

Strategic report

Governance and remuneration

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Corporate Governance

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Chairman's Governance statement



“Emma Walmsley and the CET plan to ensure that the company's culture and values are consistent with our strategy and performance objectives.”

Dear Shareholder

I am pleased to present our Corporate Governance report for 2017.

Governance, strategy and long-term value creation

The Board remains committed to achieving the highest standards of corporate governance and integrity. Our governance structure operates from the Board across the Group and we believe it is critical in underpinning our ability to deliver our strategy to create long-term value and benefit for our shareholders and stakeholders. Our investors are also telling us that there has never been a greater need for companies to combine obligations to society with delivery of our financial performance.

The following pages set out details on the composition of our Board, its corporate governance arrangements, processes and activities during 2017, together with reports from each of the Board's Committees, including the new Science Committee.

Last year we reported on the Board's work on CEO and executive management succession. In 2017, the Board's focus was in supporting Emma Walmsley's transition into her new role and conducting a detailed review of the company's strategy with management.

CEO transition

In the period before she formally took up the reins as CEO in April, Emma was working on how she would evolve the company's strategy with support and guidance from the Board. She met with each Board director to solicit their views on the company, as well as meeting with employees at all levels of the business, external advisers and commentators to gain a wide view. She shaped her thinking with the Board as it evolved. Our Non-Executive Directors were fully engaged in this process. Emma utilised the diverse expertise around the boardroom table to test and shape the detail of her proposals. In particular, the Board and its Committees provided Emma and the management team with continuous feedback and challenge. This review culminated in a discussion at a joint strategy meeting with the full Corporate Executive Team (CET) in June at which the proposed Innovation, Performance and Trust priorities were scrutinised ahead of Board approval in July.

Emma and the CET then laid out at the Investor Update in July, how Innovation, Performance and Trust would provide a platform for growth from 2020 and beyond. She also re-affirmed the commitment to the three-business structure, subject to certain conditions which would continue to be reviewed periodically. This commitment was tested by the Board at the joint strategy session in June. In terms of continuing Board oversight of the Innovation, Performance and Trust priorities, all Board papers have been re-shaped to align with the new business priorities. In addition, the CEO's report includes Innovation, Performance and Trust performance indicators. Our annual strategy meetings will enable the Board to consider the progress and effectiveness of our business priorities in delivering long-term value to investors.

Aligning strategy and culture

A healthy culture is a vital tool in unlocking and protecting value and the biggest driver of our culture is the leadership of our company. Emma Walmsley and the CET plan to ensure that the company's culture and values are consistent with our strategy and performance objectives. When the Board reviewed her proposed strategy, culture featured heavily in the discussions. The Board approved a move to a high-performance, values-based culture where the new expectations of Courage, Accountability, Development and Teamwork guide employee behavior. The Board received a report on management's commitments and initiatives as a modern employer.

The CET held a leadership conference in October for the company's top 600 leaders, which I and other Non-Executive Directors attended. This was critical to transfer ownership of our strategy and culture to our leaders and on into the company. We are now measuring progress in implementing our priorities and monitoring aspects of our culture twice a year through an all-employee survey. This survey measures engagement, progress on our Innovation, Performance and Trust priorities, our values and expectations. Emma reports progress to the Board regularly on culture.

Further details on the company's commitment to being a modern employer and driving high levels of employee engagement as part of our Trust agenda are set out on pages 48 and 49 of the Strategic report.

Board evaluation

This was an appropriate time in the Board's evolution to carry out an external Board evaluation and the CEO, our Senior Independent Non-Executive Director and I therefore chose to appoint a new external Board evaluator for this review to bring a fresh perspective. Details of the externally facilitated review and its conclusions are set out on pages 92 to 93.

Corporate Governance reform

The Board has taken a close interest in the UK Government's development of a package of legislative and best practice measures and supports initiatives that raise the bar on corporate governance practices and effectiveness.

As part of this reform drive, the Financial Reporting Council (FRC) has recently consulted on its proposals for a revised UK Corporate Governance Code. We have submitted our views. I am pleased to note that the FRC has included new measures to encourage companies to take steps to align their strategy and culture and promote effective engagement with their workforce and wider stakeholders, issues that I have described earlier in relation to the approach of our own Board.

The Government's corporate governance reform legislation and the new Code are expected to be effective from 2019 financial years. I look forward to providing an update on how our arrangements measure up to these new requirements in next year's report.

UK Corporate Governance Code compliance

I am pleased to report that we were in full compliance with the requirements of the FRC's UK Corporate Governance Code (Code) and a copy of the Code is available on www.frc.org.uk.

I commend this report to all of our shareholders.



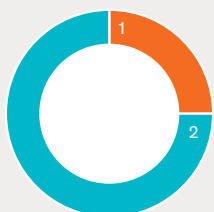
Philip Hampton
Chairman

12 March 2018

Our Board

Board composition

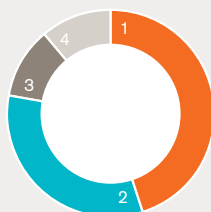
Composition



As at 1 April 2018

1. Executive	25%
2. Non-Executive	75%

Tenure Non-Executive



As at 1 April 2018

1. Up to 3 years	45%
2. 3-6 years	33%
3. 7-9 years	11%
4. Over 9 years	11%

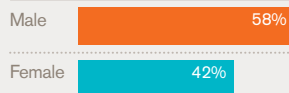
Gender diversity

Board

As at date of publication

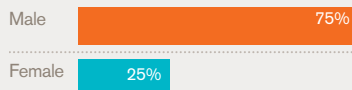


As at 1 April 2018

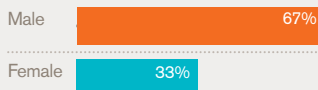


Executive

As at date of publication



As at 1 April 2018



Non-Executive

As at date of publication

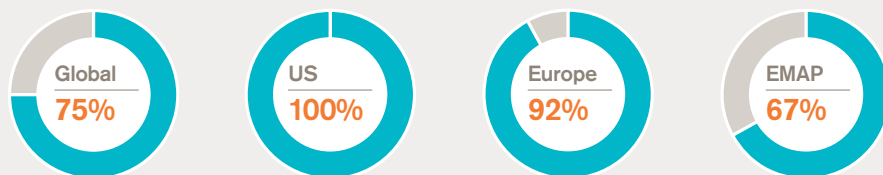


As at 1 April 2018



International experience

As at 1 April 2018



Philip Hampton 64
Non-Executive Chairman



Nationality

British

Appointed

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

Skills and experience

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

External appointments

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



Emma Walmsley 48
Chief Executive Officer

Nationality

British

Appointed

1 January 2017. Chief Executive Officer from 1 April 2017

Skills and experience

Emma joined GSK in 2010 with responsibility for Consumer Healthcare, Europe and was subsequently appointed President of GlaxoSmithKline Consumer Healthcare in October 2011. She has been a member of GSK's Corporate Executive Team since 2011 and was appointed CEO of GSK Consumer Healthcare, a joint venture between GSK and Novartis, from its creation in March 2015 until her appointment as GSK CEO Designate in September 2016. Emma joined the GSK Board on 1 January 2017 and succeeded Sir Andrew Witty as GSK CEO on 1 April 2017.

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