from Swiss tax reform and improved performance by the relevant businesses, partly offset by charges arising from US tax reform.

Adjusted earnings per share of 111.8p was up 11% at AER, 4% CER in line with guidance provided in July 2017.

New product/innovation sales

£6.7bn



Definition

In 2015, we identified a series of New Pharmaceutical and Vaccine products that were expected to deliver at least £6 billion of revenues per annum on a CER basis by 2020. A full list of the products included in this definition is provided on page 60.

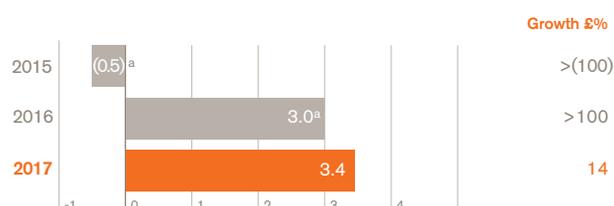
How we performed

Sales of New Pharmaceutical and Vaccine products were £6.7 billion, an increase of 51% at AER, 44% CER and represented approximately 30% of Pharmaceuticals and Vaccines turnover in the year. At 2015 exchange rates, the equivalent value of the 2017 sales was £5.7 billion.

[Linked to remuneration](#)

Free cash flow

£3.4bn



Definition

The calculation of free cash flow is described on page 58 and a reconciliation is provided on page 71.

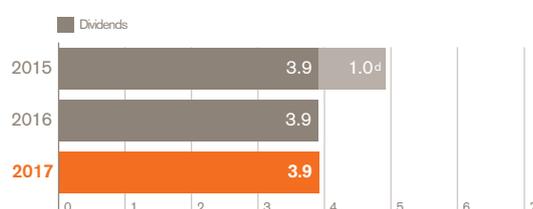
How we performed

We have increased free cash flow by over £400 million after investing in the Priority Review Voucher and approximately £450 million into inventory, primarily to support the new launches.

[Linked to remuneration](#)

Dividends declared

£3.9bn



How we performed

For both 2016 and 2017 we declared dividends to shareholders of 80p per share, giving a total return of £3.9 billion in each year.

Employee engagement

79%

favourable responses to our global employee survey

Description

We now measure employee engagement twice annually by inviting all GSK employees to participate in a global employee survey. Our engagement KPI is based on favourable responses to four questions: pride in the company, feeling valued as an employee, having the opportunity to do meaningful and challenging work, and recommending GSK as a great place to work. In 2017, 83% of employees participated in our new survey; our engagement score was 79% and we have set this as the baseline for future improvement. The score represented a 10% increase from 2015 for three of the four questions directly comparable.

Footnotes

^a Revised to include all contingent consideration payments.

^b Adjusted results now exclude only significant legal charges per revised definition on page 58. Prior year figures have been revised.

^c We use a number of adjusted, non-IFRS, measures to report the performance of our business, as described on page 58, including Adjusted results, free cash flow and CER growth rates. Non-IFRS measures may be considered in addition to, but not as a substitute for or superior to, information presented in accordance with IFRS.

^d 2015 includes special dividend.

How we manage risk



Our principal risks are regularly reviewed by the CET. Below we list the principal risks managed across the Group in 2017, including our assessment of any change in the risk during the year due to macro events or mitigating GSK activities.

Risk description	Assessment and mitigating activities	Macro environment	GSK exposure post mitigation
<p>Patient safety</p> <p>Failure to appropriately collect, review, follow up, or report adverse events from all potential sources, and to act on any relevant findings in a timely manner.</p>	<ul style="list-style-type: none"> – The macro environment remained unchanged, with patient safety regulation and Good Pharmacovigilance Practices remaining consistent. – The GSK exposure level remained unchanged. The risk has been maintained at an appropriate level through continued strong oversight, by further developing our capabilities to detect safety issues, and by making key safety processes and standards simpler and more effective. 	→	→
<p>Product quality</p> <p>Failure to comply with current Good Manufacturing Practices or inadequate controls and governance of quality in the supply chain covering supplier standards, manufacturing and distribution of products.</p>	<ul style="list-style-type: none"> – The macro risk level remained unchanged, with continuing industry-level regulatory scrutiny of data integrity, drug shortages, and an expectation of timely communication of issues with authorities. – The GSK exposure level remained unchanged. The risk has been maintained at an appropriate level through our effective response to external inspections in 2017 and continuous improvement in data integrity programmes and our quality management system. 	→	→
<p>Financial controls & reporting</p> <p>Failure to comply with current tax law or incurring significant losses due to treasury activities; failure to report accurate financial information in compliance with accounting standards and applicable legislation.</p>	<ul style="list-style-type: none"> – The macro risk level remained unchanged, due to no material increase in financial reporting requirements. – The GSK exposure level reduced due to our strong risk management and governance approach and further embedding of system changes, controls standardisation and process simplification. 	→	↓
<p>Anti-bribery & corruption (ABAC)</p> <p>Failure of GSK employees, complementary workers and third parties to comply with our ABAC principles and standards, as well as with all applicable legislation.</p>	<ul style="list-style-type: none"> – The macro risk level increased due to more stringent ABAC laws and a rise in enforcement by regulators. – The GSK exposure level remained unchanged as we enhanced our use of data to better inform business decisions, strengthened our management of ABAC risk in our third party network and introduced an improved ABAC standard further clarifying our stance on expected behaviours. Government investigations regarding our China and other business operations are ongoing (see page 230). 	↑	→
<p>Commercial practices</p> <p>Failure to engage in commercial activities that are consistent with the letter and spirit of the law, industry, or the Group's requirements relating to marketing and communications about our medicines and associated therapeutic areas; appropriate interactions with healthcare professionals (HCPs) and patients; and legitimate and transparent transfer of value.</p>	<ul style="list-style-type: none"> – The macro risk level increased due to greater competitive pressure, increased regulatory enforcement and an expansion of digital marketing, where laws and regulations are still evolving. – The GSK exposure level remained unchanged as we continued to develop robust controls over mature commercial practices in order to apply appropriate oversight and assurance across markets. In 2017, as we increased digital capability across GSK, we enhanced our internal controls to mitigate risk. 	↑	→

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Arrows key

- ↑ Increased risk
- No change to risk
- ↓ Decreased risk

Risk description	Assessment and mitigating activities	Macro environment	GSK exposure post mitigation
<p>Research practices</p> <p>Failure to adequately conduct ethical and sound pre-clinical and clinical research. In addition, failure to engage in scientific activities that are consistent with the letter and spirit of the law, industry, or the Group's requirements, and failure to secure adequate patent protection for GSK's products.</p>	<ul style="list-style-type: none"> - The macro risk level remained unchanged despite evolving regulation, and continuing industry-level regulatory scrutiny of data integrity. - The GSK exposure level remained unchanged. The risk has been maintained at an appropriate level through our strengthened governance structure, which includes enterprise-wide management of risk and enables better information sharing, and an increased focus on IT systems, data and analytics. 	→	→
<p>Third party oversight (TPO)</p> <p>Failure to maintain adequate governance and oversight over third-party relationships and failure of third parties to meet their contractual, regulatory, confidentiality or other obligations.</p>	<ul style="list-style-type: none"> - The macro environment has remained unchanged as the industry continues to be vigilant about third-party risks in global sourcing and supply, and consumer and investor expectations mature. - The GSK exposure level reduced following the roll-out of our TPO programme, which risk assessed over 95% of our third parties with whom we directly engage. This will enable us to identify and manage risks consistently and proportionately. Improvement plans are in place where required and the insights from the programme have informed sourcing processes to further mitigate risk. 	→	↓
<p>Environment, health & safety and sustainability (EHS&S)</p> <p>Failure to manage environment, health and safety and sustainability risks in line with our objectives and policies and with relevant laws and regulations.</p>	<ul style="list-style-type: none"> - The macro risk level increased due to greater emphasis on the environment and antimicrobial resistance, increasing emerging market regulation, the potential impact of EU chemicals legislation and the greater use of third parties to develop pipeline assets. - The GSK exposure level remained unchanged due to continued execution of our enterprise strategy and our strengthening of EHS&S controls. 	↑	→
<p>Information protection</p> <p>The risk to GSK business activities if information becomes disclosed to those not authorised to see it, or if information or systems fail to be available or are corrupted, typically because of cybersecurity threats, although accident or malicious insider action may be contributory causes. This also includes the risk of failure to collect, secure, and use personal information in accordance with data privacy laws.</p>	<ul style="list-style-type: none"> - The macro risk level continued to increase as the threat against the pharmaceutical business and industry generally became more sophisticated and targeted, as evidenced by the Wannacry and NotPetya global incidents, and new regulations were introduced, including the EU General Data Protection Regulation. - Despite this, the GSK exposure level remained unchanged due to further development of our programme to safeguard against cyber-attacks and protect critical information and systems, and our ability to balance the demands of regulation with our digital transformation, which involves increased data collection and analysis. 	↑	→
<p>Supply chain & crisis management</p> <p>Failure to deliver a continuous supply of compliant finished products; inability to respond effectively to a crisis incident in a timely manner to recover and sustain critical operations, including key supply chains.</p>	<ul style="list-style-type: none"> - The macro risk level remained unchanged with ongoing stringent regulation, a continued US focus on contract manufacturers outside the US/EU, and increasing data integrity expectations. - The GSK exposure level reduced due to improved risk management of our supplier portfolio, progress in completing supply remediation programmes, and improvements to our crisis and continuity management framework. 	→	↓

> For more information see pages 257 to 266
 > See page 57 for our viability statement



Oncology
Immune system T-cells attacking a cancer cell

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Pharmaceuticals

Our Pharmaceuticals business has a broad portfolio of innovative and established medicines. We are focused on developing new medicines in respiratory, HIV, oncology and immuno-inflammation, with discovery research exploring these and other areas.

Pharmaceuticals sales were up 7% AER, 3% CER, reflecting the continued strong growth of *Nucala* and our *Ellipta* portfolio in Respiratory, and *Tivicay* and *Triumeq* in HIV.

In 2017 we had two significant Pharmaceutical approvals: *Trelegy Ellipta*, which provides three medicines in a once a day, single inhaler to treat COPD; and *Juluca*, the first 2-drug regimen, once-daily, single pill for HIV, which helps to reduce the amount of medicines patients need.

Pharmaceuticals turnover	£m
Respiratory	6,991
HIV	4,350
Immuno-inflammation	377
Established Pharmaceuticals	5,558
Total	17,276



Dave, oncology scientist, UK

We have joined forces with our partners to rapidly evolve the science of immuno-oncology, in one area we are working on increasing the ability of the body's immune system to help detect and attack cancer cells.



Fran, cancer survivor and GSK employee

What's next

Innovation in Pharmaceuticals

> See pages 24–27

Performance in Pharmaceuticals

> See pages 28–29

We report on our Trust priority across all three businesses

> See pages 42–51

Footnote

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

Pharmaceuticals

Innovation

Our priority is to strengthen our Pharmaceuticals business by focusing on fewer assets, improving the R&D and commercial interface, and with brilliant execution of launches.

Our Pharmaceuticals business continues to grow and we are global leaders in Respiratory and HIV. In 2017, we had two best-in-class medicines approved: *Trelegy Ellipta*, our once-daily triple therapy for chronic obstructive pulmonary disease (COPD) in a single inhaler; and *Juluca*, the first two-drug regimen, once-daily, single pill for HIV. We also made important progress across our pipeline assets.

Delivering best-in-class innovation

We need to focus on medicines with the greatest potential, back them and stop other projects. Following a review of our drug development process, we are focusing on priority assets in two areas where we are world leaders – Respiratory and HIV – and two potential areas – Oncology and Immuno-inflammation.

To ensure we have sufficient funding and resource for our priority areas and medicines – those where GSK can support more patients and strengthen our existing business over the long term – we terminated more than 60 pre-clinical and clinical programmes. These included ending our collaboration with Janssen Biologics on sirukumab and starting the process of identifying a new owner for our rare disease gene therapy medicines.

We have created a more integrated, competitive Pharmaceuticals business by significantly strengthening the existing partnership between R&D and commercial. We have made several significant leadership appointments including Hal Barron, Chief Scientific Officer and President of R&D, and Luke Miels, President, Global Pharmaceuticals. Both are highly respected leaders with a track record of bringing new medicines to market.

Respiratory

We have been a leader in respiratory medicine for nearly 50 years and remain at the forefront of scientific research in this area, offering innovative medicines aimed at treating patients' symptoms and reducing the risk of their disease worsening.

Trelegy Ellipta

During the year, we gained US and European regulatory approval for *Trelegy Ellipta*, our new once-daily triple therapy for COPD in a single inhaler. This launch adds to our portfolio of once-daily, inhaled respiratory medicines – the broadest in our industry.

We also achieved positive headline results from the *Trelegy Ellipta* phase III IMPACT study. The 10,000+ patient study found the once-daily triple therapy achieved significant reductions in moderate/severe exacerbations for COPD patients when compared with two other once-daily dual medicines from our *Ellipta* portfolio. We have submitted additional regulatory filings supported by the IMPACT data, with the aim of expanding the patient population for *Trelegy Ellipta* in COPD. We are also investigating the efficacy and safety of *Trelegy Ellipta* in a phase III study (CAPTAIN) as a treatment for patients with asthma.

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“Scientific innovation is at the heart of GSK and is our highest priority as we build the next wave of growth for the company.”



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

Other respiratory assets

We continue to lead in respiratory biologics and believe *Nucala* (mepolizumab) offers a highly competitive profile. We received FDA approval for an additional indication for mepolizumab, as the first targeted treatment for uncontrolled eosinophilic granulomatosis with polyangiitis (EGPA). We have also submitted a regulatory file for mepolizumab for the treatment of COPD.

Our other priority respiratory assets also target COPD and are in phase II trials: danirixin, a first-in-class oral CXCR2 antagonist, and nemiralisib, a highly selective first-in-class phosphatidylinositol 3-kinase delta (PI3K δ) inhibitor.

HIV

We have a long-standing commitment to HIV and are investigating new paradigms for treatment, prevention and cure. Dolutegravir is the number one core agent globally, and through the success of *Tivicay* and *Triumeq*, it offers important benefits for a wide range of patients. It can be used without the need for a booster, and showed superior efficacy in five different clinical studies. It is generally well tolerated and has a high barrier to resistance and few interactions with commonly used medications.

Today, due to advances in antiretroviral therapy (ART), people living with HIV have near normal life expectancies compared to the general population, but may spend decades on HIV treatment. Our innovative research into 2-drug regimens (2DR) was initiated in response to physician and patient demand to reduce long-term ART exposure.

Juluca

In November, we received US FDA approval for *Juluca*, a once-daily, single pill 2DR regimen for HIV. *Juluca* combines dolutegravir with rilpivirine (*Edurant*, a Janssen medicine) and is a complete regimen for treating HIV in adults who are virologically suppressed and have no resistance. The SWORD studies of over 1,000 patients in phase III trials showed *Juluca* achieved non-inferior viral suppression compared with traditional 3-drug regimens. Through the purchase and use of a Priority Review Voucher, we accelerated this approval in the US. Following our June 2017 submission to the European Medicines Agency (EMA) for regulatory approval, we expect a response in 2018.

Other HIV assets

Our 2DR clinical trial programme now consists of eight phase III clinical trials, two of which have completed (SWORD studies) and support approval of *Juluca*, with four other studies due to report in 2018.

Dolutegravir and lamivudine is being investigated versus a traditional 3-drug regimen for treatment-naïve HIV patients in the GEMINI 1 & 2 studies, and in the TANGO trial for patients who have achieved viral suppression on a tenofovir alafenamide fumarate (TAF)-based regimen.

The long-acting 2DR of cabotegravir and rilpivirine, is being investigated for administration every four weeks in virally suppressed adults with HIV-1 infection (ATLAS and FLAIR). In addition, the ATLAS 2M study has started to investigate administration every two months.

We also have two phase III studies that began in 2017 to evaluate cabotegravir as a long-acting monotherapy in the prevention of HIV. These trials are being conducted through a public-private funding collaboration.

Pharmaceuticals continued

Oncology

In Oncology, we are focused on delivering transformational therapies that can lengthen the lives of patients with cancer. In 2017, we made significant progress in our emerging portfolio of next generation therapies in the areas of immuno-oncology, cell therapy and epigenetics.

Our 2857916 monoclonal antibody against BCMA has the potential to target a number of tumour types, including relapsed and refractory multiple myeloma. Promising early results suggest a highly competitive profile compared with existing approved treatments for multiple myeloma. It has been granted European PRIME and FDA breakthrough status, potentially resulting in faster review by the regulatory authorities when it is filed.

We exercised our option to gain an exclusive global licence from Adaptimmune for 3377794, an investigational SPEAR T-cell receptor targeting NY-ESO-1, and were granted European PRIME and FDA breakthrough status. Another oncology therapy, 3359609, is the first investigational inducible T-cell costimulator (ICOS) agonist antibody to enter human clinical trials. Both of these assets are in phase I/II trials.

> Read more about our Pharmaceuticals pipeline on pages 251 to 252

Immuno-inflammation

Immuno-inflammatory diseases are relatively common, chronic and debilitating conditions, for which there remains significant unmet medical need. To discover the next breakthrough for immune-mediated diseases, we are focusing on transformational medicines that could potentially alter the course of inflammatory disease and induce sustainable remission.

We received approval in the US and EU for a new subcutaneous (SC) formulation of *Benlysta*, our treatment for systemic lupus erythematosus, which enables either home or hospital administration of the medicine. We also received approval in Japan for the use of *Benlysta* for the first time.

We have two phase II immuno-inflammation priority assets: 3196165, a monoclonal antibody which blocks the effect of anti-granulocyte-macrophage colony stimulating factor (GM-CSF), for rheumatoid arthritis and osteoarthritis, and 2982772, a receptor interacting protein-1 (RIP1) kinase inhibitor for psoriasis, ulcerative colitis and rheumatoid arthritis.

Future pipeline optionality

Outside our core therapy areas, we have a number of other promising programmes, including two late-stage priority assets: oral daprodustat, in phase III trials for anaemia associated with chronic renal disease, and an anti-SAP therapy for amyloidosis, currently in phase II.

Strengthening the R&D commercial interface



Ensuring there is a strong partnership between our R&D and commercial functions is a priority for us. This will help ensure we deliver differentiated medicines with the most competitive profiles and robust evidence plans to compete effectively in today's dynamic market. A single strategy across R&D and commercial will ensure alignment and focus across the business. We are simplifying our processes to eliminate complexity, and in parallel, strengthening our commercial and medical resource to drive performance.

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Strategy in action

“Digital technology will transform many aspects of how we develop new medicines and interact with our customers.”



Karenann Terrell
Chief Digital and Technology Officer

Accelerating priority assets

We are improving the pace of our medicines development by enhancing our speed-to-clinical decision making through changes to our governance and by adapting the way we design and conduct our clinical trials.

To support this acceleration we established a new Board committee of global scientific experts, the Science Committee, to ensure that emerging scientific and medical knowledge is integrated into our strategic planning. In addition, a new Development Advisory Committee will provide the Board with strategic guidance on all aspects of our current and future development activity, with full consideration of emerging trends and alternative approaches. See page 109 for more information.

Our early research infrastructure – around 25 discovery performance units (DPUs) with their own project accountability and budgets – encourages a competitive dimension to proposed areas of discovery research and capital allocation.

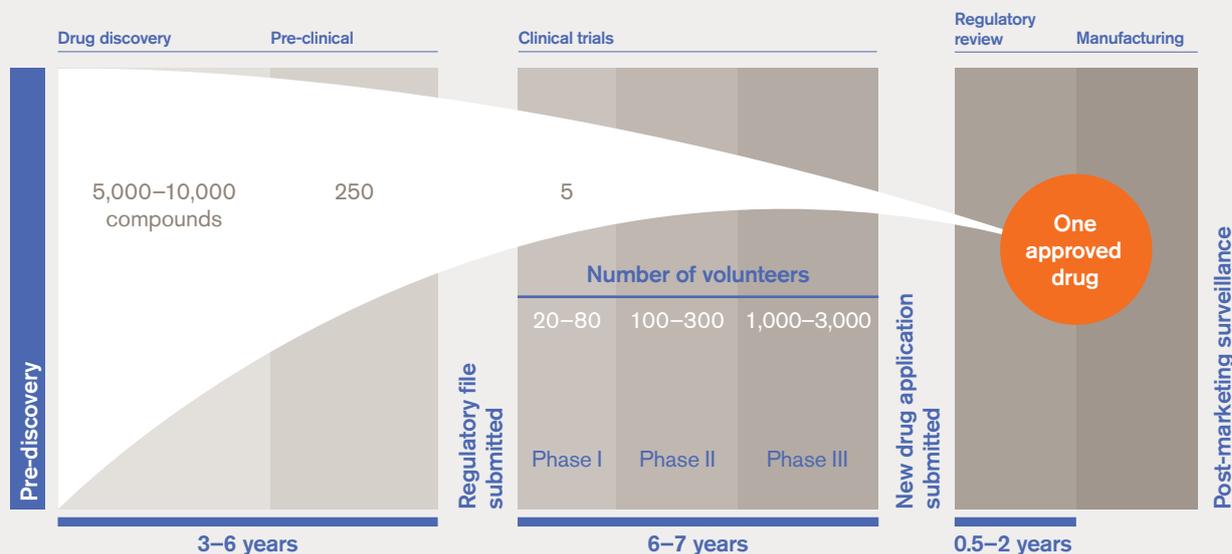
New technology frontiers

Digital technology is having an impact on every part of our business and our goal is to harness these developments in data-rich, information-based medicine to accelerate our drug discovery and development, and drive our business forward.

Collaborations remain key to our innovation. During the year, we joined forces with two external companies to harness artificial intelligence (AI): Exscientia, a UK specialist in machine-learning; and Insilico Medicine, a US leader in AI-led drug discovery.

We also co-founded the private-public Accelerating Therapies for Opportunities in Medicine (ATOM) consortium, based in the US. This aims to cut pre-clinical cancer drug discovery from six years to just one, using supercomputers to analyse data from failed R&D programmes with the aim of finding patterns and vital clues to aid successful future development. We are also supporting the UK Biobank, a ground-breaking initiative to generate anonymised genetic sequence data from 50,000 volunteer participants to deliver insights into why some people are at greater risk of disease. In addition, we continue to work on the Open Targets programme, which supports an open access search engine that searches, evaluates and integrates biological and genetic disease data.

Drug discovery and development



Source: Pharmaceuticals Research and Manufacturers of America

Pharmaceuticals continued

Performance

Pharmaceuticals sales were up 7% AER, 3% CER, reflecting the continued strong growth of our new Respiratory and HIV products.

2017 performance summary

Pharmaceuticals turnover in 2017 was £17,276 million, up 7% AER, 3% CER. In the US, total sales were £7,568 million, up 11% AER, 6% CER primarily driven by new Respiratory and HIV products. In Europe sales were £3,983 million, up 3% AER but down 3% CER, reflecting the continued transition of the Respiratory portfolio, generic competition to *Kivexa* and the disposal of the Romanian distribution business. International sales were £5,725 million, up 6% AER and 4% CER.

Respiratory sales were up 7% AER, 3% CER to £6,991 million. New Respiratory products recorded combined sales of £1,930 million in 2017, more than offsetting the decline in *Seretide/Advair*.

HIV sales increased 22% AER, 16% CER to £4,350 million in the year. The growth was driven by continued increases in market share for *Triumeq* and *Tivicay*, partly offset by the impact of generic competition to *Epzicom/Kivexa*, particularly affecting the European market.

Immuno-inflammation sales were £377 million, up 11% AER, 6% CER in the year.

Sales of Established Pharmaceuticals were £5,558 million, declining 2% AER, 5% CER, reflecting a three percentage point impact from recent divestments of non-core assets.

The Pharmaceuticals operating margin was 34.3%, up 0.2 percentage points AER but down 0.6 percentage points CER primarily reflecting increased R&D investment, including using a Priority Review Voucher in Q2 2017. The lower operating margin also reflected increased investment in new product support, as well as the continued impact of lower prices, particularly in Respiratory, partly offset by a more favourable product mix, primarily driven by the growth in HIV sales, and the continued cost reduction benefit of the Group's Pharmaceuticals restructuring programme.

Delivering world class capability



Our ambitious commercial efforts are focused on driving the continuous growth of our priority brands in our largest markets, most notably the US. Our R&D teams continue to generate evidence from clinical trials to support the right patients for each medicine, as well as the differentiation of our brands.

In 2017, strategic use of data and analytics has enabled us to optimise the role, engagement and training of our salesforce. This has helped make sure their knowledge of the disease, our strategy and the competitive environment have led to truly competitive customer engagement from day one of launch.

For our asthma medicine, *Relvar/Breo Ellipta*, this focus on target customer groups helped this medicine become the first of our new Respiratory portfolio to be a £1 billion brand, helping over four million patients this year.

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“Strong sales of our new products show we can achieve great things when we are focused.”



Luke Miels
President, Global Pharmaceuticals

2020 outlook

Over the five years to 2020 we expect a low single-digit CAGR for sales (at 2015 exchange rates) despite a higher level of divestments over the period than we originally expected. Strong performances from our new medicines together with disciplined cost management are expected to enable the business to achieve an operating margin in the low 30s percentage range in 2020 (at 2015 exchange rates) even if an automatically substitutable generic version of *Advair* is launched in the US.

Driving performance for profitable, sustainable growth

In 2017, we refocused our Pharmaceuticals business to make it stronger and more competitive in order to deliver improved, sustainable returns. Under the leadership of Luke Miels, we have simplified our commercial management structure and reshaped our operations. We are aggressively reallocating resources to those areas best able to deliver profitable sustainable growth and returns, with much more focus on new medicines and major markets.

The changes we are making will drive sharper prioritisation, a simpler portfolio, faster decision making, more effective capital allocation and a strong focus on execution.

In 2017, we began streamlining our Pharmaceuticals products portfolio by exiting from or divesting 90 non-core brands and we are on track to reach our goal of about 20% fewer brands. This included announcing an end to the manufacture and sale of the type 2 diabetes therapy *Eperzan/Tanzeum* which we now expect to end during 2018. In addition, we announced a strategic review of our cephalosporins antibiotics business with an option to sell.

We are restructuring our emerging markets business to improve growth, profitability and sustainability while continuing to ensure access for the patients that need our medicines. Simplifying the geographies, reducing organisational layers and simplifying our cost structures, including moving to an export model in some markets, will support faster, more aligned execution.

Creating a simpler, competitive supply chain

We are simplifying our manufacturing and supply chain to achieve competitive and sustainable performance – delivering strong results in the fundamentals of safety, quality and service, as well as improved financial performance. We are focused on fewer priorities, removing waste and making things simpler. Our current plans address productivity improvement, procurement savings and working with our supplier base to prioritise fewer, more strategic supplier relationships. We are on track to reduce our suppliers by approximately 30% – leveraging our scale and standardising specifications to use fewer bespoke materials and improving our cost of goods.

We continue to invest in our manufacturing network and advanced manufacturing technologies which have the potential to improve product quality while reducing material waste and lead times for new capacity. Our work with continuous processing is well advanced and, where deployed, could reduce cost of goods by up to 20% in the long term.

Digital transformation

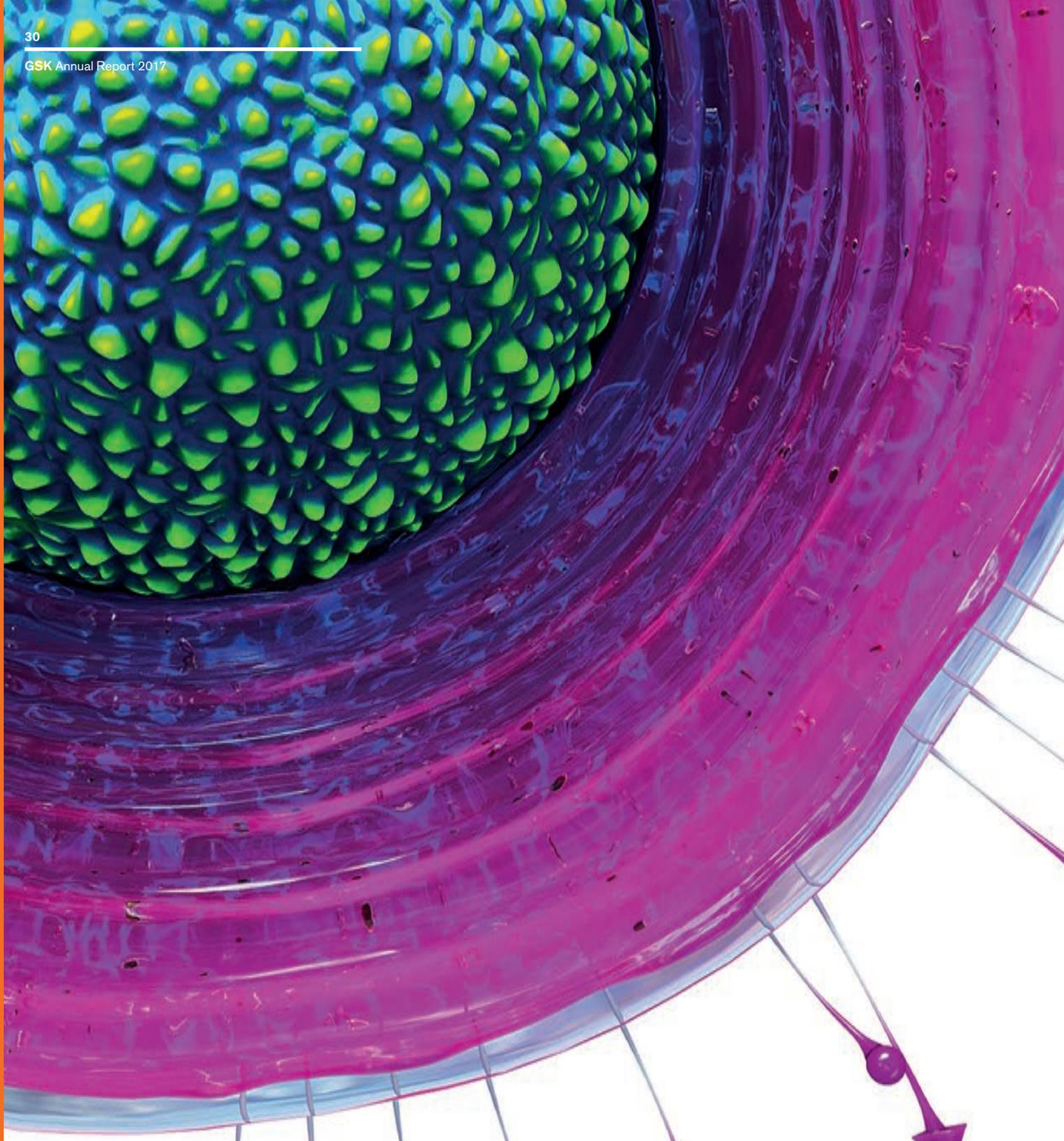
Our goal is to apply digital technology that delivers truly competitive customer engagement to drive better performance.

Our investment in this area is underpinned by our appointment of Karenann Terrell as Chief Digital and Technology Officer, who joined in September 2017 to help drive a digital transformation programme across our three businesses.

Across the Pharmaceuticals business we are using new technologies to improve performance with an increased focus on improving the customer experience. This includes customer-centric integrated campaigns and personalised content to help healthcare professionals deliver better patient outcomes and to drive preference for our brands.

Footnote

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



Shingles
Herpes zoster virus
of shingles

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Virginie, Laboratory Technician,
Vaccines R&D

Our new vaccine *Shingrix* represents a significant advance in vaccine technology and has clinically demonstrated a strong and sustained immune response and efficacy against shingles and its painful complications.



Alain, shingles sufferer and GSK employee

Vaccines

Our Vaccines business has a broad portfolio and innovative pipeline of vaccines to help protect people throughout life. We deliver over two million vaccine doses per day to people living in over 160 countries.

Vaccines sales were up 12% AER, 6% CER, primarily driven by meningitis vaccines, with *Bexsero* growing across all regions and *Menveo* in the US and Europe, and higher sales of influenza products, primarily in the US and Europe.

During the year, we received US FDA approval for *Shingrix*, our new vaccine which represents a new standard for the prevention of shingles.

Vaccines turnover	£m
Meningitis	890
Influenza	488
Shingles	22
Established Vaccines	3,760
Total	5,160

Footnote

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

What's next

Innovation in Vaccines

> See pages 32–33

Performance in Vaccines

> See pages 34–35

We report on our Trust priority across all three businesses

> See pages 42–51

Vaccines

Innovation

Our advanced science and technology platform capability enables us to discover and develop vaccines that help protect people in over 160 countries from serious diseases.

Our vaccines strategy is to bring differentiated, high-quality and needed vaccines to as many people as possible. We have global scale and are well positioned to take advantage of changing demographics. Vaccines are long-term assets without the volatility of patent cliffs, which provides opportunities to invest in life-cycle management and improve the competitive profile of our existing vaccines to better meet patient needs.

We focus on finding new candidate vaccines to help protect people of all ages from disease and have a pipeline of 14 candidate vaccines currently in development. We believe that a core competitive advantage is our expertise in technology platforms which facilitates the development of more effective vaccines.

Innovation in action

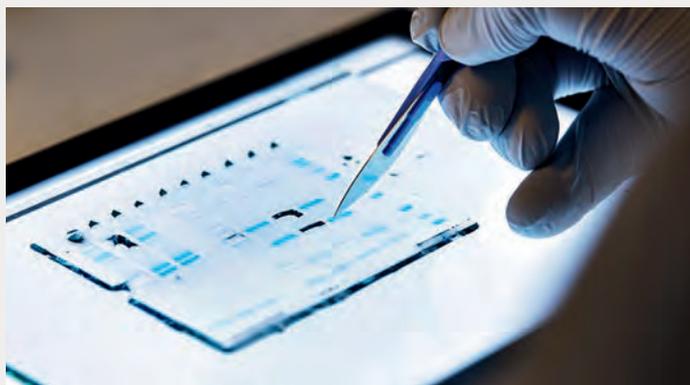
In 2017, we received regulatory approval in the US and Canada for *Shingrix*, with an efficacy of over 90%, which we believe provides a step change in the prevention of shingles. We anticipate it could drive one-third of Vaccines growth between 2015 and 2020. More than 90% of people over 50 are infected with the varicella zoster virus that causes shingles and one in three will develop shingles in their lifetime.

Following approval by the US Food and Drug Administration (FDA) in October 2017, the competitive position of *Shingrix* has been further strengthened by recommendations from the US Centers for Disease Control and Prevention's (CDC's) Advisory Committee on Immunization Practices (ACIP) naming it as the preferred shingles vaccine for adults aged 50 and over. The recommendation includes revaccinating those who had previously received the competitor vaccine, meaning over 100 million people in the US will be eligible for the *Shingrix* vaccine.

In January 2018, we received a positive opinion from the European Medicines Agency's (EMA's) Committee for Medicinal Products for Human Use for *Shingrix*. The results of regulatory filings for *Shingrix* in Australia and Japan are also due in 2018. In addition, in December 2017 we announced new data confirming the safety and efficacy of *Shingrix* in immunocompromised autologous haematopoietic stem cell transplant patients.

Our commercial, manufacturing and R&D teams have worked closely together to ensure the *Shingrix* launch is executed flawlessly. We are taking a staged approach to the global launch in order to manage the strong anticipated demand with reliable supply.

Breakthrough vaccine science



Shingles is a painful and potentially serious condition. *Shingrix* was developed specifically to overcome the age-related decline in immunity and is the first shingles vaccine to combine a non-live antigen, to trigger a targeted immune response, with a specifically designed adjuvant system, AS01B, to make that response strong and sustained. This adjuvant is also used in our RTS,S vaccine for the prevention of malaria in children.

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Strategy in action

“With our global Vaccines R&D organisation, supported by unique technology platforms and talented people, we are developing vaccines to meet existing and emerging needs.”



Emmanuel Hanon
Senior Vice President,
Head of R&D, Vaccines

Delivering best-in-class innovation

We are aiming to develop assets which are best in class. Our investment in unique technology platforms, including adjuvants, is delivering a competitive advantage in targeting new, emerging and remaining medical needs.

Meningitis

Our focus is to maintain GSK's meningococcal meningitis market leadership with both licensed and candidate vaccines. We aim to broaden the age range of our meningococcal vaccines in the US and demonstrate their impact in infants as well as meningococcal carriage in adolescents. In February 2018, we were granted Breakthrough Designation for *Bexsero* in children aged 2 to 10 years. We are also working on new formulations, including a fully liquid presentation of our tetravalent vaccine for MenACWY, *Menveo*, which is expected to enter phase II clinical trials in 2018. The results from our phase III study of our booster for *Menveo* are expected in 2018. We are also committed to developing a single vaccine that tackles all five of the most common serogroups, A, B, C, W and Y.

Reflecting our active life-cycle management of our vaccines – where we strategically plan an asset's commercial journey from its final clinical trials onwards – we continue to expand target populations and protection. In this way, we aim to extend patient benefits, increase use of our vaccines and be the leader in helping to prevent meningococcal disease.

In line with this approach, we are supporting an extensive study to examine if the meningococcal B vaccine reduces the spread of meningococcal bacteria in teenagers through 'herd immunity'. This involves vaccinating 35,000 teenagers in South Australia, which has a high incidence of meningococcal B disease.

Other priority assets

Building on GSK's existing respiratory leadership position through our Pharmaceuticals business, we have a number of candidate vaccines targeting respiratory diseases. These include our candidate vaccine for chronic obstructive pulmonary disease (COPD), which began a phase II proof of concept study in Europe in 2017. Other growth drivers in the respiratory portfolio are our respiratory syncytial virus (RSV) candidates, with different approaches tailored to each age group. We also have a research collaboration focused on tuberculosis, with our candidate vaccine currently in phase II trials.

We have developed the only malaria vaccine candidate to have received positive opinion from the European Medicines Agency (EMA) (see page 44).

New technology frontiers

We have new technologies, including adjuvant systems, structural vaccinology and synthetic vaccine platforms that are helping us move beyond observation and experimentation methods of vaccine development to create 'vaccines by design'. These are made up of antigens, delivery systems and adjuvants that can help increase the immune system's response to a vaccine.

GSK has been innovating in adjuvant systems for more than 25 years. Our unique approach has led to the development of several 'adjuvant systems (AS) families', which use a combination of adjuvants to achieve a better immune response and are fundamental to the next generation of our vaccines portfolio.

Our self-amplifying mRNA (SAM) technology uses the human body as a 'factory' to produce its own vaccines. SAM will not require traditional vaccine production methods, so could potentially enable us to produce vaccines more quickly and simply. We are in the early stages but data from a variety of animal models show SAM performs well.

External partnerships

Collaboration is central to our innovation. We have around 180 external scientific collaborations, with most of our 14 candidate vaccines being developed in partnership. Such collaborations enable our 2,000 Vaccines scientists at our global R&D centres, in the US, Belgium and Italy, to learn from other experts and stay close to emerging technologies. For example, we are involved in the phase II trial of an HIV vaccine with a group of NGOs and other pharmaceutical companies, led by the US National Institutes of Health.

> Read more about our Vaccines pipeline on page 253

Vaccines continued

Performance

Demand for our world-leading meningitis portfolio contributed to a 12% AER, 6% CER increase in Vaccines sales.

2017 performance summary

Vaccines sales grew 12% AER, 6% CER to £5,160 million, primarily driven by meningitis vaccines, with *Bexsero* growing across all regions and *Menveo* in the US and Europe and higher sales of influenza products, primarily in the US and Europe.

Vaccines operating margin was 31.9%, up 0.8 percentage points AER and 1.3 percentage points higher on a CER basis. This was primarily driven by improved product mix, the benefit of a settlement for lost third-party supply volume, together with continued restructuring and integration benefits. This was partly offset by increased SG&A (selling, general and administration) resources to support business growth and new launches, increased supply chain costs and lower royalty income.

Meningitis

Meningitis sales grew 34% AER, 27% CER to £890 million. *Bexsero* sales growth of 43% AER, 34% CER was driven by new national immunisation programmes, private market sales and regional tenders in Europe, as well as growing demand in the US, together with strong private market sales in International.

Following 2017 launches in Argentina and Belgium, *Bexsero* is now available in 24 countries. The vaccine's broad age indication provides competitive advantage in Europe, and in the US it offers the fastest series completion, with two doses administered in about one month.

Menveo sales grew 36% AER, 29% CER, primarily driven by the impact of favourable year-on-year CDC stockpile movements, partly offset by supply constraints in International.

Influenza

Fluarix/FluLaval sales were up 18% AER, 12% CER to £488 million, reflecting strong sales execution, primarily in the US, and higher demand in Europe.

Shingles

Shingrix recorded initial sales to distributors of £22 million in the US after its FDA approval and favourable ACIP recommendations.

Global demand for *Bexsero*



Image Meningococcal serogroup B bacteria, commonly known as meningitis B

Over 22 million doses of our meningitis B vaccine *Bexsero* have been distributed since its 2015 launch. *Bexsero* was developed using reverse vaccinology, which decodes the genome sequence of meningitis B and selects the most effective protein candidates for use in the vaccine. *Bexsero* is part of national immunisation programmes in the UK, Andorra, Ireland and Italy. In the US, *Bexsero* current market share represents approximately 70% in the adolescent market.

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“We are focused on maintaining our leadership position in meningitis vaccines and executing our *Shingrix* launch flawlessly.”



Luc Debruyne
President, Global Vaccines

Established Vaccines

Established Vaccines growth was driven by hepatitis vaccines, mainly due to a competitor supply shortage in the US and higher demand for *Boostrix* and *Rotarix*. The launch of *Cervarix* in China, the first cervical cancer vaccine to be approved and launched in the country, also contributed towards growth as did favourable year-on-year CDC stockpile movements for *Infanrix* and *Pediarix* in the US. This growth was partly offset by increasing competitive pressures on *Infanrix* and *Pediarix* in the US and Europe, and lower *Synflorix* sales, driven by lower pricing in developing countries.

2020 outlook

Over the five years to 2020 we expect a mid to high single-digit CAGR for sales (at 2015 exchange rates). A strong launch of *Shingrix* is a key priority and we believe the vaccine could be one of our biggest growth drivers over the 2015 to 2020 period. We are still targeting an operating profit margin of at least 30% (at 2015 exchange rates) in 2020.

Driving performance for profitable, sustainable growth

During the year, we decided to discontinue a number of our commercially available vaccines within our Established Vaccines portfolio that are low in volume and where medical needs are met with other vaccines.

Creating a simpler, competitive supply chain

Our global Vaccines network includes 16 vaccine manufacturing sites in 11 countries. This international presence enables us to manufacture our vaccines with greater capacity, efficiency and flexibility. We aim to keep critical production steps in-house wherever possible.

We continue to focus on removing complexity in our supply chain. Since 2015 we have reduced the number of different packs we have by 40%, increased our manufacturing flexibility, and simplified and standardised our product offerings to support our commercial strategy.

Process and analytical robustness

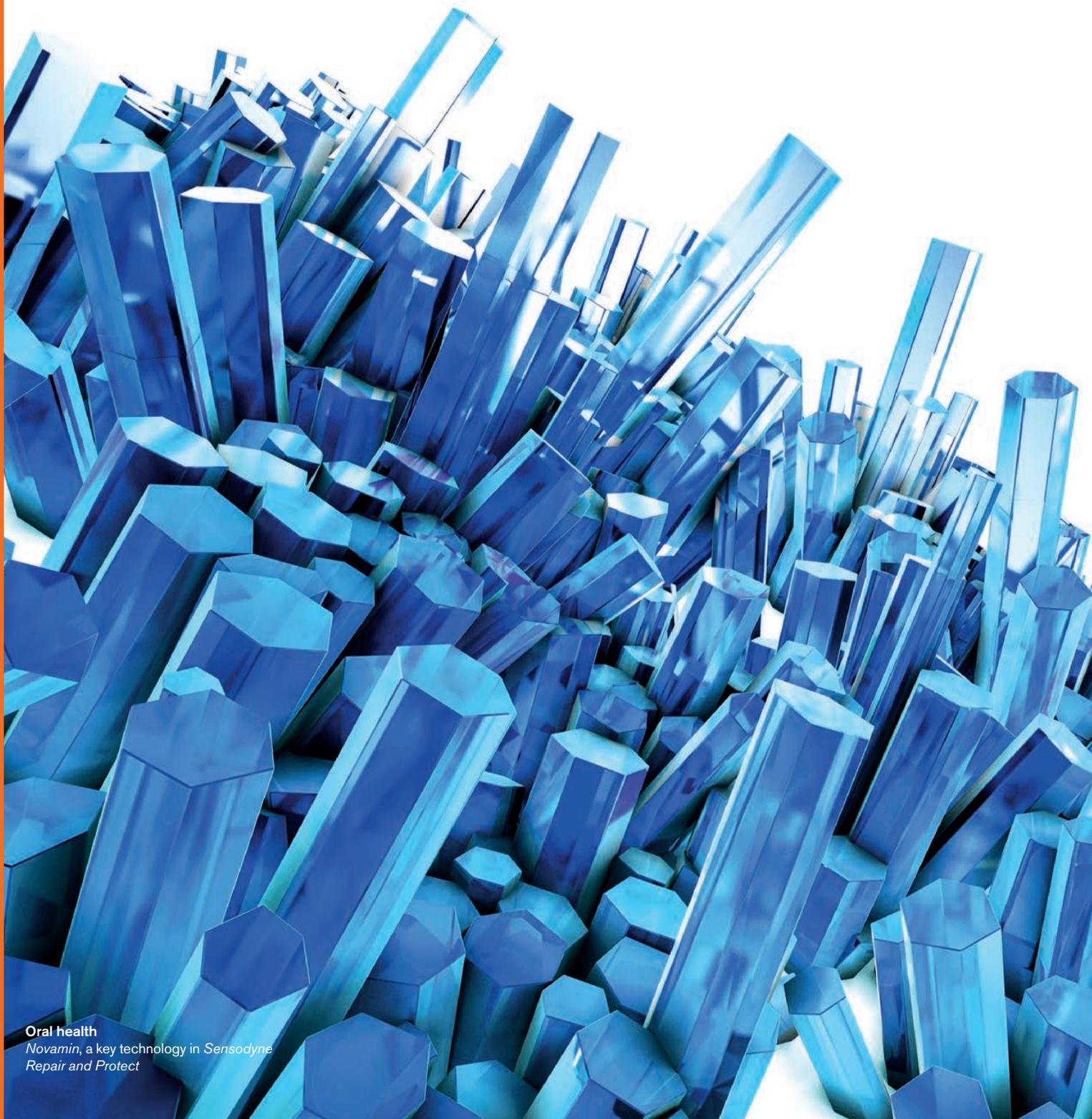
During 2017, process improvements and analytical robustness enabled us to produce more of our *Bexsero* vaccine more efficiently. This was due to a new pyrogen test, approved in several countries, which improved assay robustness and eliminated about 10% of failures. We have also demonstrated the feasibility of increasing the yields and reducing failure rates of two of the four antigen manufacturing processes. The *Synflorix* process robustness programme (completed in 2016) continued to deliver good results in 2017, enabling us to manufacture product without any major losses.

Transaction savings

Excellent execution and acceleration of the Integration Implementation Plan across R&D, manufacturing, global support functions, commercial network and procurement helped our Vaccines business to deliver its £400 million Novartis integration savings target.

Footnote

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



Oral health
*Novamin, a key technology in Sensodyne
Repair and Protect*

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Consumer Healthcare

Our Consumer Healthcare business develops and markets consumer-preferred and expert-recommended brands in oral health, pain relief, respiratory, nutrition/gastro-intestinal and skin health.

Consumer Healthcare sales were up 8% AER, 2% CER. A strong performance by power brands across Wellness and Oral health was partly offset by competitive pressures in the US allergy category.

Sales from new GSK innovations (product introductions within the last three years on a rolling basis) represented approximately 13% of sales in the period. Some notable launches in 2017 were several line extensions for *Sensodyne*, including next generation *Sensodyne Rapid Relief* and *Sensodyne Deep Clean* as well as *Voltaren No Mess* and *parodontax*. We launched *Flonase Sensimist* in the US and continued the global roll-out of *Flonase OTC* (over-the-counter).

Consumer Healthcare turnover	£m
Wellness	4,001
Oral health	2,466
Nutrition	680
Skin health	603
Total	7,750

Footnote

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



Darren, Principal Scientist, Oral Health R&D, UK

Our *NovaMin* technology in *Sensodyne Repair & Protect* seeks out and forms a protective layer over sensitive areas of the teeth, helping to relieve the pain of sensitive teeth.



Van, sensitive teeth sufferer

What's next

Innovation in Consumer Healthcare

> See pages 38–39

Performance in Consumer Healthcare

> See pages 40–41

We report on our Trust priority across all three businesses

> See pages 42–51

Consumer Healthcare

Innovation

Our priorities are to execute brilliant product launches and to build a strong, differentiated pipeline of consumer-led, science-based innovations and claims.

In 2017, we continued to demonstrate our ability to innovate within the consumer healthcare market, harnessing GSK's scientific and technical expertise alongside deep consumer insights. The proportion of sales from innovations launched within the last three years was approximately 13%, which included several key 2017 launches.

Delivering best-in-class innovation

New *Sensodyne Rapid Relief*, the latest premium extension of our £1 billion *Sensodyne* brand, was launched successfully in more than 40 markets in 2017. Developed in our UK-based Oral health Innovation Hub, it has been designed to provide fast relief from tooth sensitivity and is supported by clinical studies. The active ingredient, stannous fluoride, seals the layer beneath the surface of the tooth enamel known as dentine, aided by a special polymer, which clinical data shows can result in relief from the pain of sensitivity within as little as 60 seconds.

We also introduced *Sensodyne Deep Clean* toothpaste in a number of markets, which provides a deep clean for sensitive teeth using small particle silica and delivers long-lasting freshness through novel coolant technology.

A further key innovation launched in 2017 was *Voltaren No Mess*, which has a cap that makes the product easier and less messy to apply, addressing one of the key consumer barriers to using a topical pain-reliever. The unique and innovative packaging was assessed extensively in our new consumer sensory testing laboratories. Roll-out continues in 2018.

We launched our *parodontax* brand – clinically proven to help prevent bleeding gums and gingivitis – for the first time in the US.

Consumer insight-driven innovation



New *ENO Cooling* antacid creates an instant cooling sensation when taken. Our scientists developed the formulation to create this cooling effect after research at our consumer sensory labs showed consumers believe that feeling cool internally helps soothe heartburn. *ENO Cooling*, which we have just launched in India, is one of many consumer-led innovations that have been created following research at our three consumer sensory facilities in India, the UK and the US.

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“We deliver differentiated products to consumers by combining consumer insights with scientific and technical excellence.”



Richard Slater
Head of R&D,
GSK Consumer Healthcare

We continued to see success in our switch programme with *Flonase Sensimist* successfully changing from a prescription-only medicine to an over-the-counter product in the US, enhancing our offering in the allergy market. We have also continued the global roll-out of *Flonase*, launching in several markets in 2017, including Canada, Spain and the Czech Republic. In switching *Flonase* from prescription-only to over-the-counter, we recognised the growing consumer demand for greater personal control over healthcare.

Building industry-leading capabilities

We continued to invest in understanding and meeting consumers’ and retail customers’ needs by expanding our international network of consumer sensory and shopper science laboratories, with new labs opening in the UK and Singapore in 2017. These state-of-the-art facilities differentiate GSK, with retailer feedback showing that our scientific approach to shopper insight and customer collaboration puts us ahead of our competitors.

Our integrated global innovation hubs, co-locating both R&D and commercial experts, continue to ensure that our innovation is both science-based and consumer-led. The breadth of this network also keeps us in step with local and regional trends.

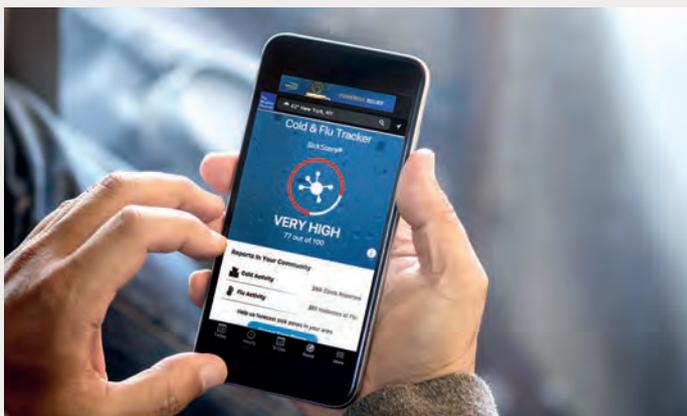
Emerging market opportunities

Emerging markets continue to be a key opportunity area for growth in Consumer Healthcare. We have increased our emerging market R&D investment and focus, in particular in our China and India-based innovation hubs, where we continue to identify local consumer and retailer insights to underpin our product development and marketing, ensuring that we remain locally relevant and competitive. In India, for example, we discovered that nearly half of all indigestion treatments use home remedies. Using this insight, we developed and launched a new variant of our *ENO* antacid, using the popular *ajwain* herb. This contributed to strong brand growth in 2017.

External innovation

We continue to look beyond GSK for additional innovation opportunities, and in 2017 saw a significant increase in the proportion of our pipeline coming from outside the company. We identified over 1,000 possible partnerships, formally reviewed more than 150 proposals and entered into more than 40 partnerships. This increased external focus, along with our strong internal science capabilities, ensures that we are able to develop and deliver a strong, competitive pipeline of consumer-led, science-based innovation.

Weather app boosts sales



A *Theraflu*-sponsored weather app kept US consumers informed of local cold and flu levels – and boosted sales. The GSK brand teamed up with The Weather Channel to create the *Theraflu* cold and flu tracker, as part of the launch campaign for *Theraflu ExpressMax* caplets. Reflecting social media conversations, the app gave likely cold and flu levels in users’ areas, while advising them to treat symptoms with *Theraflu*. Almost 50 million unique visitors were exposed to *Theraflu* messaging via the tracker and the brand’s sponsorship of The Weather Channel. This sparked a significant rise in sales among app users during the peak flu season.

Consumer Healthcare continued

Performance

Strong performance by our power brands across Wellness and Oral health helped drive growth.

2017 performance summary

Consumer Healthcare sales grew 8% AER, 2% CER to £7,750 million. A strong performance by power brands across Wellness and Oral health was partly offset by competitive pressures in the US allergy category, impacting *Flonase* OTC as well as lower sales of tail brands across the Nutrition and Skin health categories. In addition, reported growth was impacted by the disposal of the Nigeria beverages business in Q3 2016 and the implementation of the Goods & Service Tax (GST) in India in July, the net effects of which were partly offset by the benefit of the comparison with the impact of demonetisation in India in Q4 2016. The divestment, GST and demonetisation combined to reduce overall Consumer Healthcare CER growth by approximately one percentage point.

Sales from new GSK innovations (product introductions within the last three years on a rolling basis) represented approximately 13% of sales in the period. Some notable launches in 2017 were several line extensions for *Sensodyne*, including next generation *Sensodyne Rapid Relief* and *Sensodyne Deep Clean*, as well as *Voltaren No Mess* and *parodontax*. We also launched *Flonase Sensimist* in the US and continued the global roll-out of *Flonase* OTC.

On a category basis, sales in Wellness grew 7% AER, 2% CER to £4,001 million, reflecting a strong performance from *Voltaren* and cold and flu seasonal products, partly offsetting a weaker performance from US allergy products. Oral health sales grew 11% AER, 6% CER to £2,466 million, with *Sensodyne* sales continuing to drive performance. Nutrition sales grew 1% AER and declined 5% CER to £680 million, adversely impacted by the sale of the Nigeria beverages business and the implementation of GST, as well as continued competitive pressures from *Horlicks* in India. Skin health sales grew 6% AER, but were flat at CER at £603 million.

Consumer Healthcare operating margin was 17.7%, up 2.2 percentage points AER and 1.3 percentage points higher on a CER basis, reflecting tight control of costs, integration synergies principally in SG&A, partly offset by increased investment in power brands.

2020 outlook

Over the five years to 2020 we expect a low to mid single-digit CAGR for sales (at 2015 exchange rates) and we expect an operating margin of 20+% in 2020 (at 2015 exchange rates).

Footnote

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

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“As the consumer healthcare market evolves, we are investing in digital capabilities and forming ground-breaking partnerships to continue to meet changing consumer needs.”



Brian McNamara
CEO, GSK Consumer Healthcare

Driving performance for profitable sustainable growth

In 2017, we took significant steps to strengthen our performance now and in the longer term, by increasing our focus on our best performing brands and priority markets.

Power brands

Our strategy of focusing our resources on seven power brands and 12 regional core brands continued to deliver. Our power brands – including *Sensodyne*, *Voltaren*, *Panadol* and *Theraflu* – significantly outperformed the market, with high single digit growth. *Sensodyne* continued to drive performance, reporting growth of 12% AER, 8% CER, with strong market-beating delivery in all regions following the roll-out of next generation *Sensodyne Rapid Relief* and the launch of *Pronamel Strong & Bright*.

Pain relief sales were up 10% AER, 4% CER, driven significantly by *Voltaren* which saw growth across the regions, benefiting from momentum in the 12-hour variant, strong in-store and marketing activation, expansion of expert detailing and strong performances in International markets.

To concentrate on our best performers, we announced the divestment of some smaller nutrition brands, including *MaxiNutrition* in the UK.

Digital transformation

We invested strongly in our digital transformation programme. This is intended to both boost sales – through data-driven marketing, new e-commerce sales channels and digitally powered innovations – and unlock efficiency savings by, for example, optimising how we generate and deploy digital content and extracting more value from our media mix.

To drive our digital transformation, in 2017 we appointed our first Consumer Healthcare Chief Digital Officer and established a Digital Advisory Board of external digital marketing, data and e-commerce experts. We also revised our core training programmes to build digital and e-commerce capabilities across our sales, marketing and general management teams.

Industry partnerships

Collaboration is core to all aspects of our innovation. In 2017, we signed a partnership with Google, to bring our digital advertising data platform in-house, enabling us to better target relevant content to consumers and drive efficiency in our marketing campaigns. We formed another partnership in 2017 with Alimama, the marketing and media arm of Chinese technology group Alibaba. This partnership helps us identify more potential consumers and gain deeper understanding of their online shopping behaviour so we can reach them with the right advertising at the appropriate time.

We continued to prioritise building relationships with healthcare professionals (HCPs), whose recommendations can be key in introducing new consumers to our brands. Seventy per cent of consumer trial of *Sensodyne* in the US, for example, is driven by dentist recommendation.

In 2017, we deployed a new customer relationship management platform across 80 markets to our HCP field forces. This system upgrade enables us to have a more engaging and relevant science-based dialogue with HCPs.

Creating a simpler, competitive supply chain

We have continued to improve our consumer health supply chain, across quality, safety, service and cost. We have simplified our network and announced plans to exit three sites. Since 2015, we have streamlined the number of contract manufacturers (CMOs) we use by 24% to reduce complexity in our supply chain. Our supply chain has successfully supported strong growth of our higher-margin power brands through improvements across productivity, procurement and systems, ensuring robust and reliable supply.

Trust

Maximising our social impact, ensuring the reliable supply of our high-quality products to as many people as possible, and having highly engaged employees.



Earning Trust

Here we detail the progress we have made on: addressing global health needs through our science, creating sustainable access to our high-quality products, and being a responsible business with modern employer practices.

Creating long-term value for all our stakeholders

Investors, patients and consumers, employees and communities rightly expect companies to consider their social, as well as financial, impact as they seek to create value over the long term. By investing in a balanced set of long-term priorities – Innovation, Performance and Trust – across each of our three businesses, we will deliver both financial returns and a broader contribution to society.

Focusing where we can have impact

We have a long history in tackling some of the world's biggest health challenges. The biggest impact we can have is to use our scientific and technical know-how to address global health needs – like HIV and malaria – and support sustainable access to our high-quality products.

We must also be a responsible business, with modern employer practices, to support our talented people to give their very best.

Later this year, we will launch a set of long-term commitments describing the actions we will be taking to demonstrate our continuing commitment to deliver societal value. With these, we will seek to establish clear, ambitious targets to drive impact and progress in three areas:

- Addressing global health needs through our science
- Creating sustainable access to our high-quality products
- Being a responsible business with modern employer practices

We will also continue to seek transparent and trusted engagement with scientific and medical communities, address our environmental impact, and maintain the ethical standards to which we conduct our business.

This section reports progress in these areas during 2017. More detail is available in our Responsible Business Supplement available at www.gsk.com/responsibility.

All three of our businesses contribute towards our Trust priority.

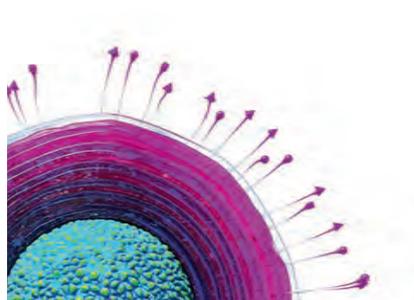
Pharmaceuticals

In 2017, our HIV drug, dolutegravir, was made available in Brazil as a first line treatment for people living with HIV who have never received treatment via the national health programme. It is also now available as first line treatment in Botswana.



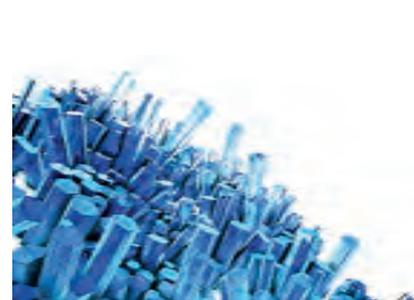
Vaccines

Our Vaccines business has developed the only malaria vaccine candidate to have received a positive scientific opinion from the European Medicines Agency and a recommendation for pilot implementation by the World Health Organization (WHO).



Consumer Healthcare

In early 2018, our Consumer Healthcare business is launching a five-year partnership with Smile Train, to provide funding, support and expertise to help more children living with cleft lip or palate to lead a full and productive life.



Trust continued

Addressing global health through science

We are using our science and technology to tackle some of the biggest global health challenges while delivering leading scientific and medical engagement.

We aim to use our science, and work collaboratively and transparently with partners and the scientific community, to develop new medicines, vaccines and consumer healthcare products where there is the greatest need.

Global health impact

The biggest contribution we can make to improve health globally is to focus on diseases impacting people around the world where we have specific scientific and technological expertise: respiratory, HIV, oncology, immuno-inflammation and vaccines. We also have an important role to play in tackling some of the biggest global health challenges, including malaria (see case study), tuberculosis (TB) and neglected tropical diseases (NTDs), where there is no commercial market.

In 2017, we created a Global Health Unit to drive an integrated approach across the business to innovate and deliver medicines and vaccines that tackle the biggest global health challenges, such as malaria and NTDs.

Our open lab in Tres Cantos, Spain supported seven new projects run by external scientists in 2017 (64 since it opened in 2010). During the year, the Tres Cantos facility supported the phase I clinical trials of a new candidate drug for TB, with phase II studies expected to begin in 2018. We also began late stage pre-clinical studies for a molecule with the potential to shorten TB treatment, with funding from the Bill & Melinda Gates Foundation.

In 2017, we received FDA approval for *Juluca* (see page 25), an important milestone in HIV care. It provides a new treatment option and could make a significant difference to people living with HIV as they receive life-long treatment for their chronic condition. Also in 2017, our HIV drug, dolutegravir, was made available in Brazil and Botswana, and has been added to the Essential Medicines List in Russia.

As part of our commitment to eliminate and control NTDs, GSK has donated nearly eight billion albendazole tablets since 1999 to reach more than 850 million people with lymphatic filariasis (LF) or intestinal worms. In April 2017, Togo became the first African country to eliminate LF as a public health problem, with seven other countries doing so later that year.

Helping to beat malaria



Our Pharmaceuticals business is in the late stage development of tafenoquine, a single-dose treatment for *P. vivax* malaria, which is common in South Asia, the Horn of Africa and Latin America. If approved, it will be the first new treatment for *P. vivax* malaria in more than 60 years.

Our Vaccines business has developed the only malaria vaccine candidate to have received a positive scientific opinion from the EMA and a recommendation for pilot implementation by the WHO.

Following successful phase III trials in 2016, we are supporting plans for pilot malaria vaccine implementation programmes in sub-Saharan Africa. We are proud to be working together with the WHO, PATH, the ministries of health in Kenya, Ghana and Malawi, and other stakeholders to ensure successful implementation of the pilot programmes. In parallel, GSK is preparing for the implementation of the phase IV programme and is starting manufacturing activities. GSK will donate the first 10 million doses of the RTS,S vaccine to support pilot programmes in sub-Saharan Africa.

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“We have created a Global Health Unit to drive innovation and delivery of medicines and vaccines to tackle global health challenges, such as malaria.”



Phil Thomson
President, Global Affairs

Preparing for future health threats

We are committed to preparing for global health threats and emergencies. We maintain reserve capacity to respond to a future influenza pandemic, and are collaborating on the development of a universal influenza vaccine candidate.

Fighting antibiotic resistance

The declining effectiveness of antibiotics, due to their extensive use and misuse, is becoming a major public health crisis.

It is important that we work with the pharmaceutical industry and governments to find creative ways to incentivise and reward new research and development in antibiotics and support ways to reduce resistance.

In early 2018, we were ranked number one out of the large pharmaceutical companies in the Access to Medicine Foundation's first Anti-Microbial Resistance (AMR) Benchmark, which assessed 30 pharmaceuticals, generics and biotech company responses to AMR.

In our Pharmaceuticals pipeline, gepotidacin is the first in a new class of antibiotics and is expected to progress to phase III clinical research. Our vaccines also play a critical role in avoiding the need for antibiotics by preventing bacterial, viral and other infections.

To promote responsible antibiotics use, in 2017 we trained over 21,000 healthcare professionals (HCPs) in areas such as appropriate antibiotics use and prescribing guidelines.

Leading scientific and medical engagement

We believe it is important to have trusted and transparent engagement with the scientific and medical communities.

Transparency in clinical trial data

GSK is one of the few companies that publishes clinical study reports, whether positive or negative. By the end of 2017, 2,310 of these reports were publicly available on our clinical study register in addition to 6,305 result summaries from our trials. Reflecting our long-standing commitment to clinical trial transparency, during the year we ranked number one on the AllTrials Transparency Index.

We also share anonymised patient-level data for our interventional phase I-IV clinical trials within six months of publication. By late 2017, we had listed more than 2,100 trials on the www.clinicalstudydatarequest.com platform for use by external researchers. Since we started this initiative in 2013, 108 research proposals requesting GSK data have been approved.

Sales and marketing practices

In 2013, we introduced a policy to stop paying HCPs to speak to other prescribers about our prescription medicines and vaccines. We believe our policy has improved transparency and trust, but feedback from scientific experts is that important scientific dialogue between GSK and them has reduced. This was not the intent of the policy. Transparent scientific dialogue and engagement with experts is in the interests of all those working to develop new medicines and improve care for patients.

To address this feedback, and having consulted with HCPs, we have decided to change our policy. We now allow fair market value payments to be made by GSK to expert researchers and HCPs to speak about the science behind our products, disease and clinical practice in a limited number of GSK sponsored, medical-led meetings.

We believe this change is in the best interest of patients as it helps effective, transparent scientific dialogue by allowing HCPs to share new science with each other. Our primary focus remains on internal medical experts speaking about our products and we will not pay HCPs to talk about our products outside of an approved, medical-led scientific workshop or symposium.

We have continued to strengthen our online resources and in-house medical capabilities to provide bespoke product information for HCPs. By using all of our existing channels, we increased our overall interactions with customers by 15% in 2017 with digital interactions growing by 50%.

GSK has eliminated the use of individual sales targets for our pharmaceutical and vaccines sales representatives. This change was implemented in the US in 2011, and expanded to all our markets globally in 2015. Today, our sales representatives are incentivised based on their selling competency and broader business performance.

Trust continued

Sustainable access to our high-quality products

We are expanding access to our high-quality medicines, vaccines and consumer healthcare products so that more people can benefit from their use.

We are committed to widening access to our high-quality products. We do so through embedding our equitable pricing strategy, using innovative business models, and ensuring that our products adhere to high quality and safety standards.

Pricing

Our equitable pricing strategy for medicines and vaccines is based on the country, disease area, product type and patients' ability to pay. Since 2010, we have capped the prices of our patented medicines in least developed countries at 25% of those in Western Europe, as long as manufacturing costs are covered.

More than 70% of our vaccine doses go to least developed, low and middle-income countries. Our lowest vaccine prices are offered to organisations such as Gavi, the Vaccine Alliance, which supports poorer countries. We are the only company committed to a ten-year price freeze to support countries transitioning from Gavi financing.

In 2017, the World Intellectual Property Organization (WIPO) and the International Federation of Pharmaceutical Manufacturers and Associations (IFPMA) launched a new partnership called Pat-INFORMED to facilitate access to medicine patent information. GSK played an instrumental role in the development of this partnership which was catalysed by our 2016 commitment to make information about our patent portfolio freely available.

We also understand payer and patient concerns about affordability in developed markets. The prices of our new medicines and vaccines reflect our goal to work in the best interests of both patients and shareholders and to balance reward for innovation with access and affordability.

In the US, we negotiate with payers to gain favourable placement on formularies (lists of products covered by health insurers and pharmacy benefit managers). Patients generally have lower out-of-pocket costs for medicines that have preferred treatment under a formulary. The GSK Patient Assistance Programme provided our prescribed medicines and vaccines to 126,419 patients in 2017.

Reducing child mortality



Image: Ilan Godfrey/
Save the Children

In 2013, we launched a five-year partnership with Save the Children with the aim of saving the lives of one million children in the poorest countries. As we approach the end of the five years, we have reached more than 2.7 million children in 41 countries with life-saving interventions. Through the partnership, we have also created and distributed a potentially life-saving medicine, chlorhexidine gel, that has benefited over 19,000 newborns. The next phase of the GSK and Save the Children partnership, which will continue to address child mortality, will launch in 2018.

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Strategy in action

“Reliable supply is a daily priority across all three of our businesses.”



Roger Connor
President Global Manufacturing and Supply

In Europe, we engage with governments and payers to balance access and affordability while working towards sustainable health systems that support ongoing innovation.

Partnerships to support access

We invest in communities around the world through product and cash donations. In 2017, our charitable giving totalled £262 million.

Since 2009, we have reinvested 20% of our profits from sales of pharmaceuticals and consumer healthcare products in least developed countries (LDCs) – £33 million in total – into strengthening local healthcare infrastructure. Our partnerships with Amref Health Africa, CARE International and Save the Children have helped train over 60,000 frontline health workers, helping us to exceed our goal of reaching 20 million people by 2020. Our new programmes in Botswana, Cameroon and Namibia are training frontline health workers beyond the LDCs.

Cleft surgery can cost from as little as \$250, but if left untreated, children will struggle to eat, breathe and speak properly, leaving them isolated from communities and with ongoing health issues. In early 2018, our Consumer Healthcare business is launching a five-year partnership with Smile Train, to provide funding, support and expertise to help more children living with cleft lip or palate lead a full and productive life.

Our commitment to quality and safety

We follow a strict Quality Management System and comply with regulations on Good Manufacturing Practice. In 2017, 194 regulatory inspections were held at our manufacturing sites and, while the majority resulted in zero or only minor observations, we are committed to addressing issues raised in all inspections as part of our continuous improvement programme. Regulatory authorities have accepted our proposed plans for corrective actions.

We track risks to quality and safety standards through our global risk register. In 2017, we performed 273 audits on our own trials and those conducted for us by third parties. We enhanced our policy on management of human safety information for GSK products and trained all relevant staff to safeguard the people who take our products or are involved in our clinical research.

Reliability of supply

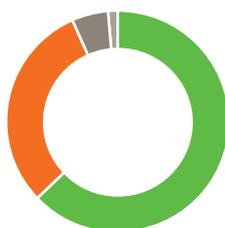
We make reliable supply a daily priority across all three of our businesses.

Significant improvements were achieved in our Pharmaceutical supply performance in 2017. These were instrumental in enabling growth in key therapy areas, as well as ensuring that the launch of new products went to plan. Improvements are the result of essential capability-building and infrastructure investments made in our supply chain to improve safety and quality, as well as a consistent focus on meeting patient and business needs through performance management.

Our supply performance in Vaccines continued to improve in 2017. We grew manufacturing output by 7% which underpinned our strong financial performance. We maintained our focus on safety and delivering all of our vaccines to our high quality standards; we also continued to invest in capacity, updating older facilities and building new capacity to support our long-term growth ambition.

Across the Consumer Healthcare supply chain, we have implemented new ways of working, including core business planning processes to improve our service levels. These have increased steadily and significantly through 2017 and benchmark well with FMCG competitors. All of our 2017 Consumer Healthcare product launches have been supplied on time and we continue to strive for higher targets for product supply, while maintaining our quality and safety standards.

Our charitable giving in 2017 totalled £261.6 million (2016 – £210.2 million)



- Product & in-kind £165m
- Cash £80m
- Management £13m
- Time (PULSE) £3m

Trust continued

Modern employer

To attract and retain the best talent, we are committed to being a modern employer and to driving high levels of employee engagement.

Our staff are more engaged when they are part of the conversation, so we have put a strong focus on holding open and inclusive conversations with each other, and encouraging our leaders and employees to share the ownership and delivery of our strategy. We are also focused on creating a safe and inclusive workplace where everyone at GSK can feel able and inspired to realise their potential.

Engagement

Senior leaders across GSK are playing a pivotal role in engaging our people behind our strategy, through initiatives such as our new Let's Talk programme (see case study).

In October 2017, 600 of our most senior leaders attended a three-day conference to deepen their understanding of our strategy and priorities and to develop effective tools to inspire their teams.

Delivering performance through cultural change

Our strong values and purpose are fundamental to the way we operate. Central to the development of our high-performance, values-based culture will be the alignment of our people behind our long-term business priorities. As part of our approach to evolving GSK's culture, we have retained and reinforced our values while introducing four new expectations that guide the behaviour of our employees: Courage, Accountability, Development and Teamwork.

Talent and development

In 2017, we made a number of key appointments to our Corporate Executive Team, identified significant GSK roles, and supported the development of top talent. This included changing approximately 40% of our top 125 manager roles through promoting existing talent and hiring externally to bring fresh ideas and skills to leadership roles.

We have also launched a new employee performance system. Individual objectives are now linked to our priorities on Innovation, Performance and Trust, and a new GSK-wide bonus system will reflect progress against the priorities and our overall business performance. This will encourage more regular, consistent performance and development conversations.

In 2017, we trained around 3,300 people to support their promotion to first or second line leadership; in addition, more than 1,600 GSK leaders shared their knowledge and helped to improve colleagues' performance through our coaching programmes.

During the year, 434 graduates and postgraduates joined our Future Leaders and Esprit development programmes. GSK ranked third in The Guardian 300 UK Graduate Employers and made the top ten in The Times Top 100 Graduate Employers 2017.

Engaging employees in our strategy



Our strategic success relies on our ability to engage employees behind GSK's long-term priorities.

In 2017, more than 84,000 (83%) of our people took part in GSK's global employee survey – our best ever response rate. Our employee engagement score was 79%, and we will be setting this as a baseline year for improvement. 76% of employees recommend GSK as a great place to work – up 12% since the previous survey – and 85% are proud to work for us.

Survey questions aligned with our new priorities and the results are being discussed by leaders and employees to identify priority focus areas. From 2018, we plan to conduct the survey twice a year.

Our new Let's Talk programme encourages employees to discuss key issues and share views and ideas on strengthening GSK. Leaders across the business have hosted conversations with their teams on a range of topics. Feedback and insights are collated and shared with all employees and senior leaders to help shape our future organisation.

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Strategy in action

“For GSK, family-friendly policies are a key success factor to drive employee engagement.”



Claire Thomas
Senior Vice President,
Human Resources

Women in management (%)

	2014	2015	2016	2017
SVP/VP	29	29	30	31
Director	40	40	42	43
Manager	45	45	46	47
Total	42	42	43	44

Employees by gender (number)

	Male	Female	Total
Board	8	5	13
Management*	9,784	7,825	17,609
Total	55,139	43,323	98,462

* Management: senior managers as defined in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 which includes persons responsible for planning, directing or controlling the activities of the company, or a strategically significant part of the company, other than the Board, including directors or undertakings included in the consolidated accounts.

A diverse and inclusive workplace

In 2017, the Hampton Alexander Review of FTSE 100 companies found GSK has the eighth-highest proportion of women on the Board at 41.7%, and is in line with the FTSE 100 average with 25.7% female representation among executive committee members and their direct reports. We are continuing to focus on improving this number over the coming years. Overall, the proportion of women in management roles at GSK is 44%.

Women made up half of our new graduates and Esprit participants, and 38% of our new apprentices in science, technology and engineering roles, where women have traditionally been under-represented.

We published data on our gender pay gap in the UK for the first time, following new legislation. Our gender pay gap for all permanent UK-based GSK employees is 2.81% (mean), outperforming the national average of 17.4%. We will continue to review pay equity at a global level during 2018.

Through our Accelerating Difference programme, we provided coaching and support for 209 high-performing female managers. Around 49% of those who began the programme in 2014 have been promoted (compared with 31% of women across GSK during the same period).

In the US, our diverse reverse mentoring provides leaders with the opportunity to learn from a more junior employee of a different background to help our leaders develop their inclusive leadership skills. In 2017, we had 105 mentoring pairs in place (up from 20 in 2016).

Seven nationalities are represented on our Board and executive committee. Seventy-eight nationalities make up our Future Leaders graduate programme and more than 60 people have completed our Emerging Leaders programme in Singapore to develop our Asia leadership pipeline.

Our global LGBT+ Council continued to engage people across GSK on LGBT+ issues. It is supported by our LGBT+ employee resource group, Spectrum, which now has over 900 employee members across 29 countries around the world.

In early 2018, we were ranked 21st in the UK Stonewall Workplace Equality Index of the top 100 most LGBT+ and inclusive employers in the UK for 2017.

We are committed to removing barriers, increasing understanding and ensuring that those with disabilities have the same opportunities. Our Disability Confidence Network employee resource group now has more than 250 employee members across 22 countries who support our Global Disability Council in driving change and promoting disability confidence.

Health and wellbeing

We are committed to providing health programmes and services to help our people lead healthy lives. In 2017, we made more than 75% of these programmes and services available in our top 24 countries, covering 85% of employees globally.

Our Partnership for Prevention programme offers over 119,000 employees and family members access to up to 40 preventive healthcare services, such as immunisations and cancer screening, at little or no extra cost. We expanded the programme into the Asia Pacific region in 2017 and prepared to extend it in Europe.

Our reportable injury and illness rate in 2017 was 0.23 per 100,000 hours worked, compared with 0.26 in 2016. This rate is comparable with other leading companies in our sector¹ and has remained low for several years.

Flexible and life-friendly practices

For GSK, family-friendly policies are a key success factor to drive employee engagement. In 2017, in the US we increased maternity leave for mothers to up to 16 weeks, and introduced 8 weeks of paid parental leave for all parents, adoptive parents and partners to bond with their new baby. We also raised our commitment to family-friendly policies across our top 20 markets. For example, in Pakistan we revised our maternity policy for eligible employees to increase fully paid maternity leave from 84 to 120 days.

We are also seeking to improve work/life balance through a range of flexibility models across our markets. In the UK, we offer a tax-free holiday programme, which enables employees to sacrifice part of their salary in exchange for up to ten days of extra holiday. In 2017, this programme had a 30% usage rate among eligible employees.

¹ Based on benchmarking data from the Pharmaceutical Safety Group.

Trust continued

Ethical conduct and environmental sustainability

We aim to run our business ethically and in an environmentally sustainable way.

Ethical conduct

We strive to build a values-based culture by training our people on the standards we expect, encouraging the reporting of any concerns and acting swiftly and transparently when issues occur.

Living our Values

We provide mandatory annual training on our values and Code of Conduct to help employees and complementary workers manage ethical dilemmas and put our values into practice at work.

The Living our Values training emphasises our zero tolerance to bribery and corruption, highlights our commitment on issues such as product quality and data protection, and explains key risks. In 2017, 98% of employees and 91% of complementary workers completed the training. More than 86,300 people had additional training on anti-bribery and corruption to help them manage the specific risks inherent in their roles and responsibilities.

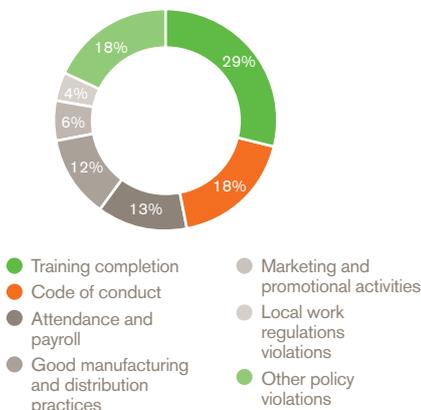
We assess how well our values are embedded and have conducted around 260 values maturity assessments over the past two years.

Reporting and investigating concerns

A 2017 Speak Up campaign raised awareness of the multiple channels we offer for people within and outside GSK to voice concerns and ask questions through an independent third party – confidentially or anonymously if preferred. During the year, we received 2,679 reports (2,568 in 2016), with all being reviewed and 1,919 formal investigations initiated.

We act when employees fail to adhere to our policies. In 2017, 3,200 employees were disciplined for policy violations (3,600 in 2016), including 935 for failing to complete our mandatory Living our Values and Anti-bribery and Corruption training on time. Some 1,801 employees received a documented warning (2,499 in 2016), 901 received verbal warnings (547 in 2016) and 233 were dismissed or agreed to leave voluntarily (221 in 2016).

Employees disciplined in 2017: breakdown of types of policy violation



Working with third parties

We expect all our suppliers and third parties to comply with our standards on ethics, labour rights, health and safety, and the environment. By the end of 2017, we had deployed the roll-out of our Third Party Oversight programme to 95% of our third parties. We expect the remainder to be completed by early 2018. Over 100,000 risk assessments of third parties have been conducted and over 5,000 improvements plans agreed since the programme began in 2015. Based on our initial risk assessment, over 4,200 third parties underwent extensive independent assessments.

The standardised programme enables us to identify and manage third party risks more effectively, and is being embedded into the processes we use to engage with suppliers.

We conducted 60 third party audits on health and safety, ethics, environment and labour rights, with a further 1,592 audits on quality processes.

Where we identify unsatisfactory areas, we engage with third parties to develop improvement plans and track progress. If significant issues remain unresolved, we may suspend or terminate work with a third party.

Human rights

We are a signatory to the UN Global Compact and we are committed to upholding the Universal Declaration of Human Rights and the core labour standards set out by the International Labour Organization (ILO). In 2017, we expanded the information on our human rights expectations in our Living our Values training, particularly around labour rights in our supply chain. We also held a workshop with senior managers to build understanding of labour rights risks and to identify further team training requirements.

We continued to monitor existing suppliers and screen new suppliers, included standardised labour rights clauses in third party contracts, and updated our supplier portal and human rights policy with more information on labour rights to support compliance.

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Environmental sustainability

We aim to minimise our environmental impact at every stage of the value chain, while extending access to our products to more people.

Carbon

Our overall carbon footprint is made up of Scope 1 and 2 emissions from our direct operations (18%), and Scope 3 emissions from our supply chain (49%) and from use of our products (33%).

In 2017, our operational emissions (Scope 1 and 2) were reduced by 2% compared with the previous year, as a result of our continuing focus on energy efficiency measures and purchasing renewable energy. Since our 2010 baseline, we have reduced annual carbon emissions from energy use by 25% saving a cumulative 1.9 million tonnes of CO₂e.

Our Scope 3 emissions fell from 18.7 to 17.9 million tonnes of CO₂e from 2015 to 2016;¹ however, they were up 4% from our 2010 baseline year. This is a result of the Novartis integration in 2015 and increasing sales of our propellant-based inhalers. We engage with suppliers to drive improvement. For example we encourage suppliers to monitor and disclose performance through Ecodesk, an external resource which offers benchmarking information and helps them develop improvement plans.

We also have our own platform, GSK Supplier Exchange, to encourage suppliers to share best practices on sustainability and recognise outstanding performance through our annual Supplier Environmental Sustainability Awards.

The use of our products also has a significant impact on our Scope 3 emissions. The majority is from patient use of a propellant-based inhaler *Ventolin*, where the propellant is a greenhouse gas released during use. Reducing the impact of the propellant is complex. We continue to research feasible solutions to this issue, including changing the way we manufacture, to reduce the amount of propellant used while maintaining efficacy and safety for patients.

GSK's new generation of inhaler products, using our *Ellipta* device, were developed and launched as dry powder inhalers (DPIs) and do not release greenhouse gas emissions. In 2017, a certified assessment of our respiratory inhaler portfolio by the Carbon Trust showed that the lifecycle carbon footprint of our DPI is around 24 times lower than a propellant-based inhaler² for one month's treatment.

Water

We continue to seek ways to use less water in our own operations, in our supply chain and in the use of our products. We have reduced water use by 22% since 2010 but water use increased by 1% in 2017, driven by growth in our Vaccines business.

By the end of 2017, all of our Pharmaceutical and Consumer Healthcare manufacturing sites had completed water risk assessments in line with our water stewardship standard. These sites are now developing plans to address any risks that have been identified which may include working with local communities and other stakeholders. Our efforts to enhance water stewardship will prioritise sites in areas of water stress.

Waste

Since 2010, we have cut operational waste by 23%, producing 10% less hazardous waste and 29% less non-hazardous waste. However, progress towards our 2020 target has slowed and the amount of waste produced remained the same in 2017 as 2016. We have therefore increased our focus on reclaiming more waste through reuse, recycling and recovery.

Around 70% of our sites worldwide have achieved zero waste to landfill and just 4% of our 136,000 tonnes of operational waste ended up in landfill – 25% less than in 2016. Most (71%) was recycled or incinerated to recover energy.

Carbon emissions plus intensity ratios (as per regulations)

'000 tonnes CO ₂ e ^a	2014	2015 ^b	2016	2017
Scope 1 emissions	851	885	889	865
Scope 2 emissions	745	730	700	694
Scope 3 emissions	16,093	18,690	17,897	Data available May 2018
Intensity ratios	2014	2015	2016	2017
Scope 1 and 2 emissions/sales revenue (tonnes CO ₂ e/£m)	69.4	67.5	57.0	51.6
Scope 1 and 2/FTE (tonnes CO ₂ e/FTE)	16.3	16.0	16.0	15.8

^a Carbon emissions are calculated according to the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition).

^b Data included former Novartis sites' emissions and headcount.

¹ Our most recently available Scope 3 data is from 2016. We will publish 2017 data online in late 2018.

² For one month's treatment, a 120 dose propellant inhaler has a carbon footprint of 19kg CO₂e per pack compared with a 30 dose once-daily *Ellipta* DPI which has a carbon footprint of 0.8kg CO₂e per pack

Group financial review

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Group financial review



“We continued to make progress in delivering against our strategy and the financial goals we have set out in our financial architecture.”

Simon Dingemans
Chief Financial Officer

Our 2017 results reflect a continued focus on execution including driving growth from existing products and recent launches; controlling costs tightly to help build better operating leverage across the Group, while also investing behind our future growth drivers; and improving cash generation to increase our capacity to support both investment and the dividends we pay to our shareholders.

Financial architecture

We are using our financial architecture to ensure that the delivery of our strategic priorities of Innovation, Performance and Trust translate into clear financial goals that we can embed across the Group.

These goals are targeted at delivering stronger growth in sales through improved innovation across all three businesses, driving earnings per share faster than sales, through better operating leverage from tight cost control and continued financial efficiencies, and converting more of those earnings into cash which can either be reinvested in the business or returned to shareholders. Critically, these goals need to be delivered in the right way, consistent with our values and our objective of building trust in GSK.

We are using the architecture and its goals to help create a step-change in the alignment of our operations across three fully integrated businesses, including a new end-to-end emphasis on cost, cash and capital discipline.

Reporting framework

Our Reporting Framework is described in more detail on page 58. Following a detailed review, we made some changes in 2017. Core results were renamed Adjusted results and now include ordinary course legal charges.

Due to their magnitude, charges related to the impact of the US Tax Cuts and Jobs Act enacted in 2017 have been excluded from Adjusted results.

GSK continues to present both Total and Adjusted results in all tables and commentaries and has provided a reconciliation between the two on page 67.

Sales growth

All three of our businesses delivered growth in 2017.

Pharmaceuticals sales were up 7% AER, 3% CER, with growth from HIV products, our *Ellipta* portfolio and *Nucala* more than offsetting the decline in sales of *Seretide/ Advair* and Established Pharmaceuticals, as well as a 1% drag from divestments.

In Vaccines, we generated significant growth from our meningitis and flu portfolios, and benefited from increased demand for Established Vaccines. We finished the year with overall Vaccines sales up 12% AER, 6% CER.

Consumer Healthcare delivered growth of 8% AER, 2% CER, reflecting a strong performance from power brands in the Pain and Oral health categories, partly offset by the impact of continued competitive pressures in the US allergy category and a broader market slowdown across key categories. In addition, reported growth was impacted by the divestment of the Nigerian beverages business in 2016 and the implementation of the Goods & Service Tax in India during 2017.

Operating leverage

The Total operating margin was 13.5% of sales compared with 9.3% in 2016. The increased margin reflected primarily lower accounting charges related to the remeasurement of the liabilities for contingent consideration, put options and preferential dividends.

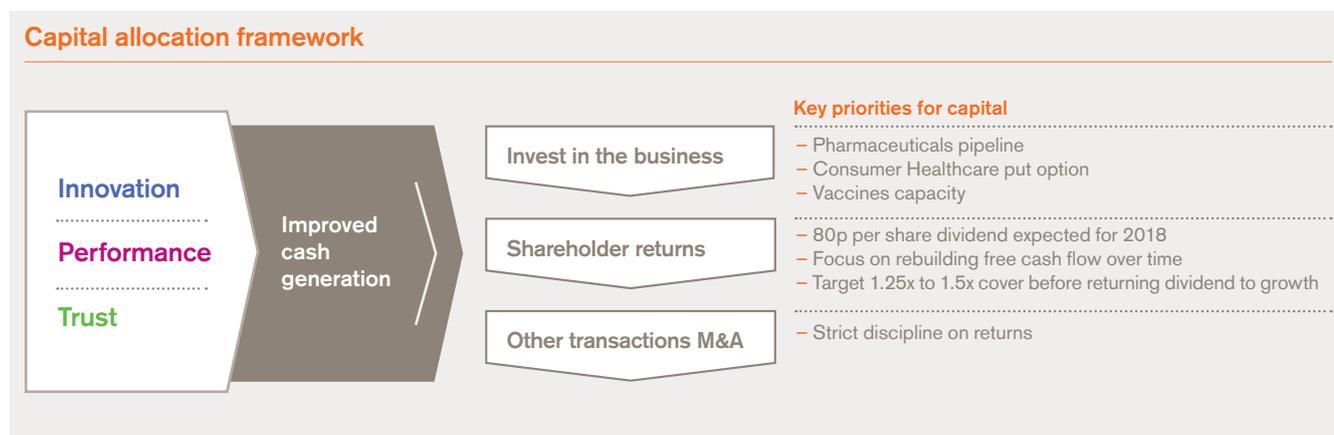
Viability statement

Our viability statement sets out our assessment of the prospects of the Group over the next three years and is presented on page 57.

Footnote

We use a number of adjusted, non-IFRS, measures to report the performance of our business, as described on page 58, including Adjusted results, free cash flow and CER growth rates. Non-IFRS measures may be considered in addition to, but not as a substitute for or superior to, information presented in accordance with IFRS.

Group financial review continued



The Adjusted operating margin of 28.4% was 0.9 percentage points higher than in 2016 and 0.4 percentage points higher on a CER basis. This reflected improved operating leverage driven by sales growth and a more favourable mix in all three businesses, together with the benefit to Vaccines of a settlement for lost third party supply volume and a favourable year-on-year comparison to inventory adjustments in 2016. Tight control of ongoing costs across all three businesses also contributed, along with further benefits from restructuring and integration. These were partly offset by increases in R&D investment (including a charge of £106 million on the Priority Review Voucher utilised in HIV), as well as continuing price pressure, particularly in Respiratory, and supply chain investments.

Our work to maintain tight control of costs across the Group included supply chain efficiencies from a mixture of site closures, consolidating our manufacturing supplier base and simplifying our global distribution and logistics network. We are also further stepping up our focus on procurement through a new global organisation.

Financial efficiency

Financial efficiency remains a priority. Successfully refinancing maturing debt during 2017 allowed us to hold net financing costs relatively flat for the year.

We continue to focus on protecting our credit profile and funding flexibility.

US tax reform

The enactment of the US Tax Cuts and Jobs Act in December 2017 is expected to have a positive impact on the future after tax earnings of GSK's US businesses. This is primarily due to the reduction in Federal corporation tax rates from 1 January 2018, which is expected to benefit the Group effective tax rate on Adjusted profits in 2018 by two to three percentage points. We intend to apply the flexibility and cash benefits these reforms will provide in accordance with our capital allocation framework.

The enactment of the new law has resulted in a number of additional charges in 2017, which reduced Total earnings by £1,630 million.

These charges represent management's estimates of the impact of US tax reform on the Group based on the information currently available. As more information on the detailed application of the Act becomes available, the assumptions underlying these estimates could change, with consequent adjustments to the charges taken that could have a material impact on the results of the Group.

Earnings per share

Total EPS was 31.4p (2016 – 18.8p).

The increase reflected primarily lower accounting charges related to the remeasurement of the liabilities for contingent consideration, put options and preferential dividends.

Adjusted EPS of 111.8p was up 11% AER, 4% CER, reflecting improved operating leverage that delivered earnings growth faster than sales growth.

Contingent consideration

At the end of 2017, GSK had liabilities for contingent consideration payments of £6.2 billion, of which £5.5 billion related to the estimated present value of future payments to Shionogi by ViiV Healthcare. The payments to Shionogi are calculated each quarter based on a high-teens percentage of the revenues of the relevant products, principally dolutegravir, with the discounted fair value of the total future payments reflecting the current expectations of total future sales of those products. Further details are provided in Note 39, 'Contingent consideration liabilities'.

Free cash flow

Net cash inflow from operating activities was £6.9 billion and free cash flow for the Group was £3.4 billion, compared with £3.0 billion in 2016. The Sterling increase of 14% reflected the improved operating profit performance, a positive currency benefit and reduced cash spending on restructuring and capital expenditures, partly offset by increased working capital, mainly due to the building of inventory in advance of new product launches.

Net debt

Net debt at the end of 2017 amounted to £13.2 billion, £0.6 billion lower than at the end of 2016. The reduction was primarily attributable to improved free cash flow of £3.4 billion and disposal proceeds of £0.6 billion together with a translation benefit of £0.6 billion on the Sterling value of non-Sterling denominated debt, more than offsetting the cash dividends paid to shareholders in the year of £3.9 billion.

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Capital allocation framework

The priorities for the use of our capital remain as presented in July 2017. They are focused on three particular priorities: investing in the business, delivering cash returns to shareholders through dividends and potentially accessing strategic acquisitions that would strengthen the business, subject to them meeting a strict set of returns criteria. In establishing the first priority as investing in the business, we identified a primary focus on strengthening the Pharmaceuticals business and, in particular, its R&D pipeline. We also confirmed the attractiveness of accepting the Consumer Healthcare put option, should it be exercised, and continuing to expand capacity in key product lines across our Vaccines business.

To strengthen how we allocate capital and to ensure that we are allocating funding to where the most attractive returns are available, we have implemented a clearer framework and created a new board to govern the allocation of capital between our businesses.

We have expanded the use of cash flow-based return metrics beyond individual project assessments. Now that we have been able to create fully integrated business units for Pharmaceuticals, Vaccines and Consumer Healthcare, we have been able to apply a more consistent cash return on invested capital (CROIC) methodology to prioritise investment across the Group as a whole, so that we can compare the returns from each of the three integrated businesses as we allocate capital between them. We also regularly benchmark ourselves with peers relevant to each of our three businesses.

2018 guidance

We expect continued progress in 2018, including sales growth contributions from our new and recent product launches in HIV, Respiratory and Vaccines.

The expectation for 2018 Adjusted EPS growth is dependent on a number of factors including, in particular, uncertainties relating to the timing and extent of potential generic competition to *Advair* in the US.

In the event that no substitutable generic version of *Advair* is introduced to the US market in 2018, the Group expects 2018 Adjusted EPS growth of 4-7% at CER. This is based on an expected decline in 2018 in US *Advair* sales of 20-25%.

In the event of a mid-year introduction of a substitutable generic competitor to *Advair* in the US, the Group expects full-year 2018 US *Advair* sales of around £750 million at CER (US\$1.30/£1), with Adjusted EPS flat to down 3% at CER.

Both scenarios reflect the benefit of US tax reform with an expected 2018 effective tax rate on Adjusted profits of 19-20%.

We are not able to give guidance for Total results as we cannot reliably forecast certain material elements of our Total results such as the future fair value movements on contingent consideration and put options.

Returns to shareholders

For 2017, we maintained our ordinary dividend at 80p in line with the commitment we made to shareholders at the time we closed the Novartis transaction in early 2015.

GSK recognises the importance of dividends to shareholders and aims to distribute regular dividend payments that will be determined primarily with reference to the free cash flow generated by the business after funding the investment necessary to support the Group's future growth.

The Board intends to maintain the dividend for 2018 at the current level of 80p per share, subject to any material change in the external environment or performance expectations. Over time, as free cash flow strengthens, we intend to build free cash flow cover of the annual dividend to a target range of 1.25-1.50x, before returning the dividend to growth.

A fuller review of the financial results is set out on pages 56 to 78.



Simon Dingemans

Chief Financial Officer

Our approach to Brexit

We have evaluated the impact of Brexit on our business operations, including our supply chain and quality oversight. Our priority is to maintain continuity of GSK's supply of medicines, vaccines and health products to our patients and consumers in the UK and the EU.

Uncertainty remains about the future relationship between the UK and the EU. As a result, we have agreed a risk-based approach to mitigation across the organisation. Implementation of our contingency plan has been underway since January 2018, with an immediate focus on our supply chains. This includes expanding our ability in the EU and the UK to conduct re-testing and certification of medicines; transferring Marketing Authorisations registered in the UK to an EU entity; updating packaging and packaging leaflets; amending manufacturing and importation licences, and securing additional warehousing.

We currently anticipate that the cost to implement these and other necessary changes could be up to £70 million over the next two to three years, with subsequent ongoing additional costs of approximately £50 million per year, including additional customs duties and transaction or administration costs. These charges represent our estimates of the impact of Brexit based on the information currently available. As more information on the changes to our business that will be required after Brexit becomes available, the assumptions underlying these estimates could change, with consequent adjustments, either up or down, to the additional costs we expect to incur. We will continue to adjust our plans and their expected financial impact as negotiations and regulations develop.

Delivering these necessary but complex changes by March 2019 will be ambitious and potentially disruptive in the short term and we support efforts to secure a status quo transition period to minimise disruption. Over the longer term, we continue to believe that Brexit will not have a material impact on our business.

Group financial review continued

Our approach to tax

We understand our responsibility to pay an appropriate amount of tax while being financially efficient and delivering a sustainable tax rate.

We understand our responsibility to pay an appropriate amount of tax, and fully support efforts to ensure companies are appropriately transparent about how their tax affairs are managed. Tax is an important element of the economic contribution we bring to the countries in which we operate. We do not engage in artificial tax arrangements – those without business or commercial substance. We do not seek to avoid tax by the use of ‘tax havens’ or transactions we would not fully disclose to a tax authority. We have a zero tolerance approach to tax evasion and the facilitation of tax evasion.

We have a substantial business and employment presence in many countries around the globe and we pay a significant amount of tax, including corporation and other business taxes, as well as tax associated with our employees. At the same time, we have a responsibility to our shareholders to be financially efficient and deliver a sustainable tax rate. As part of this approach, we look to align our investment strategies to those countries where we already have substantial economic activity, and where government policies promote regimes which are attractive to business investment and R&D activity, and are transparent in their intent and available to all relevant tax payers. Examples include the UK Patent Box and Research and Development Expenditure Credit.

In 2017, the Group corporate tax charge was £1,356 million (2016 – £877 million) on profits of £3,525 million (2016 – £1,939 million) representing an effective tax rate of 38.5% (2016 – 45.2%). We made cash tax payments of £1,340 million in the year (2016 – £1,609 million). In addition to the taxes we pay on our profits, we pay duties, levies, transactional and employment taxes.

Our Adjusted tax rate for 2017 was 21.0% (2016 – 21.3%). Subject to any material changes in our product mix, or other material changes in tax regulations or laws in the countries in which we operate, and following the impact of US tax reform, the Group’s effective Adjusted tax rate for 2018 and the next several years is expected to be in the region of 19-20%.

The Group’s Total tax rate of 38.5% (2016 – 45.2%) for 2017 was higher than the Adjusted tax rate as it was affected by the impact of US and Swiss tax reforms, as explained at Note 14, together with transaction-related charges arising on the Group’s put option liabilities.

The Total tax rate also reflected the reassessment of estimates of uncertain tax positions following the settlement of a number of open issues with tax authorities in various jurisdictions.

Tax risk is managed by a set of policies and procedures to ensure consistency and compliance with tax legislation. Our Audit & Risk Committee and the Board are responsible for approving our tax policies and risk management approach.

We seek to maintain open, positive relationships with governments and tax authorities worldwide and we welcome constructive debate on taxation policy.

2017 has seen the enactment of significant reforms of tax laws in multiple jurisdictions. We expect there to be continued focus on tax reform in the future, driven by the OECD’s Base Erosion and Profit Shifting (‘BEPS’) project and European Commission initiatives such as fiscal state aid investigations. The outputs from the OECD BEPS projects clarified the important principle that tax should be paid on profits throughout the supply chain, where the profit-making activity takes place.

GSK supports the BEPS proposals, in particular the implementation of the OECD’s recommendations on ‘Country by Country Reporting’, including the exchange of this data between tax authorities. This data, validated against existing information held on taxpayers, will support their ability to ensure multinational groups pay an appropriate amount of tax.

The detailed tax implications of Brexit are dependent on the outcome of negotiations between the UK and EU, and are therefore currently unknown. However, we continue to work closely with the ABPI and BIA to analyse the potential implications for the industry in order to highlight key focus areas for the Government as part of its Brexit negotiations. The direct tax implications, in particular, are expected to be limited for GSK while the indirect implications may be more significant, including potential customs duty costs and additional transaction or administrative costs associated with managing import and export obligations on the movement of goods between the UK and EU. Our approach to Brexit is set out on page 55.

Our approach to tax is set out in detail within the Public Policy positions section of our website. Further details about our corporate tax charges for the year are set out on page 177.

Footnote

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

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the Code, GSK has assessed the prospects of the company over a longer period than the 12 months required by the 'Going Concern' provision. The Directors confirm that they have a reasonable expectation that GSK will continue to operate and meets its liabilities, as they fall due, over the next three years. The Directors' assessment has been made with reference to GSK's current position and prospects, our strategy, the Board's risk appetite and GSK's principal risks and how these are managed, as detailed on pages 20 and 21 in the Strategic report.

The Board reviews our internal controls and risk management policies and approves our governance structure and code of conduct. It also appraises and approves major financing, investment and licensing decisions, and evaluates and monitors the performance and prospects of GSK as a whole. The focus is largely on improving our long-term financial performance through delivery of our company and three business strategies and aligned Innovation, Performance and Trust priorities.

The Board reviews GSK's strategy and makes significant capital investment decisions over a long term time horizon, based on a multi-year assessment of return on capital, the performance of the company and its three business units, and the market opportunity in the pharmaceutical, vaccines and consumer healthcare sectors. This approach is aligned to GSK's model of achieving balanced growth by investing in high quality, innovative products for patients, consumers and healthcare providers. However, since many internal and external parameters become increasingly unpredictable over longer time horizons, GSK focuses its detailed, bottom-up Plan on a three year cycle. The Plan is reviewed at least annually by the Directors, who approve business forecasts showing expected financial impact. The Directors believe that a three year assessment period for the Viability statement is most appropriate as it aligns with the company's well established business planning processes that balance the long term nature of investments in the pharmaceutical, vaccines and consumer healthcare sectors with an assessment of the period over which analysis of near term business performance is realistically visible.

The Plan has been stress tested in a series of robust operational and principal risk downside scenarios as part of the Board's review on risk. The downside scenarios consider GSK's cash flows, sustainability of dividends, funding strategy, insurance provision and recovery as well as other key financial ratios over the period. These metrics have been subject to sensitivity analysis, which involves flexing a number of the main assumptions underlying the forecasts both individually and in combination, along with mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risk.

The following hypothetical downside scenarios have been evaluated:

- **Scenario 1:** Business performance risks. These include key performance risks, including lower sales from new products; the possible impact of a generic alternative to *Seretide/Advair* in the US; intensifying competition in the HIV market; greater adverse impact from generic competition and other competitive launches to other GSK products, as well as possible supply and manufacturing challenges.
- **Scenario 2:** External and macroeconomic risks. This scenario reflects incremental risks to the business driven by outside factors such as more intense competition, increased pricing pressure in both the US and Europe as well as the potential impact of material negative changes in the macro-economic and healthcare environment.
- **Scenario 3:** Principal risks. This scenario includes a severe assessment of the potential loss impact from the Principal risks related to patient safety, product quality, supply chain continuity as well as anti-bribery and corruption and any consequent regulatory actions or fines, all of which could fundamentally threaten our operations. These risks are managed through mitigating activities described on pages 257 to 266.
- **Scenario 4:** Put option exercise. This scenario evaluates the additional funding requirements assuming the earliest potential exercise of the outstanding put options held by our partners in the HIV and Consumer Healthcare businesses.

The three year review also makes certain assumptions about the normal level of capital recycling likely to occur and considers whether additional financing facilities will be required and the respective level of funding flexibility and headroom.

The results of this stress testing show that certain combinations of these hypothetical scenarios could increase funding demands on GSK and require mitigating changes to the Group's funding strategy. However, in light of the liquidity available to the Group and based on this analysis, the Directors have a reasonable expectation that, even under the stress tests described above, the company will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

Group financial review continued

Reporting framework

Presentation of Group results

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

We use a number of adjusted, non-IFRS, measures to report the performance of our business. These measures are used by management for planning and reporting purposes and in discussions with and presentations to investment analysts and rating agencies and may not be directly comparable with similarly described measures used by other companies. Non-IFRS measures may be considered in addition to, but not as a substitute for, or superior to, information presented in accordance with IFRS.

Total results

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

Adjusted results

As announced on 11 April 2017 in the 'Change to financial reporting framework' press release, from 2017, core results have been renamed Adjusted results and, instead of all legal charges and expenses, only significant legal charges and expenses are excluded in order to present Adjusted results. All other legal charges and expenses are included in Adjusted results. Significant legal charges and expenses are those arising from the settlement of litigation or a government investigation that are not in the normal course and materially larger than more regularly occurring individual matters. They also include certain major legacy legal matters. Any new significant legal matters excluded in order to present Adjusted results will be disclosed at the time.

As a result of the enactment of the US Tax Cuts and Jobs Act on 22 December 2017, GSK has recorded charges on initial application which reduced Total earnings by £1.6 billion, as set out on page 68. Due to their magnitude, GSK has reported these charges as Adjusting items in 2017 so that they do not obscure the key trends in the Group's operational performance for the year.

Adjusted results now exclude the following items from Total results: amortisation and impairment of intangible assets (excluding computer software) and goodwill; major restructuring costs, including those costs following material acquisitions; significant legal charges (net of insurance recoveries) and expenses on the settlement of litigation and government investigations, transaction-related accounting adjustments for significant acquisitions, and other items, including disposals of associates, products and businesses and other operating income other than royalty income, together with the tax effects of all of these items and the impact of the enactment of the US Tax Cuts and Jobs Act in 2017.

GSK believes that Adjusted results are more representative of the performance of the Group's operations and allow the key trends and factors driving that performance to be more easily and clearly identified by shareholders. The definition of Adjusted results, as set out above, also aligns the Group's results with the majority of its peer companies and how they report earnings.

Reconciliations between Total and Adjusted results, as set out on page 67, including detailed breakdowns of the key adjusting items, are provided to shareholders to ensure full visibility and transparency as they assess the Group's performance.

Contingent consideration

GSK has recognised a significant liability for contingent consideration (£6,172 million at 31 December 2017 on a fair value discounted basis) of which £5,542 million represented the estimated present value of future amounts payable to Shionogi relating to ViiV Healthcare, discounted at 8.5%. The payments to Shionogi are calculated based on the sales performance over the life of the relevant products, principally dolutegravir, as described on page 59. The effect of the required IFRS accounting treatment is that GSK recognises these fair value liabilities on the balance sheet, with remeasurement charges reflected immediately in other operating income. These charges are adjusted from Total results to present Adjusted results. GSK will make cash payments in the future to discharge this liability which will not be recorded in the profit and loss account and future earnings.

Free cash flow

From 2017, adjusted free cash flow is no longer being reported and the free cash flow definition has been amended to include all contingent consideration payments made during the period.

Free cash flow, which is a non-IFRS measure, is now defined as the net cash inflow from operating activities less capital expenditure, contingent consideration payments, net interest and dividends paid to non-controlling interests plus proceeds from the sale of property, plant and equipment and dividends received from joint ventures and associates. It is used by management for planning and reporting purposes and in discussions with and presentations to investment analysts and rating agencies. Free cash flow growth is calculated on a reported basis. A reconciliation of net cash inflow from operations to free cash flow is presented on page 71.

Free cash flow conversion

Free cash flow conversion is free cash flow as a percentage of Total earnings.

Working capital conversion cycle

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

CER and AER growth

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

Non-controlling interests in ViiV Healthcare

Trading profit allocations

Because ViiV Healthcare is a subsidiary of the Group, 100% of its operating results (turnover, operating profit, profit after tax) are included within the Group income statement and then a portion of the earnings is allocated to the non-controlling interests owned by the other shareholders, in line with their respective equity shareholdings (Pfizer 11.7% and Shionogi 10%). Each of the shareholders, including GSK, is also entitled to preferential dividends determined by the performance of certain products that each shareholder contributed. As the relative performance of these products changes over time, the proportion of the overall earnings of ViiV Healthcare allocated to each shareholder will change. In particular, the increasing sales of *Tivicay* and *Triumeq* have a favourable impact on the proportion of the preferential dividends that is allocated to GSK. GSK was entitled to approximately 80% of the Adjusted earnings of ViiV Healthcare for 2017. Remeasurements of the liabilities for the preferential dividends allocated to Pfizer and Shionogi are included within Adjusting items as other operating income.

Acquisition-related arrangements

As part of the agreement reached to acquire Shionogi's interest in the former Shionogi-ViiV Healthcare joint venture in 2012, ViiV Healthcare agreed to pay additional consideration to Shionogi contingent on the performance of the products being developed by that joint venture, principally dolutegravir. The liability for this contingent consideration was estimated and recognised in the Group's balance sheet at the date of acquisition. Subsequent remeasurements are reflected within other operating income and within Adjusting items in the income statement.

Cash payments are made to Shionogi by ViiV Healthcare each quarter which reduce the balance sheet liability for the contingent consideration and as a result are not recorded in the income statement. In 2017, the total cash payments made to Shionogi in respect of the contingent consideration amounted to £671 million. The payments are calculated based on the sales performance of the relevant products in the previous quarter and are reflected in the cash flow statement partly in operating cash flows and partly within investing activities. The tax relief on these payments is reflected in the Group's Adjusting items as part of the tax charge. The part of each payment relating to the original estimate of the fair value of the contingent consideration on the acquisition of the Shionogi-ViiV Healthcare joint venture in 2012 of £659 million is reported within investing activities in the cash flow statement and the part of each payment relating to the increase in the liability since the acquisition is reported within operating cash flows.

Movements in contingent consideration payable to Shionogi were as follows:

	2017 £m	2016 £m
Contingent consideration at beginning of the year	5,304	3,409
Additions	–	154
Remeasurement through income statement	909	2,162
Cash payments: operating cash flows	(587)	(351)
Cash payments: investing activities	(84)	(66)
Other movements	–	(4)
Contingent consideration at end of the year	5,542	5,304

The additions in 2016 represented the recognition of the preferential dividends payable to Shionogi.

Of the contingent consideration payable (on a post-tax basis) to Shionogi at 31 December 2017, £724 million (31 December 2016 – £545 million) is expected to be paid within one year.

Exit rights

Pfizer may request an IPO of ViiV Healthcare at any time and if either GSK does not consent to such IPO or an offering is not completed within nine months, Pfizer could require GSK to acquire its shareholding. Under the original agreements, GSK had the unconditional right, so long as it made no subsequent distribution to its shareholders, to withhold its consent to the exercise of the Pfizer put options and, as a result, in accordance with IFRS, GSK did not recognise a liability for the put option on its balance sheet. In Q1 2016, GSK notified Pfizer that it had irrevocably given up this right and accordingly recognised the liability for the put option on the Group's balance sheet at an initial value of £1,070 million. Consistent with this revised treatment, at the end of Q1 2016 GSK also recognised liabilities for the future preferential dividends anticipated to become payable to Pfizer and Shionogi on the Group's balance sheet.

The closing balances of the liabilities related to Pfizer's shareholding are as follows:

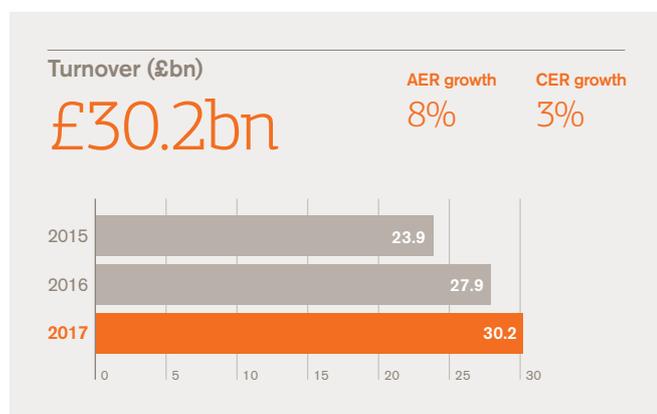
	2017 £m	2016 £m
Pfizer put option	1,304	1,319
Pfizer preferential dividend	17	23

Under the original agreements, Shionogi could also have requested GSK to acquire its shareholding in ViiV Healthcare in six month windows commencing in 2017, 2020 and 2022. GSK had the unconditional right, so long as it made no subsequent distribution to its shareholders, to withhold its consent to the exercise of the Shionogi put option and, as a result, GSK did not recognise a liability for the put option on its balance sheet. In Q1 2016, GSK notified Shionogi that it had irrevocably given up this right and accordingly recognised the liability for the put option on the Group's balance sheet at an initial value of £926 million. In Q4 2016, Shionogi irrevocably agreed to waive its put option and as a result GSK derecognised the liability for this put option on the Group's balance sheet directly to equity. The value of the liability was £1,244 million when it was derecognised.

GSK also has a call option over Shionogi's shareholding in ViiV Healthcare, which under the original agreements was exercisable in six month windows commencing in 2027, 2030 and 2032. GSK has now irrevocably agreed to waive the first two exercise windows, but the last six month window in 2032 remains. As this call option is at fair value, it has no value for accounting purposes.

Group financial review continued

Group turnover



Group turnover

	2017 £m	2016 £m	Growth £%	Growth CER%
Pharmaceuticals	17,276	16,104	7	3
Vaccines	5,160	4,592	12	6
Consumer Healthcare	7,750	7,193	8	2
Group turnover	30,186	27,889	8	3

Group turnover for the year increased 8% AER, 3% CER to £30,186 million, with growth delivered by all three businesses.

Pharmaceuticals sales were up 7% AER, 3% CER, reflecting the continued strong growth of the new Respiratory and HIV products, partly offset by declines in older Respiratory products, including *Seretide/Advair* and Established Pharmaceuticals, including the impact of recent divestments.

Vaccines sales were up 12% AER, 6% CER, reflecting a strong performance from Meningitis and Influenza vaccines and higher demand for Established Vaccines, as well as the benefit of favourable year-on-year US CDC stockpile movements.

Consumer Healthcare sales grew 8% AER, 2% CER reflecting a strong performance from power brands in the Pain and Oral health categories, partly offset by the impact of continued competitive pressures in the US allergy category and a broader market slowdown in key categories. In addition, reported growth was impacted by the Nigerian beverages business divestment in Q3 2016 and the implementation of the Goods & Service Tax (GST) in India on 1 July 2017.

Group turnover by geographic region

	2017 £m	2016 (revised) £m	Growth £%	Growth CER%
US	11,263	10,197	10	6
Europe	7,943	7,476	6	–
International	10,980	10,216	7	3
	30,186	27,889	8	3

The US sales growth of 10% AER, 6% CER was driven by continued strong performances from *Triumeq* and *Tivicay* and growth in the Respiratory portfolio, together with strong performances in the US from Hepatitis and Meningitis vaccines.

Europe sales grew 6% AER, but were flat at CER as growth from *Triumeq*, *Tivicay* and Meningitis vaccines was offset by the decline in Established Pharmaceuticals, including the impact of the disposal of the Romanian distribution business in Q4 2016. Respiratory sales were up 5% AER, but flat at CER, as the decline in *Seretide* offset the growth in the new Respiratory products.

In International, sales growth of 7% AER, 3% CER reflected strong growth in *Triumeq*, *Tivicay* and the Respiratory portfolio, with Established Pharmaceuticals flat, including the impact of divestments. Growth in Emerging Markets of 8% AER, 4% CER was also impacted by divestments.

Sales from new Pharmaceutical and Vaccine products

	2017 £m	2016 £m	Growth £%	Growth CER%
Respiratory				
<i>Anoro Ellipta</i>	342	201	70	63
<i>Arnuita Ellipta</i>	35	15	>100	>100
<i>Incruse Ellipta</i>	201	114	76	68
<i>Nucala</i>	344	102	>100	>100
<i>Relvar/Breo Ellipta</i>	1,006	620	62	55
CVMU				
<i>Eperzan/Tanzeum</i>	87	121	(28)	(31)
HIV				
<i>Tivicay</i>	1,404	953	47	40
<i>Triumeq</i>	2,461	1,735	42	35
Pharmaceuticals	5,880	3,861	52	45
<i>Bexsero</i>	556	390	43	34
<i>Menveo</i>	274	202	36	29
<i>Shingrix</i>	22	–	–	–
Vaccines	852	592	44	36
	6,732	4,453	51	44

In 2015, GSK identified a series of New Pharmaceutical and Vaccine products that were expected to deliver at least £6 billion of revenues per annum on a CER basis by 2020. Those products are as set out above and do not include *Trelegy Ellipta* and *Juluca*, which had initial sales in 2017 of £2 million and £5 million, respectively. The Group has previously announced its plans to withdraw *Tanzeum*. At 2015 exchange rates the equivalent value of the 2017 sales was £5.7 billion.

Sales of New Pharmaceutical and Vaccine products were £6,732 million, grew £2,279 million in Sterling terms (51% AER, 44% CER) and represented approximately 30% of Pharmaceuticals and Vaccines turnover in the year.

Pharmaceuticals

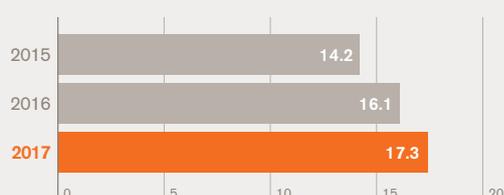
Turnover (£bn)

£17.3bn

57% of Group turnover

AER growth
7%

CER growth
3%



Pharmaceuticals turnover

	2017 £m	2016 £m	Growth £%	Growth CER%
Respiratory	6,991	6,510	7	3
HIV	4,350	3,556	22	16
Immuno-inflammation	377	340	11	6
Established Pharmaceuticals	5,558	5,698	(2)	(5)
	17,276	16,104	7	3

Pharmaceuticals turnover in 2017 was £17,276 million, up 7% AER, 3% CER. Respiratory sales grew 7% AER, 3% CER to £6,991 million, driven by the *Ellipta* portfolio and *Nucala*, while HIV sales were up 22% AER, 16% CER to £4,350 million, driven by increases in market share for *Triumeq* and *Tivicay*. Sales of Established Pharmaceuticals declined 2% AER, 5% CER, reflecting a three percentage point impact of recent divestments. These divestments reduced overall Pharmaceuticals CER growth by one percentage point, most significantly impacting the contribution from Europe and Emerging Markets.

In the US, sales growth of 11% AER, 6% CER was driven by the HIV portfolio and new Respiratory products. Europe sales grew 3% AER but declined 3% CER, reflecting the continued transition of the Respiratory portfolio and generic competition to *Kivexa* as well as the disposal of the Romanian distribution business during Q4 2016 which reduced growth by three percentage points. Reported International sales growth was impacted by the benefit to Q1 2016 of the accelerated sale of inventory under supply agreements to Novartis as well as the disposal of the thrombosis and anaesthesia businesses to Aspen in Q1 2017, which reduced reported growth in International by one percentage point and in Emerging Markets by two percentage points to 7% AER, 5% CER. Sales in Japan grew 6% AER, 3% CER.

Respiratory

Total Respiratory portfolio sales were up 7% AER, 3% CER, with the US up 8% AER, 3% CER, Europe up 5% AER but flat at CER and International up 9% AER, 5% CER. Growth of the new Respiratory products more than offset the decline in *Seretide/Advair*.

The new Respiratory products recorded combined sales of £1,930 million in 2017 with sales of *Ellipta* products up 67% AER, 59% CER driven by continued strong growth in the US and the ongoing roll-out across Europe and International. Sales of *Nucala* were £344 million, a Sterling increase of £242 million, and included sales of £236 million in the US.

The aggregate growth of the *Ellipta* products was driven primarily by the contribution of the US, where sales were up 72% AER, 65% CER on the back of further market share gains. Total *Relvar/Breo Ellipta* sales grew 62% AER, 55% CER to £1,006 million, with the US up 75% AER, 67% CER to £602 million. *Anoro Ellipta* sales grew 70% AER, 63% CER to £342 million, also reflecting market share gains in the US. All *Ellipta* products, *Breo*, *Anoro*, *Incruse* and *Arnuity*, continued to grow market share in the US in the year.

Seretide/Advair sales declined 10% AER, 14% CER to £3,130 million. Sales in the US declined 12% AER, 16% CER (5% volume decline and a 11% negative impact of price), with payer rebate adjustments related to prior periods favourably impacting sales in the year. In Europe, *Seretide* sales were down 12% AER, 17% CER to £736 million (11% volume decline and a 6% negative impact of price), reflecting continued competition from generics and the transition of the Respiratory portfolio to newer products. In International, sales of *Seretide* declined 5% AER, 8% CER to £784 million (6% volume decline and a 2% negative impact of price), also reflecting increased generic competition and the transition to the newer Respiratory products.

Pricing pressures also affected other older products with *Ventolin* sales declining 2% AER, 6% CER to £767 million, including the negative impact of payer rebate adjustments related to prior periods in the US. *Flixotide/Flovent* sales were down 6% AER, 10% CER to £596 million, with the US down 15% AER, 18% CER.

The net impact of adjustments to payer rebates for prior periods across the US Respiratory portfolio was broadly neutral to reported US Respiratory sales.

Group financial review continued

HIV

HIV sales increased 22% AER, 16% CER to £4,350 million in the year, with the US up 26% AER, 21% CER, Europe up 10% AER, 3% CER and International up 33% AER, 26% CER. The growth in all three regions was driven by continued increases in market share for *Triumeq* and *Tivicay*, partly offset by the impact of generic competition to *Epzicom/Kivexa*, particularly affecting the European market. The ongoing increase in patient numbers for both *Triumeq* and *Tivicay* resulted in sales of £2,461 million and £1,404 million, respectively, in the year. *Juluca* was approved in the US in November 2017, and recorded initial sales of £5 million.

Epzicom/Kivexa sales declined 59% AER, 61% CER to £234 million, reflecting the ongoing generic competition since Q3 2016.

Immuno-inflammation

Sales grew 11% AER, 6% CER in the year. The negative impact of the divestment of raxibacumab, which recorded strong sales in Q4 2016, was more than offset by the growth of *Benlysta*, up 23% AER, 17% CER to £375 million, driven by a strong US performance.

Established Pharmaceuticals

Sales of Established Pharmaceuticals in 2017 were £5,558 million, declining 2% AER, 5% CER, impacted by the comparison with the accelerated sale of inventory under supply agreements to Novartis in Q1 2016 as well as the disposal of the thrombosis and anaesthesia businesses to Aspen in Q1 2017 and the disposal of the Romanian distribution business in Q4 2016. The impact of these disposals on the growth of the Established Pharmaceuticals portfolio was approximately three percentage points.

The *Avodart* franchise declined 3% AER, 9% CER to £613 million primarily due to the loss of exclusivity in the US and Europe and the impact of favourable RAR adjustments in 2016.

Dermatology sales grew 16% AER, 11% CER to £456 million, reflecting improved supply in Emerging Markets and growth in Japan, while *Augmentin* sales grew 4% AER, 2% CER to £587 million.

Vaccines

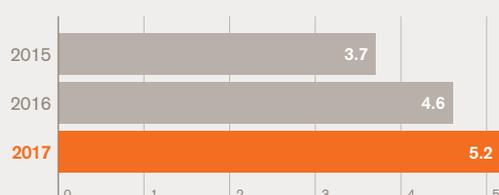
Turnover (£bn)

£5.2bn

17% of Group turnover

AER growth
12%

CER growth
6%



Vaccines turnover

	2017 £m	2016 £m	Growth £%	Growth CER%
Meningitis	890	662	34	27
Influenza	488	414	18	12
Shingles	22	–	–	–
Established Vaccines	3,760	3,516	7	1
	5,160	4,592	12	6

Vaccines turnover grew 12% AER, 6% CER to £5,160 million, primarily driven by Meningitis vaccines, with *Bexsero* growing across all regions and *Menveo* growing in the US and Europe, and higher sales of influenza products, primarily in the US and Europe. Established Vaccines growth was driven by Hepatitis vaccines, mainly due to a competitor supply shortage in the US, higher demand for *Boostrix* and *Rotarix* and the launch of *Cervarix* in China. Favourable year-on-year CDC stockpile movements for *Infanrix*, *Pediarix* and *Menveo* in the US also contributed to growth. These were partly offset by increasing competitive pressures on *Infanrix*, *Pediarix* in the US and Europe, and lower *Synflorix* sales, driven primarily by lower pricing in developing countries.

Meningitis

Meningitis sales grew 34% AER, 27% CER to £890 million. *Bexsero* sales growth of 43% AER, 34% CER was driven by new national immunisation programmes, private market sales and regional tenders in Europe, as well as growing demand and share gains in the US, together with strong private market sales in International. *Menveo* sales grew 36% AER, 29% CER, primarily driven by the impact of favourable year-on-year CDC stockpile movements, partly offset by supply constraints in International.

Influenza

Fluarix/FluLaval sales were up 18% AER, 12% CER to £488 million, reflecting strong sales execution, primarily in the US, and higher demand in Europe.

Shingles

Shingrix recorded initial sales into the channel of £22 million in the US after its FDA approval and favourable ACIP recommendations.

Established Vaccines

Sales of the DTPa-containing vaccines (*Infanrix*, *Pediarix* and *Boostrix*) were up 5% AER, but flat at CER. *Boostrix* sales grew 19% AER, 13% CER, benefiting from higher demand across all regions. *Infanrix*, *Pediarix* sales were down 3% AER, 8% CER, mainly driven by increased competitive pressures in the US and Europe, together with a new market entrant in Europe, partly offset by favourable year-on-year CDC stockpile movements in the US.

Hepatitis vaccines grew 15% AER, 10% CER to £693 million, benefiting from a competitor supply shortage and higher demand in the US, partly offset by the unfavourable impact of CDC stockpile movements in the US and supply constraints in Europe and International.

Rotarix was up 12% AER, 6% CER to £524 million, reflecting higher demand in Europe and International.

Synflorix sales were up 1% AER, but down 6% CER to £509 million, due to lower pricing in Emerging Markets partly offset by higher demand elsewhere in International.

Priorix/Priorix Tetra/Varilrix sales were flat at AER, but down 5% CER to £301 million, mainly due to supply constraints in International.

Cervarix sales increased by 65% AER, 57% CER to £134 million, driven by its recent launch in China.

Group financial review continued

Consumer Healthcare

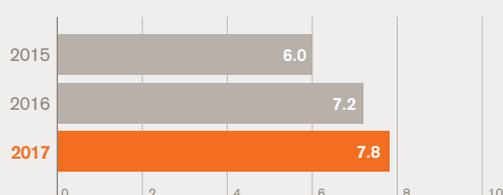
Turnover (£bn)

£7.8bn

26% of Group turnover

AER growth
8%

CER growth
2%



Consumer Healthcare turnover

	2017 £m	2016 £m	Growth £%	Growth CER%
Wellness	4,001	3,726	7	2
Oral health	2,466	2,223	11	6
Nutrition	680	674	1	(5)
Skin health	603	570	6	-
	7,750	7,193	8	2

	2017 £m	2016 (revised) £m	Growth £%	Growth CER%
US	1,826	1,761	4	(1)
Europe	2,360	2,169	9	3
International	3,564	3,263	9	4
	7,750	7,193	8	2

Consumer Healthcare turnover was up 8% AER, 2% CER at £7,750 million, impacted by slower global growth in key categories. A strong performance by power brands across Wellness and Oral health was partly offset by competitive pressures in the US allergy category, impacting *Flonase* OTC, as well as lower sales of tail brands across the Nutrition and Skin health categories and a broader market slowdown in key categories. In addition, reported growth was impacted by the disposal of the Nigeria beverages business in Q3 2016 and the implementation of the Goods & Service Tax (GST) in India in July, the net effects of which were partly offset by the benefit of the comparison with the impact of demonetisation in India in Q4 2016. The divestment, GST and demonetisation combined to reduce overall Consumer Healthcare CER growth by approximately one percentage point.

Sales from new GSK innovations (product introductions within the last three years on a rolling basis) represented approximately 13% of sales in the period. Notable launches this year included *parodontax* and *Flonase Sensimist* in the US, the continued global roll out of *Flonase* OTC and several line extensions for *Sensodyne*, including next generation *Sensodyne Rapid Relief* and *Sensodyne Deep Clean*.

Wellness

Wellness sales grew 7% AER, 2% CER to £4,001 million.

This reflected a strong performance from *Voltaren* and Cold & flu seasonal products, partly offset by a weaker performance from US allergy products.

Respiratory sales were up 7% AER, 2% CER as strong broadly-based growth from *Theraflu* and *Otrivin*, particularly in Europe and International, was partly offset by competitive pressures in the US for *Flonase* OTC from private label products.

Pain relief sales were up 10% AER, 4% CER, driven significantly by *Voltaren* with growth across all regions, benefiting from momentum in the 12-hour variant, strong in-store and marketing activation, expansion of expert detailing and strong performances in International markets. *Panadol* also grew strongly in Europe, benefiting from new advertising campaigns, and in International in low single digits.

Oral health

Oral health sales grew 11% AER, 6% CER to £2,466 million.

Sensodyne continued to drive performance, reporting growth of 12% AER, 8% CER, with strong delivery in all regions following the roll out of next generation *Sensodyne Rapid Relief* and the launch of *Pronamel Strong & Bright*. Sales of *parodontax* continued to grow strongly, reflecting double-digit performances in Europe and International, driven by a brand reset and increases in dentist recommendations, as well as the US launch in the first quarter. Denture care grew in mid-single digits with double-digit growth in emerging markets partly offset by slower consumption growth in the US and Germany.

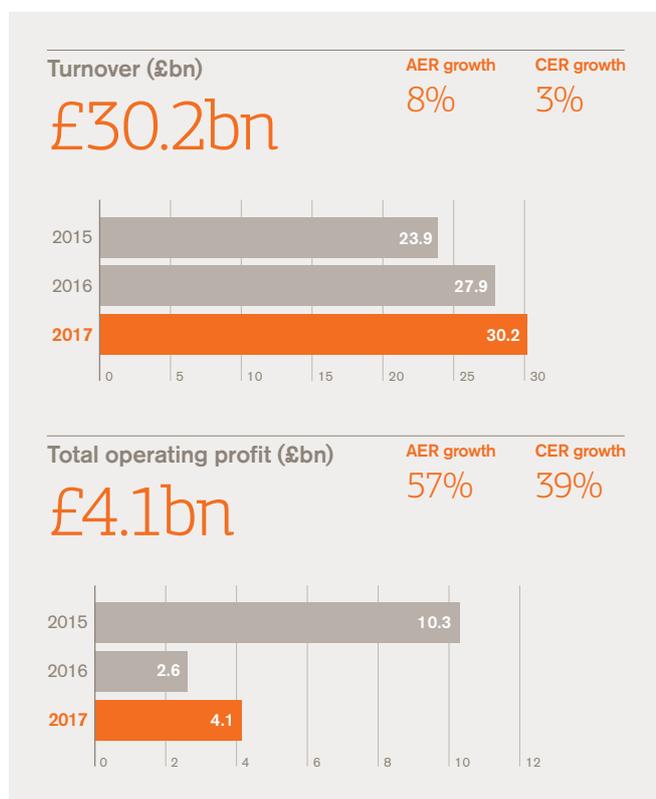
Nutrition

Nutrition sales grew 1% AER and declined 5% CER to £680 million, adversely impacted by the sale of the Nigeria beverages business in Q3 2016 and the implementation of GST on 1 July, as well as continued competitive pressures for *Horlicks* in India. The net impact of the divestment of the Nigeria beverages business, implementation of GST offset by the favourable comparison with the impact of demonetisation in the prior year reduced Nutrition CER growth by approximately six percentage points.

Skin health

Skin health sales grew 6% AER, but were flat at CER at £603 million, with low single-digit growth in the US, a slight decline within Europe and International flat. *Fenistil* sales grew strongly, with good performances in Central & Eastern Europe, Germany and the Middle East, following digital activation and new media campaigns. *Physiogel* and *Lamisil* continued to be impacted by competitor activity, whilst Lip care sales grew in mid-single digits.

Total results



The total results of the Group are set out below.

	2017		2016		Growth	
	£m	% of turnover	£m	% of turnover	£%	CER%
Turnover	30,186	100	27,889	100	8	3
Cost of sales	(10,342)	(34.3)	(9,290)	(33.3)	11	8
Selling, general and administration	(9,672)	(32.0)	(9,366)	(33.6)	3	(1)
Research and development	(4,476)	(14.8)	(3,628)	(13.0)	23	19
Royalty income	356	1.1	398	1.4	(11)	(13)
Other operating income/(expense)	(1,965)	(6.5)	(3,405)	(12.2)		
Operating profit	4,087	13.5	2,598	9.3	57	39
Net finance costs	(669)		(664)			
Profit on disposal of interest in associates	94		-			
Share of after tax profits of associates and joint ventures	13		5			
Profit before taxation	3,525		1,939		82	58
Taxation	(1,356)		(877)			
Profit after taxation for the year	2,169		1,062		>100	71
Profit attributable to shareholders	1,532		912			
Earnings per share (p)	31.4		18.8		67	36
Earnings per ADS (US\$)	0.82		0.51			

Cost of sales

Cost of sales as a percentage of turnover was 34.3%, up 1.0 percentage points in Sterling terms and up 1.4 percentage points in CER terms compared with 2016. This primarily reflected the phasing of costs of manufacturing restructuring programmes including non-cash write downs as a result of plant closures and the write down of assets related to the progressive withdrawal of *Tanzeum*, as well as continued adverse pricing pressure in Pharmaceuticals, primarily Respiratory, and additional supply chain investments. This was partly offset by a more favourable product mix across all three businesses, particularly in Pharmaceuticals, reflecting the impact of higher HIV sales, and in Vaccines, reflecting the benefit of a settlement for lost third party supply volume and a favourable year-on-year comparison to inventory adjustments in 2016. There was also a continued contribution from integration and restructuring savings in all three businesses.

Selling, general and administration

SG&A costs were 32.0% of turnover, 1.5 percentage points lower than in 2016 in Sterling and CER terms. This primarily reflected lower restructuring costs and tight control of ongoing operating costs, particularly in Consumer Healthcare, as well as continued cost reductions in Pharmaceuticals, including the benefits of the Pharmaceuticals restructuring programme, and integration benefits in Vaccines and Consumer Healthcare. This was partly offset by an increased investment in promotional product support, particularly for new launches in Respiratory, HIV and Vaccines.

Research and development

R&D expenditure was £4,476 million (14.8% of turnover), 23% higher than in 2016 at AER and 19% higher at CER. This included charges of £106 million from the utilisation of the Priority Review Voucher in 2017 as well as increased investment in the progression of a number of mid and late-stage programmes. In addition, there were higher restructuring costs, primarily as a result of the provision for future clinical obligations as a result of the progressive withdrawal of *Tanzeum* and the decision to terminate the rights to sirukumab, and higher intangible asset impairments.

Royalty and other operating income/(expense)

Net other operating expense of £1,609 million (2016 – £3,007 million) primarily reflected lower accounting charges arising from the re-measurement of the contingent consideration liabilities related to the former Shionogi-ViiV Healthcare joint venture and the acquisition of the former Novartis Vaccines business, the value attributable to the Consumer Healthcare Joint Venture put option and the liabilities for the Pfizer put option and Pfizer and Shionogi preferential dividends in ViiV Healthcare. The remeasurement charges of £2,185 million (2016 – £3,914 million) reflected updated trading forecasts and changes in exchange rate assumptions as well as the unwinding of the discount applied to these future liabilities of £1,001 million. They also included charges of £666 million arising from the positive impact of US tax reform on the valuation of the Consumer Healthcare and HIV businesses. These charges were partly offset by the gain of £250 million on the disposal of the anaesthesia business to Aspen and royalty income of £356 million (2016 – £398 million).

Group financial review continued

Total results continued

Operating profit

Total operating profit was £4,087 million in 2017 compared with £2,598 million in 2016. The increase primarily reflected a reduced impact from accounting charges related to the remeasurement of the liabilities for contingent consideration, put options and preferential dividends. In addition operating profit benefited from an improved operating margin driven by sales growth across all three businesses, but particularly Vaccines, and a more favourable mix in all three businesses. In Vaccines, there was also a favourable year-on-year comparison with inventory adjustments in 2016 and the benefit of a one-off settlement in cost of sales. Continued tight control of ongoing costs and benefits from restructuring and integration also contributed to improved margins in Vaccines and Consumer Healthcare, but in Pharmaceuticals, the benefits were offset by an overall increase in Pharmaceuticals R&D investment (including the impact of the Priority Review Voucher) together with continuing price pressure, particularly in Respiratory, and supply chain investments to support new products.

Net finance costs

	2017 £m	2016 £m
Finance income	63	70
Interest and other income	2	2
Fair value movements	65	72
Finance expense		
Interest expense	(720)	(701)
Unwinding of discounts on liabilities	(16)	(16)
Remeasurements and fair value movements	(4)	(4)
Other finance expense	6	(15)
	(734)	(736)

Profit on disposal of associates

The profit on disposal of associates was £94 million (2016 – £nil). This arose from the disposal of our entire shareholdings in two associates, River Vision Development Co. Ltd and JCR Pharmaceuticals Co Ltd.

Share of after tax profits of associates and joint ventures

The share of profits of associates and joint ventures was £13 million (2016 – £5 million).

Profit before taxation

Taking account of net finance costs, the profit on disposal of associates and the share of profit of associates, profit before taxation was £3,525 million compared with £1,939 million in 2016.

Taxation

	2017 £m	2016 £m
UK current year charge	199	241
Rest of world current year charge	1,928	1,326
Charge in respect of prior periods	(508)	(149)
Total current taxation	1,619	1,418
Total deferred taxation	(263)	(541)
Taxation on total profits	1,356	877

A tax charge of £1,356 million on Total profit represented an effective tax rate of 38.5% (2016 – 45.2%) and included a charge of £1,078 million arising from US tax reform as described in more detail on page 68. This was partly offset by a £483 million benefit from Swiss tax reform, arising from the revaluation of deferred tax liabilities on acquired Consumer Healthcare brands to reflect a reduction in the headline tax rate.

Non-controlling interests

The allocation of earnings to non-controlling interests amounted to £637 million (2016 – £150 million), including the non-controlling interest allocations of Consumer Healthcare profits of £415 million (2016 – £203 million) and the allocation of ViiV Healthcare profits, which increased to £187 million (2016 – £83 million loss) including the impact of changes in the proportions of preferential dividends due to each shareholder. The increase in allocation of ViiV Healthcare profits primarily reflected the impact of lower remeasurement charges and the increase in allocation of Consumer Healthcare profits reflected improved operating profits together with the benefit of Swiss tax reform in 2017.

Earnings per share

Total earnings per share were 31.4p, compared with 18.8p in 2016. The increase reflected the reduced impact of charges arising from the revaluations of the liabilities for contingent consideration and the put options associated with increases in the Sterling value of the Group's HIV and Consumer Healthcare businesses, the benefit from Swiss tax reform and improved performances by the relevant businesses, partly offset by the charges arising from US tax reform.

Dividends

The Board declared four interim dividends resulting in a total dividend for the year of 80 pence, in line with the dividend declared for 2016. See Note 16 to the financial statements, 'Dividends'.

Adjusting items

Adjusted results reconciliation

31 December 2017

	Total results £m	Intangible asset amortisation £m	Intangible asset impairment £m	Major restructuring £m	Transaction -related £m	Divestments, significant legal and other items £m	US tax reform £m	Adjusted results £m
Turnover	30,186							30,186
Cost of sales	(10,342)	546	400	545	80	–		(8,771)
Gross profit	19,844	546	400	545	80	–		21,415
Selling, general and administration	(9,672)			248		83		(9,341)
Research and development	(4,476)	45	288	263		18		(3,862)
Royalty income	356							356
Other operating income/(expense)	(1,965)				1,519	(220)	666	–
Operating profit	4,087	591	688	1,056	1,599	(119)	666	8,568
Net finance costs	(669)			4		8		(657)
Profit on disposal of associates	94					(94)		–
Share of after tax profits of associates and joint ventures	13							13
Profit before taxation	3,525	591	688	1,060	1,599	(205)	666	7,924
Taxation	(1,356)	(134)	(176)	(209)	(619)	(251)	1,078	(1,667)
Tax rate	38.5%							21.0%
Profit after taxation	2,169	457	512	851	980	(456)	1,744	6,257
Profit attributable to non-controlling interests	637				42		114	793
Profit attributable to shareholders	1,532	457	512	851	938	(456)	1,630	5,464
Earnings per share	31.4p	9.4p	10.5p	17.4p	19.2p	(9.4)p	33.3p	111.8p
Weighted average number of shares (millions)	4,886							4,886

Adjusted results reconciliation

31 December 2016

	Total results £m	Intangible asset amortisation £m	Intangible asset impairment £m	Major restructuring £m	Transaction -related £m	Divestments, significant legal and other items £m	Adjusted results (revised) £m
Turnover	27,889						27,889
Cost of sales	(9,290)	547	7	297	86	2	(8,351)
Gross profit	18,599	547	7	297	86	2	19,538
Selling, general and administration	(9,366)			514		55	(8,797)
Research and development	(3,628)	41	13	159	(81)	28	(3,468)
Royalty income	398						398
Other operating income/(expense)	(3,405)				3,914	(509)	–
Operating profit	2,598	588	20	970	3,919	(424)	7,671
Net finance costs	(664)			4		8	(652)
Share of after tax profits of associates and joint ventures	5						5
Profit before taxation	1,939	588	20	974	3,919	(416)	7,024
Taxation	(877)	(130)	(5)	(217)	(439)	170	(1,498)
Tax rate	45.2%						21.3%
Profit after taxation	1,062	458	15	757	3,480	(246)	5,526
Profit attributable to non-controlling interests	150				487		637
Profit attributable to shareholders	912	458	15	757	2,993	(246)	4,889
Earnings per share	18.8p	9.4p	0.3p	15.6p	61.6p	(5.1)p	100.6p
Weighted average number of shares (millions)	4,860						4,860

Group financial review continued

Adjusting items continued

Intangible asset amortisation and impairment

Intangible asset amortisation was £591 million, compared with £588 million in 2016. Intangible asset impairments of £688 million (2016 – £20 million) included impairments related to the progressive withdrawal of *Tanzeum* and a number of other commercial and R&D assets following the refocusing of the R&D pipeline during 2017. Both of the amortisation and impairment charges were non-cash items.

Major restructuring and integration

Major restructuring and integration charges of £1,056 million have been incurred (2016 – £970 million). Non-cash charges were £525 million, primarily reflecting the write down of assets as a result of the decision to withdraw *Tanzeum* and terminate rights to sirukumab arising from the establishment of the Group's new business priorities, as well as the write down of assets related to reductions in the site network. Cash charges were £531 million (2016 – £704 million), including charges as a result of the decisions to withdraw *Tanzeum* and terminate rights to sirukumab. Cash payments made were £555 million (2016 – £1,077 million), including the settlement of certain charges previously accrued, but also reflecting the deferral of some payments into 2018. Cash payments of approximately £0.5 billion are expected in 2018. The programme delivered incremental cost savings in 2017 of £0.7 billion, including £0.2 billion of currency benefits.

Charges for the combined restructuring and integration programme to date are £4.8 billion, of which cash charges are £3.5 billion. Cash payments of £3.1 billion have been made to date. Non-cash charges are £1.3 billion.

An extension to the existing combined programme was agreed by the Board in July 2017, with total cash charges of the combined programme now expected to be approximately £4.1 billion and non-cash charges up to £1.6 billion. The programme has now delivered approximately £3.7 billion of annual savings, including a currency benefit of £0.4 billion. The extended programme is now expected to deliver by 2020 total annual savings of £4.0 billion on a constant currency basis, together with an estimated £0.4 billion of currency benefits on the basis of 2017 average exchange rates.

Transaction-related adjustments

Transaction-related adjustments resulted in a net charge of £1,599 million (2016 – £3,919 million). This primarily reflected accounting charges for the re-measurement of the liability and the unwinding of the discounting effects on the contingent consideration related to the acquisition of the former Shionogi-ViiV Healthcare joint venture, the contingent consideration related to the acquisition of the former Novartis Vaccines business, and the value attributable to the Consumer Healthcare Joint Venture put option held by Novartis. These transaction-related adjustments exclude the impact on these liabilities arising from the implementation of the US Tax Cuts and Jobs Act in 2017 which is set out separately on this page.

Charge/(credit)	2017 £m	2016 £m
Consumer Healthcare Joint Venture put option	986	1,133
Contingent consideration on former Shionogi-ViiV Healthcare Joint Venture (including Shionogi preferential dividends)	556	2,162
ViiV Healthcare put options and Pfizer preferential dividends	(126)	577
Contingent consideration on former Novartis Vaccines business	101	69
Other adjustments	82	(22)
Total transaction-related charges	1,599	3,919

The aggregate impact of unwinding the discount on these future and potential liabilities was £1,001 million (2016 – £905 million), including £543 million on the Consumer Healthcare Joint Venture put option and £408 million on the contingent consideration related to the former Shionogi-ViiV Healthcare Joint Venture. The remaining charge of £598 million was driven by adjustments to trading forecasts and the impact of updated exchange rate assumptions on those forecasts for the relevant businesses as well as updated multiples used in the valuation of the Consumer Healthcare Joint Venture put option.

Contingent consideration cash payments which are made to Shionogi and other companies reduce the balance sheet liability and hence are not recorded in the income statement. Total contingent consideration cash payments in 2017 amounted to £685 million (2016 – £431 million). This included cash payments made by ViiV Healthcare to Shionogi in relation to its contingent consideration liability (including preferential dividends) which amounted to £671 million (2016 – £417 million).

An explanation of the accounting for the non-controlling interests in ViiV Healthcare is set out on page 59.

The impact on profit after tax from transaction-related adjustments includes an accounting credit in respect of Swiss tax reform of £483 million, arising from the revaluation of deferred tax liabilities on acquired Consumer Healthcare brands to reflect a reduction in the headline Swiss tax rate.

Divestments and other items

Divestments and other items included the profit on disposal of the anaesthesia business to Aspen of £250 million, a number of other asset disposals, equity investment impairments and certain other adjusting items. Significant legal charges of £68 million (2016 – £62 million) included the benefit of the settlement of existing matters as well as provisions for ongoing litigation. Significant legal cash payments were £192 million (2016 – £102 million).

US tax reform

The enactment of the US Tax Cuts and Jobs Act has resulted in a number of additional charges in 2017, which reduced Total earnings by £1,630 million.

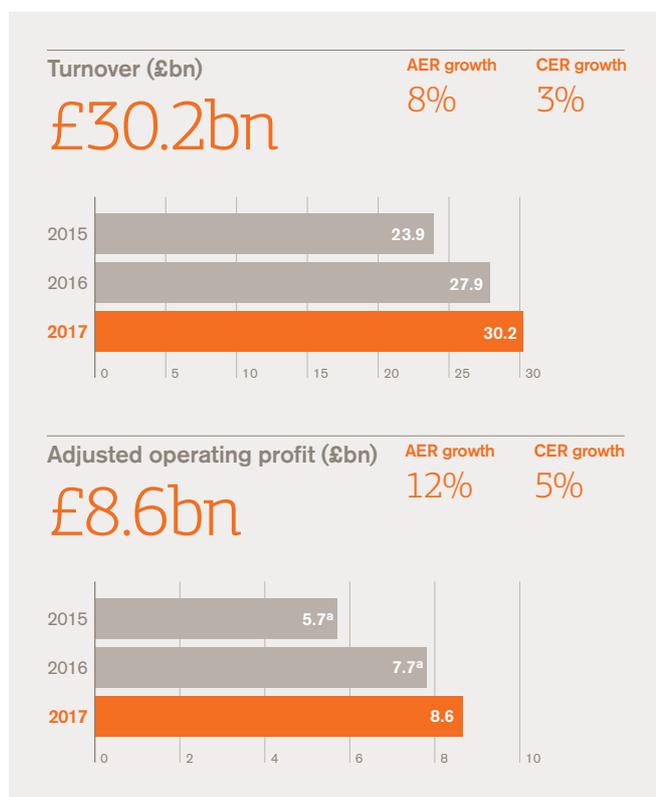
Firstly, increased valuations of the HIV and Consumer Healthcare businesses due to lower US tax rates resulted in an increase in the related liabilities for contingent consideration and the put options of £666 million.

Secondly, an additional tax charge of £1,078 million comprised a reduction in the value of US deferred tax assets held against future liabilities, such as pensions, and a current tax credit, together amounting to £730 million, as well as a charge of £348 million arising on the reserves of subsidiaries of US entities in the Group. The cash impact of this latter charge will be spread over eight years from 2018, with approximately 60% expected to be payable in years six to eight.

These charges were partly offset by an allocation to non-controlling interests amounting to £114 million, as many of the adjustments related to ViiV Healthcare and the Consumer Healthcare Joint Venture.

These charges represent management's estimates of the impact of US tax reform on the Group based on the information currently available. As further guidance from the US Treasury on implementation of the Act becomes available, particularly with regard to the repatriation tax provisions, the assumptions underlying these estimates could change. This could result in adjustments to the charges taken that could have a material impact on the results of the Group.

Adjusted results



a. Adjusted results now exclude only significant legal charges per revised definition on page 58. Prior year figures have been revised.

We use Adjusted results, which is a non-IFRS measure, among other metrics including total results and cash flow generation, to manage the performance of the Group. Non-IFRS measures may be considered in addition to, but not as a substitute for or superior to, information presented in accordance with IFRS. The definition of Adjusted results is set out on page 58.

Cost of sales

	2017		2016		Growth	
	£m	% of turnover	£m	% of turnover	£%	CER%
Cost of sales	(8,771)	(29.1)	(8,351)	(29.9)	5	1

Cost of sales as a percentage of turnover was 29.1%, down 0.9 percentage points in Sterling terms and down 0.5 percentage points in CER terms compared with 2016. This reflected a more favourable product mix across all three businesses, particularly in Pharmaceuticals, including the impact of higher HIV sales, as well as favourable product mix, the benefit of a settlement for lost third party supply volume and a favourable year-on-year comparison to inventory adjustments in 2016 in Vaccines. There was also a further contribution from integration and restructuring savings in all three businesses, offset by continued adverse pricing pressure in Pharmaceuticals, primarily Respiratory, and additional supply chain investments.

Selling, general and administration

	2017		2016 (revised)		Growth	
	£m	% of turnover	£m	% of turnover	£%	CER%
Selling, general and administration	(9,341)	(30.9)	(8,797)	(31.5)	6	1

SG&A costs were 30.9% of turnover, 0.6 percentage points lower in Sterling terms than in 2016 and 0.5 percentage points lower on a CER basis. This primarily reflected tight control of ongoing costs, particularly in Consumer Healthcare, continued cost reductions in Pharmaceuticals, including the benefits of the Pharmaceuticals restructuring programme, and integration benefits in Vaccines and Consumer Healthcare. This was partly offset by increased investment in promotional product support, particularly for new launches in Respiratory, HIV and Vaccines.

Research and development

	2017		2016		Growth	
	£m	% of turnover	£m	% of turnover	£%	CER%
Research and development	(3,862)	(12.8)	(3,468)	(12.4)	11	8

R&D expenditure was £3,862 million (12.8% of turnover), 11% higher than 2016 at AER and 8% higher at CER. This included a charge of £106 million on the utilisation of the Priority Review Voucher in Q2 2017 as well as increased investment in the progression of a number of mid and late-stage programmes.

	2017		2016 (revised)		Growth	
	£m	% of turnover	£m	% of turnover	£%	CER%
Discovery	1,020		821		24	21
Development	1,450		1,249		16	13
Facilities and central support functions	536		558		(4)	(7)
Total Pharmaceuticals	3,006		2,628		14	11
Vaccines R&D	621		597		4	(2)
Consumer Healthcare R&D	235		243		(3)	(7)
Research and development	3,862		3,468		11	8

The growth in Development expenditure was driven by the progression of a number of mid and late-stage programmes in HIV, Respiratory and Anaemia, together with the utilisation of the Priority Review Voucher in Q2 2017. The continuing high growth in Discovery expenditure reflected further investment in the early stage Oncology portfolio.

Royalty income

Royalty income was £356 million (2016 – £398 million). The reduction was primarily due to the patent expiry of *Cialis* in Q4 2016 and a catch-up adjustment recorded in Q1 2016.

Group financial review continued

Adjusted results continued

Adjusted operating profit

Adjusted operating profit was £8,568 million, 12% AER higher than in 2016 and 5% CER higher on a turnover increase of 3% CER. The Adjusted operating margin of 28.4% was 0.9 percentage points higher than in 2016 and 0.4 percentage points higher on a CER basis. This reflected improved operating leverage driven by sales growth and a more favourable mix in all three businesses, together with, in Vaccines, the benefit of a settlement for lost third party supply volume and a favourable year-on-year comparison to inventory adjustments in 2016. There was also continued tight control of ongoing costs across all three businesses as well as benefits from restructuring and integration. This was partly offset by the charge of £106 million on the utilisation of the Priority Review Voucher in Q2 2017 as well as other increases in R&D investment, continuing price pressure, particularly in Respiratory, and supply chain investments.

Adjusted operating profit by business

	2017		2016 (revised)		Growth	
	£m	Margin %	£m	Margin %	£%	CER%
Pharmaceuticals	8,667	50.2	7,976	49.5	9	3
Pharmaceuticals R&D	(2,740)		(2,488)		10	7
Pharmaceuticals	5,927	34.3	5,488	34.1	8	1
Vaccines	1,644	31.9	1,429	31.1	15	11
Consumer Healthcare	1,373	17.7	1,116	15.5	23	11
	8,944	29.6	8,033	28.8	11	4
Corporate & other unallocated costs	(376)		(362)		4	(3)
Adjusted operating profit	8,568	28.4	7,671	27.5	12	5

Pharmaceuticals

Pharmaceuticals operating profit was £5,927 million, 8% AER higher than in 2016 and 1% CER higher on a turnover increase of 3% CER. The operating margin of 34.3% was 0.2 percentage points higher than in 2016 on a Sterling basis but 0.6 percentage points down on a CER basis. This primarily reflected increased R&D investment, including the impact of the utilisation of the Priority Review Voucher in Q2 2017. The operating margin also reflected increased investment in new product support, as well as the continued impact of lower prices, particularly in Respiratory, and the broader transition of the Respiratory portfolio, partly offset by a more favourable product mix, primarily driven by the growth in HIV sales, and the continued cost reduction benefit of the Group's Pharmaceuticals restructuring programme.

Vaccines

Vaccines operating profit was £1,644 million, 15% AER higher than in 2016 and 11% CER higher on a turnover increase of 6% CER. The operating margin of 31.9% was 0.8 percentage points higher than in 2016 on a Sterling basis and 1.3 percentage points higher on a CER basis. This was primarily driven by improved product mix, the benefit of a settlement for lost third party supply volume and a favourable year-on-year comparison with inventory adjustments in 2016, together with continued restructuring and integration benefits. This was partly offset by increased SG&A resources to support business growth and new launches, increased supply chain costs and lower royalty income.

Consumer Healthcare

Consumer Healthcare operating profit was £1,373 million, 23% AER higher than in 2016 and 11% CER higher on a turnover increase of 2%. The operating margin of 17.7% was 2.2 percentage points higher than in 2016 and 1.3 percentage points higher on a CER basis, reflecting tight control of costs, integration synergies, principally in SG&A, partly offset by increased investment in power brands.

Net finance costs

	2017 £m	2016 £m
Finance income		
Interest and other income	63	70
Fair value movements	2	2
	65	72
Finance expense		
Interest expense	(720)	(701)
Unwinding of discounts on liabilities	(4)	(4)
Remeasurements and fair value movements	(4)	(4)
Other finance expense	6	(15)
	(722)	(724)

Share of after tax profits of associates and joint ventures

The share of profits of associates and joint ventures was £13 million (2016 – £5 million).

Adjusted profit before taxation

	2017		2016 (revised)		Growth	
	£m	% of turnover	£m	% of turnover	£%	CER%
Adjusted profit before tax	7,924	26.3	7,024	25.2	13	5

Taxation

Tax on Adjusted profit amounted to £1,667 million and represented an effective Adjusted tax rate of 21.0% (2016 – 21.3%).

Non-controlling interests

The allocation of Adjusted earnings to non-controlling interests amounted to £793 million (2016 – £637 million), including the non-controlling interest allocations of Consumer Healthcare profits of £344 million (2016 – £288 million) and the allocation of ViiV Healthcare profits, which increased to £414 million (2016 – £324 million) including the impact of changes in the proportions of preferential dividends due to each shareholder. The increase in allocation also reflected comparison with the reduction in the allocation to non-controlling interests due to higher net losses in some of the Group's other entities with non-controlling interests in 2016.

Adjusted earnings per share

Adjusted EPS of 111.8p was up 11% AER, 4% CER compared with a 5% CER increase in Adjusted operating profit.

Cash generation and conversion

A summary of the consolidated cash flow statement is set out below.

	2017 £m	2016 £m
Net cash inflow from operating activities	6,918	6,497
Net cash outflow from investing activities	(1,443)	(1,269)
Net cash outflow from financing activities	(6,380)	(6,392)
Decrease in cash and bank overdrafts	(905)	(1,164)
Cash and bank overdrafts at beginning of year	4,605	5,486
Decrease in cash and bank overdrafts	(905)	(1,164)
Exchange adjustments	(100)	283
Cash and bank overdrafts at end of year	3,600	4,605
Cash and bank overdrafts at end of year comprise:		
Cash and cash equivalents	3,833	4,897
Overdrafts	(233)	(292)
	3,600	4,605

The net cash inflow from operating activities for the year was £6,918 million (2016 – £6,497 million). The increase primarily reflected improved operating profit performance, as well as a positive currency benefit, partly offset by increased working capital reflecting the building of inventory in advance of new product launches, increased contingent consideration payments and legal settlements.

Total cash payments to Shionogi in relation to the ViiV Healthcare contingent consideration liability in the year were £671 million, of which £587 million was recognised in cash flows from operating activities and £84 million was recognised in contingent consideration paid within investing cash flows. These payments are deductible for tax purposes.

Capital expenditure and financial investment

Cash payments for tangible and intangible fixed assets amounted to £2,202 million (2016 – £2,352 million) and disposals realised £807 million (2016 – £453 million). Cash payments to acquire equity investments of £80 million (2016 – £96 million) were made and sales of equity investments realised £64 million (2016 – £683 million).

Free cash flow

Free cash flow is the amount of cash generated by the business after meeting our obligations for interest, tax and dividends paid to non-controlling interests, and after capital expenditure on property, plant and equipment and intangible assets.

	2017 £m	2016 £m
Free cash inflow	3,437	3,014

Free cash flow was £3,437 million for the year (2016 – £3,014 million). The increase primarily reflected improved operating profit performance, as well as a positive currency benefit and increases in returns and rebates, partly offset by increased working capital, reflecting seasonal factors and the building of inventory in advance of new product launches, increased contingent consideration payments, the purchase of the Priority Review Voucher, increased dividends to non-controlling interests, including a catch up adjustment, and higher legal settlements. Free cash flow in 2016 was also impacted by the costs of acquiring the HIV Clinical assets from BMS for £221 million.

Reconciliation of net cash inflow from operating activities to free cash flow

A reconciliation of net cash inflow from operating activities, which is the closest equivalent IFRS measure to free cash flow, is shown below.

	2017 £m	2016 (revised) £m
Net cash inflow from operating activities	6,918	6,497
Purchase of property, plant and equipment	(1,545)	(1,543)
Purchase of intangible assets	(657)	(809)
Proceeds from sale of property, plant and equipment	281	98
Interest paid	(781)	(732)
Interest received	64	68
Dividends from associates and joint ventures	6	42
Contingent consideration paid (reported in investing activities)	(91)	(73)
Contribution from non-controlling interests	21	–
Distributions to non-controlling interests	(779)	(534)
Free cash flow	3,437	3,014

Future cash flow

Over the long term, we expect that future cash generated from operations will be sufficient to fund our operating and debt servicing costs, normal levels of capital expenditure, obligations under existing licensing agreements, expenditure arising from restructuring programmes and other routine outflows including tax, pension contributions and dividends, subject to the 'Principal risks and uncertainties' discussed on pages 257 to 266. We may from time to time have additional demands for finance, such as for acquisitions, including potentially acquiring increased ownership interests in the ViiV Healthcare and the Consumer Healthcare businesses where minority shareholders hold put options. We have access to multiple sources of liquidity from short and long-term capital markets and financial institutions for such needs, in addition to the cash flow from operations.

Investment appraisal and capital allocation

We have strengthened our framework for capital allocation, including the creation of a new board to govern the allocation of capital between our businesses. We utilise a consistent cash return on invested capital (CROIC) methodology to prioritise investment across the Group as a whole, so that we can more effectively compare the returns from each of the businesses as we allocate capital between them. We also consider the impact on EPS and our credit profile where relevant.

The discount rate used to perform financial analyses is decided internally, to allow determination of the extent to which investments cover our cost of capital. For individual investments the discount rate may be adjusted to take into account specific country, business or project risk.

Working capital

	2017	2016
Working capital percentage of turnover (%)	22	22
Working capital conversion cycle (days)	191	193

The reduction of two days in 2017 compared with 2016 was predominantly due to a beneficial impact from exchange of approximately seven days, partly offset by a build in inventory in advance of new product launches and an increase in trade receivables from higher sales.

Group financial review continued

Financial position and resources

	2017 £m	2016 £m
Assets		
Non-current assets		
Property, plant and equipment	10,860	10,808
Goodwill	5,734	5,965
Other intangible assets	17,562	18,776
Investments in associates and joint ventures	183	263
Other investments	918	985
Deferred tax assets	3,796	4,374
Derivative financial instruments	8	–
Other non-current assets	1,413	1,199
Total non-current assets	40,474	42,370
Current assets		
Inventories	5,557	5,102
Current tax recoverable	258	226
Trade and other receivables	6,000	6,026
Derivative financial instruments	68	156
Liquid investments	78	89
Cash and cash equivalents	3,833	4,897
Assets held for sale	113	215
Total current assets	15,907	16,711
Total assets	56,381	59,081
Liabilities		
Current liabilities		
Short-term borrowings	(2,825)	(4,129)
Contingent consideration liabilities	(1,076)	(561)
Trade and other payables	(20,970)	(11,964)
Derivative financial instruments	(74)	(194)
Current tax payable	(995)	(1,305)
Short-term provisions	(629)	(848)
Total current liabilities	(26,569)	(19,001)
Non-current liabilities		
Long-term borrowings	(14,264)	(14,661)
Corporation tax payable	(411)	–
Deferred tax liabilities	(1,396)	(1,934)
Pensions and other post-employment benefits	(3,539)	(4,090)
Other provisions	(636)	(652)
Contingent consideration liabilities	(5,096)	(5,335)
Other non-current liabilities	(981)	(8,445)
Total non-current liabilities	(26,323)	(35,117)
Total liabilities	(52,892)	(54,118)
Net assets	3,489	4,963
Equity		
Share capital	1,343	1,342
Share premium account	3,019	2,954
Retained earnings	(6,477)	(5,392)
Other reserves	2,047	2,220
Shareholders' equity	(68)	1,124
Non-controlling interests	3,557	3,839
Total equity	3,489	4,963

Property, plant and equipment

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

The total cost of our property, plant and equipment at 31 December 2017 was £21,719 million, with a net book value of £10,860 million. Of this, land and buildings represented £4,270 million, plant and equipment £4,132 million and assets in construction £2,458 million. In 2017, we invested £1,584 million in new property, plant and equipment. This was mainly related to a large number of projects for the renewal, improvement and expansion of facilities at various worldwide sites. Property is mainly held freehold. New investment is financed from our liquid resources. At 31 December 2017, we had contractual commitments for future capital expenditure of £584 million and operating lease commitments of £1,045 million. We believe that our property and plant facilities are adequate for our current needs.

We observe stringent procedures and use specialist skills to manage environmental risks from our activities. Environmental issues, sometimes dating from operations now modified or discontinued, are reported under 'Environmental sustainability' on page 61 and in Note 45 to the financial statements, 'Legal proceedings'.

Goodwill

Goodwill decreased during the year to £5,734 million at 31 December 2017, from £5,965 million. The decrease primarily reflected the impact of exchange movements.

Other intangible assets

Other intangible assets include the cost of intangibles acquired from third parties and computer software. The net book value of other intangible assets as at 31 December 2017 was £17,562 million (2016 – £18,776 million). The decrease in 2017 reflected the impact of exchange movements and the amortisation and impairment of existing intangibles of £934 million and £680 million respectively, partly offset by the development costs capitalised during the year of £251 million and other additions of £454 million.

Investments in associates and joint ventures

We held investments in associates and joint ventures with a carrying value at 31 December 2017 of £183 million (2016 – £263 million). The market value at 31 December 2017 was £372 million (2016 – £502 million). The largest of these investments was in Innoviva Inc. which had a book value at 31 December 2017 of £147 million (2016 – £138 million). The market value at 31 December 2017 was £336 million. See Note 20 to the financial statements 'Investments in associates and joint ventures'.

Other investments

We held other investments with a carrying value at 31 December 2017 of £918 million (2016 – £985 million). The decrease in the carrying value during the year was primarily due to the impact of exchange movements. The most significant of the investments held at 31 December 2017 was in Theravance Biopharma, Inc. which had a book value at 31 December 2017 of £199 million (2016 – £248 million). The other investments included equity stakes in companies with which we have research collaborations, which provide access to biotechnology developments of potential interest and interests in companies that arise from business divestments.

Financial position and resources continued

Derivative financial instruments: assets

We had current derivative financial instruments held at fair value of £68 million (2016 – £156 million) and non-current derivative financial instruments held at fair value of £8 million (2016 – £nil). The majority of these financial instruments related to foreign exchange contracts both designated and not designated as accounting hedges.

Inventories

Inventory of £5,557 million increased from £5,102 million in 2016. The increase primarily reflected inventory build in advance of new product launches.

Trade and other receivables

Trade and other receivables of £6,000 million decreased from £6,026 million in 2016, primarily reflecting exchange movements partly offset by the impact of higher sales.

Deferred tax assets

Deferred tax assets of £3,796 million decreased from £4,374 million in 2016 primarily as a result of the revaluation of existing deferred tax assets to reflect the lower headline US tax rate following enactment of US tax reform, partly offset by an increase in deferred tax assets related to intra-Group profit on inventory.

Derivative financial instruments: liabilities

We held current derivative financial instruments at fair value of £74 million (2016 – £194 million). This primarily related to foreign exchange contracts both designated and not designated as accounting hedges.

Trade and other payables

Trade and other payables amounting to £20,970 million increased from £11,964 million in 2016, reflecting the reclassification of the Consumer Healthcare put option of £8,606 million from non-current liabilities. This relates to the present value of the estimated amount payable by us in the event of full exercise of Novartis' right to require us to acquire its 36.5% shareholding in the Consumer Healthcare Joint Venture. As this option became exercisable from 2 March 2018, with payment likely to be due several months after exercise, it has been classified within current liabilities on the Group balance sheet. Further details are provided in Note 3, 'Key accounting judgements and estimates'.

Provisions

We carried deferred tax provisions and other short-term and non-current provisions of £2,661 million at 31 December 2017 (2016 – £3,434 million). The decrease in the year primarily reflected a reduction in the deferred tax provision as a result of Swiss tax reform. Other provisions at the year-end include £186 million (2016 – £344 million) related to legal and other disputes and £504 million (2016 – £554 million) related to the major restructuring programme. Provision has been made for legal and other disputes, indemnified disposal liabilities, employee related liabilities and the costs of the restructuring programme to the extent that at the balance sheet date a legal or constructive obligation existed and could be reliably estimated.

Pensions and other post-employment benefits

We account for pension and other post-employment arrangements in accordance with IAS 19. The deficits, net of surpluses before allowing for deferred taxation were £1,505 million (2016 – £2,084 million) on pension arrangements and £1,496 million (2016 – £1,693 million) on unfunded post-employment liabilities. The decreases in the deficits were predominantly driven by special funding contributions to the UK and US schemes and significant UK asset gains partly offset by lower discount rates that we used to discount the value of the liabilities.

Other non-current liabilities

Other non-current liabilities amounted to £981 million at 31 December 2017 (2016 – £8,445 million). This decrease from 2016 reflects the reclassification of the Consumer Healthcare put option to current liabilities during the year.

Contingent consideration liabilities

Contingent consideration liabilities amounted to £6,172 million at 31 December 2017 (2016 – £5,896 million), of which £5,542 million (2016 – £5,304 million) represented the estimated present value of amounts payable to Shionogi relating to ViiV Healthcare and £584 million (2016 – £545 million) represented the estimated present value of contingent consideration payable to Novartis related to the Vaccines acquisition. The liability due to Shionogi included £216 million in respect of preferential dividends. The liability for preferential dividends due to Pfizer at 31 December 2017 was £17 million. An explanation of the accounting treatment of our interests in ViiV Healthcare is set out on page 59.

Net debt

	2017 £m	2016 £m
Cash, cash equivalents and liquid investments	3,911	4,986
Borrowings – repayable within one year	(2,825)	(4,129)
Borrowings – repayable after one year	(14,264)	(14,661)
Net debt	(13,178)	(13,804)

At 31 December 2017, net debt was £13.2 billion, compared with £13.8 billion at 31 December 2016, comprising gross debt of £17.1 billion and cash and liquid investments of £3.9 billion. The decrease in net debt primarily reflected the improved free cash flow of £3.4 billion, disposal proceeds of £0.6 billion, together with a £0.6 billion favourable exchange impact from the translation of non-Sterling denominated debt, which more than offset the cost of dividends paid to shareholders of £3.9 billion.

At 31 December 2017, our cash and liquid investments were held as follows:

	2017 £m	2016 £m
Bank balances and deposits	1,715	2,583
US Treasury and Treasury repo only money market funds	1,715	2,248
Liquidity funds	403	66
Cash and cash equivalents	3,833	4,897
Liquid investments – Government securities	78	89
	3,911	4,986

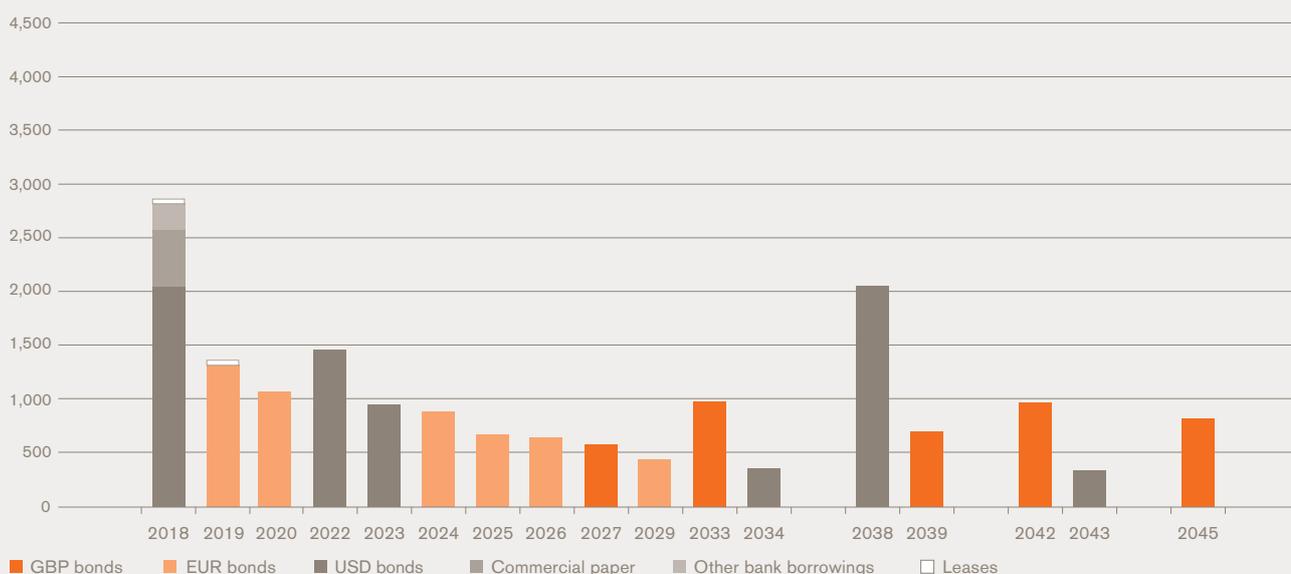
Cash and liquid investments of £2.5 billion (2016 – £3.2 billion) were held centrally at 31 December 2017.

Group financial review continued

Financial position and resources continued

Maturity profile of gross debt

£m equivalent



The analysis of cash and gross debt after the effects of hedging is as follows.

	2017 £m	2016 £m
Cash and liquid investments	3,911	4,986
Gross debt – fixed	(16,229)	(17,288)
– floating	(805)	(1,496)
– non-interest bearing	(55)	(6)
Net debt	(13,178)	(13,804)

Movements in net debt

	2017 £m	2016 £m
Net debt at beginning of year	(13,804)	(10,727)
(Decrease)/increase in cash and bank overdrafts	(905)	(1,164)
Increase in liquid investments	(4)	–
Increase in long-term loans	(2,233)	–
Net repayment of/(increase in) short-term loans	3,200	(148)
Exchange movements	585	(1,781)
Other movements	(17)	16
Net debt at end of year	(13,178)	(13,804)

Total equity

At 31 December 2017, total equity had decreased from £4,963 million at 31 December 2016 to £3,489 million. This primarily reflected the impact of the dividends paid exceeding the Total profit for the year offset by favourable exchange translation impact from the weaker Sterling rates. The Total profit for the year was impacted by the charge in respect of US tax reform.

A summary of the movements in equity is set out below.

	2017 £m	2016 £m
Total equity at beginning of year	4,963	8,878
Total comprehensive income for the year	2,882	2,024
Dividends to shareholders	(3,906)	(4,850)
Ordinary shares issued	56	89
Changes in non-controlling interests	(2)	32
Recognition of liabilities with non-controlling interests	–	(2,172)
De-recognition of liabilities with non-controlling interests	–	1,244
Shares acquired by ESOP Trusts	(65)	(74)
Share-based incentive plans	333	319
Tax on share-based incentive plans	(4)	7
Contributions from non-controlling interests	21	–
Distributions to non-controlling interests	(789)	(534)
Total equity at end of year	3,489	4,963

Financial position and resources continued

Share purchases

In 2017, the Employee Share Ownership Plan (ESOP) Trusts acquired £65 million of shares in GlaxoSmithKline plc (2016 – £74 million). Shares are held by the Trusts to satisfy future exercises of options and awards under the Group share option and award schemes. A proportion of the shares held by the Trusts are in respect of awards where the rules of the scheme require us to satisfy exercises through market purchases rather than the issue of new shares. The shares held by the Trusts are matched to options and awards granted.

At 31 December 2017, the ESOP Trusts held 66.7 million (2016 – 43 million) GSK shares against the future exercise of share options and share awards. The carrying value of £400 million (2016 – £286 million) has been deducted from other reserves. The market value of these shares was £882 million (2016 – £667 million).

During 2017, no shares were repurchased. At 31 December 2017, we held 414.6 million shares as Treasury shares (2016 – 458.2 million shares), at a cost of £5,800 million (2016 – £6,451 million), which has been deducted from retained earnings.

No ordinary shares were purchased in the period 1 January 2018 to 12 March 2018 and the company does not expect to make any ordinary share repurchases in the remainder of 2018.

Commitments and contingent liabilities

Financial commitments are summarised in Note 41 to the financial statements, 'Commitments'. Other contingent liabilities and obligations in respect of short and long-term debt are set out in Note 32 to the financial statements, 'Contingent liabilities' and Note 31 to the financial statements, 'Net debt'.

Amounts provided for pensions and post-retirement benefits are set out in Note 28 to the financial statements, 'Pensions and other post-employment benefits'. Amounts provided for restructuring programmes and legal, environmental and other disputes are set out in Note 29 to the financial statements, 'Other provisions'.

Contractual obligations and commitments

The following table sets out our contractual obligations and commitments at 31 December 2017 as they fall due for payment.

	Total £m	Under 1 yr £m	1-3 yrs £m	3-5 yrs £m	5 yrs+ £m
Loans	17,137	2,802	2,422	1,499	10,414
Interest on loans	8,510	555	985	956	6,014
Finance lease obligations	66	23	35	3	5
Finance lease charges	12	2	3	2	5
Operating lease commitments	1,045	186	271	201	387
Intangible assets	5,254	205	546	750	3,753
Property, plant & equipment	584	527	51	6	–
Investments	107	34	47	26	–
Purchase commitments	346	284	23	17	22
Pensions	738	123	246	246	123
Other commitments	38	18	20	–	–
Total	33,837	4,759	4,649	3,706	20,723

Commitments in respect of loans and future interest payable on loans are disclosed before taking into account the effect of derivatives.

We have entered into a number of research collaborations to develop new compounds with other pharmaceutical companies. The terms of these arrangements can include upfront fees, equity investments, loans and commitments to fund specified levels of research. In addition, we will often agree to make further payments if future 'milestones' are achieved.

As some of these agreements relate to compounds in the early stages of development, the potential obligation to make milestone payments will continue for a number of years if the compounds move successfully through the development process. Generally, the closer the product is to marketing approval, the greater the probability of success. The amounts shown above within intangible assets represent the maximum that would be paid if all milestones were achieved, and include £4.5 billion which relates to externalised projects in the discovery portfolio. There was a reduction in the commitments in 2017 due to amendments made to existing agreements and obligations which have ceased.

In 2016, we reached an agreement with the trustees of the UK pension schemes to make additional contributions, including in 2016, to assist in eliminating the pension deficit identified as part of the 31 December 2014 actuarial funding valuation. The table above includes this commitment but excludes the normal ongoing annual funding requirement in the UK of approximately £130 million. For further information on pension obligations, see Note 28 to the financial statements, 'Pensions and other post-employment benefits'.

Contingent liabilities

The following table sets out contingent liabilities, comprising discounted bills, performance guarantees, letters of credit and other items arising in the normal course of business, and when they are expected to expire.

	Total £m	Under 1 yr £m	1-3 yrs £m	3-5 yrs £m	5 yrs+ £m
Guarantees	315	151	127	31	6
Other contingent liabilities	119	17	61	3	38
Total	434	168	188	34	44

In the normal course of business, we have provided various indemnification guarantees in respect of business disposals in which legal and other disputes have subsequently arisen. A provision is made where an outflow of resources is considered probable and a reliable estimate can be made of the likely outcome of the dispute and this is included in Note 29 to the financial statements, 'Other provisions'.

We provide for the outcome of tax, legal and other disputes when an outflow of resources is considered probable and a reliable estimate of the outflow may be made. At 31 December 2017, other than for those disputes where provision has been made, it was not possible to make a reliable estimate of the potential outflow of funds that might be required to settle disputes where the possibility of there being an outflow was more than remote.

The ultimate liability for such matters may vary significantly from the amounts provided and is dependent upon the outcome of litigation proceedings and negotiations with the relevant tax authorities. This is discussed further in 'Principal risks and uncertainties' on pages 257 to 266 and Notes 14 and 45 to the financial statements, 'Taxation' and 'Legal proceedings'.

Group financial review continued

Critical accounting policies

The consolidated financial statements are prepared in accordance with IFRS, as adopted for use in the European Union, and also with IFRS as issued by the IASB, following the accounting policies approved by the Board and described in Note 2 to the financial statements, 'Accounting principles and policies'.

We are required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported in the financial statements. Actual amounts and results could differ from those estimates.

The critical accounting policies relate to the following areas:

- Turnover
- Taxation (Note 14)
- Legal and other disputes (Notes 29 and 45)
- Intangible asset impairments (Note 19)
- Business combinations (Note 38)
- Pensions and other post-employment benefits (Note 28).

Information on the judgements and estimates made in these areas is given in Note 3 to the financial statements, 'Key accounting judgements and estimates'.

Turnover

In respect of the Turnover accounting policy, our largest business is US Pharmaceuticals, and the US market has the most complex arrangements for rebates, discounts and allowances. The following briefly describes the nature of the arrangements in existence in our US Pharmaceuticals business:

- We have arrangements with certain indirect customers whereby the customer is able to buy products from wholesalers at reduced prices. A chargeback represents the difference between the invoice price to the wholesaler and the indirect customer's contractual discounted price. Accruals for estimating chargebacks are calculated based on the terms of each agreement, historical experience and product growth rates
- Customer rebates are offered to key managed care and Group Purchasing Organisations (GPO) and other direct and indirect customers. These arrangements require the customer to achieve certain performance targets relating to the value of product purchased, formulary status or pre-determined market shares relative to competitors. The accrual for customer rebates is estimated based on the specific terms in each agreement, historical experience and product growth rates
- The US Medicaid programme is a state-administered programme providing assistance to certain poor and vulnerable patients. In 1990, the Medicaid Drug Rebate Program was established to reduce State and Federal expenditure on prescription drugs. In 2010, the Patient Protection and Affordable Care Act became law. We participate by providing rebates to states. Accruals for Medicaid rebates are calculated based on the specific terms of the relevant regulations or the Patient Protection and Affordable Care Act
- Cash discounts are offered to customers to encourage prompt payment. These are accrued for at the time of invoicing and adjusted subsequently to reflect actual experience
- We record an accrual for estimated sales returns by applying historical experience of customer returns to the amounts invoiced, together with market related information such as stock levels at wholesalers, anticipated price increases and competitor activity.

A reconciliation of gross turnover to net turnover for the US Pharmaceuticals business, including Puerto Rico, is as follows:

	2017		2016		2015	
	£m	Margin %	£m	Margin %	£m	Margin %
Gross turnover	16,365	100	13,363	100	10,093	100
Market driven segments	(4,058)	(25)	(2,749)	(21)	(1,761)	(17)
Government mandated and state programs	(3,938)	(24)	(3,070)	(23)	(2,357)	(23)
Cash discounts	(330)	(2)	(261)	(2)	(192)	(2)
Customer returns	(97)	(1)	(98)	(1)	(93)	(1)
Prior year adjustments	86	1	109	1	142	1
Other items	(460)	(3)	(457)	(3)	(298)	(3)
Total deductions	(8,797)	(54)	(6,526)	(49)	(4,559)	(45)
Net turnover	7,568	46	6,837	51	5,534	55

Market driven segments consist primarily of Managed Care and Medicare plans with which GSK negotiates contract pricing that is honoured via rebates and chargebacks. Mandated segments consist primarily of Medicaid and Federal Government programmes which receive government mandated pricing via rebates and chargebacks.

The increased deductions in the market driven segments of the gross turnover to net turnover reconciliation primarily reflected higher rebates and chargebacks on Respiratory products, and on *Advair* in particular. During 2017, *Advair* accounted for 21% of US Pharmaceuticals turnover and approximately 40% of the total deduction for rebates and returns, and the Respiratory portfolio as a whole accounted for approximately 82% of the total deduction in the year. *Advair* continued to suffer pricing pressures in 2017 as the business sought to transition its Respiratory portfolio to newer products.

The balance sheet accruals for rebates, discounts, allowances and returns for the US Pharmaceuticals and Vaccines businesses are managed on a combined basis. At 31 December 2017, the total accrual amounted to £2,837 million (2016 – £2,218 million).

A monthly process is operated to monitor inventory levels at wholesalers for any abnormal movements. This process uses gross sales volumes, prescription volumes based on third party data sources and information received from key wholesalers. The aim of this is to maintain inventories at a consistent level from year to year based on the pattern of consumption.

On this basis, US Pharmaceuticals and Vaccines inventory levels at wholesalers and in other distribution channels at 31 December 2017 were estimated to amount to approximately four weeks of turnover. This calculation uses third party information, the accuracy of which cannot be totally verified, but is believed to be sufficiently reliable for this purpose.

Critical accounting policies continued

Legal and other disputes

In respect of the accounting policy for Legal and other disputes, the following briefly describes the process by which we determine the level of provision that is necessary.

In accordance with the requirements of IAS 37, 'Provisions, contingent liabilities and contingent assets', we provide for anticipated settlement costs where an outflow of resources is considered probable and a reliable estimate may be made of the likely outcome of the dispute and legal and other expenses arising from claims against the Group. We may become involved in significant legal proceedings, in respect of which it is not possible to make a reliable estimate of the expected financial effect, if any, that could result from ultimate resolution of the proceedings. In these cases, appropriate disclosure about such cases would be included in the Annual Report, but no provision would be made.

This position could change over time and, therefore, there can be no assurance that any losses that result from the outcome of any legal proceedings will not exceed by a material amount the amount of the provisions reported in the Group's financial statements.

Like many pharmaceutical companies, we are faced with various complex product liability, anti-trust and patent litigation, as well as investigations of its operations conducted by various governmental regulatory agencies. Throughout the year, the General Counsel of the Group, as head of the Group's legal function, and the Senior Vice President and Head of Global Litigation for the Group, who is responsible for all litigation and government investigations, routinely brief the Chief Executive Officer, the Chief Financial Officer and the Board of Directors on the significant litigation pending against the Group and governmental investigations of the Group.

These meetings, as appropriate, detail the status of significant litigation and government investigations and review matters such as the number of claims notified to us, information on potential claims not yet notified, assessment of the validity of claims, progress made in settling claims, recent settlement levels and potential reimbursement by insurers.

The meetings also include an assessment of whether or not there is sufficient information available for us to be able to make a reliable estimate of the potential outcomes of the disputes. Often, external counsel assisting us with various litigation matters and investigations will also assist in the briefing of the Board and senior management. Following these discussions, for those matters where it is possible to make a reliable estimate of the amount of a provision, if any, that may be required, the level of provision for legal and other disputes is reviewed and adjusted as appropriate. These matters are discussed further in Note 45 to the financial statements, 'Legal proceedings'.

Treasury policies

We report in Sterling and pay dividends out of Sterling cash flows. The role of Treasury is to monitor and manage the Group's external and internal funding requirements and financial risks in support of our strategic objectives. GSK operates on a global basis, primarily through subsidiary companies, and we manage our capital to ensure that our subsidiaries are able to operate as going concerns and to optimise returns to shareholders through an appropriate balance of debt and equity. Treasury activities are governed by policies approved annually by the Board of Directors, and most recently on 20 July 2017. A Treasury Management Group (TMG) meeting, chaired by our Chief Financial Officer, takes place on a regular basis to review treasury activities. Its members receive management information relating to these activities.

Treasury operations

The objective of our Treasury activity is to minimise the post-tax net cost of financial operations and reduce its volatility in order to benefit earnings and cash flows. We use a variety of financial instruments to finance our operations and derivative financial instruments to manage market risks from these operations. These derivatives, principally comprising interest rate swaps, foreign exchange forward contracts and swaps, are used to swap borrowings and liquid assets into currencies required for Group purposes and to manage exposure to financial risks from changes in foreign exchange rates and interest rates.

We do not hold or issue derivatives for speculative purposes and GSK's Treasury policies specifically prohibit such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities.

Capital management

Our financial strategy, implemented through the Group's Financial architecture, supports GSK's strategic priorities and it is regularly reviewed by the Board. We manage the capital structure of the Group through an appropriate mix of debt and equity.

GSK's long-term credit rating with Standard and Poor's is A+ (stable outlook) and with Moody's Investor Services ('Moody's') is A2 (stable outlook). Our short-term credit ratings are A-1 and P-1 with Standard and Poor's and Moody's respectively.

Liquidity risk management

Our policy is to borrow centrally in order to meet anticipated funding requirements. Our cash flow forecasts and funding requirements are monitored by the TMG on a regular basis. Our strategy is to diversify liquidity sources using a range of facilities and to maintain broad access to financial markets.

Each day, we sweep cash from a number of global subsidiaries to central Treasury accounts for liquidity management purposes.

Interest rate risk management

Our objective is to minimise the effective net interest cost and to balance the mix of debt at fixed and floating interest rates over time. The policy on interest rate risk management limits the amount of floating interest payments to a prescribed percentage of operating profit.

Group financial review continued

Treasury policies continued

Foreign exchange risk management

Foreign currency transaction exposures arising on external trade flows are not normally hedged. Foreign currency transaction exposures arising on internal trade flows are selectively hedged. Our objective is to minimise the exposure of overseas operating subsidiaries to transaction risk by matching local currency income with local currency costs where possible. GSK's internal trading transactions are matched centrally and we manage inter-company payment terms to reduce foreign currency risk. Foreign currency cash flows can be hedged selectively under the management of Treasury and the TMG. These include hedges of the foreign exchange risk arising from acquisitions and disposals of assets. Where possible, we manage the cash surpluses or borrowing requirements of subsidiary companies centrally using forward contracts to hedge future repayments back into the originating currency.

In order to reduce foreign currency translation exposure, we seek to denominate borrowings in the currencies of our principal assets and cash flows. These are primarily denominated in US Dollars, Euros and Sterling. Borrowings can be swapped into other currencies as required.

Borrowings denominated in, or swapped into, foreign currencies that match investments in overseas Group assets may be treated as a hedge against the relevant assets. Forward contracts in major currencies are also used to reduce exposure to the Group's investment in overseas Group assets. The TMG reviews the ratio of borrowings to assets for major currencies regularly.

Counterparty risk management

We set global counterparty limits for each of our banking and investment counterparties based on long-term credit ratings from Moody's and Standard and Poor's. Treasury's usage of these limits is monitored daily by a Corporate Compliance Officer (CCO) who operates independently of Treasury. Any breach of these limits would be reported to the CFO immediately.

The CCO also monitors the credit rating of these counterparties and, when changes in ratings occur, notifies Treasury so that changes can be made to investment levels or to authority limits as appropriate. In addition, relationship banks and their credit ratings are reviewed regularly and a report is presented annually to the TMG for approval.

Strategic report

The Strategic report was approved by the Board of Directors on 12 March 2018 and signed on its behalf by:

Simon Dingemans
Chief Financial Officer

12 March 2018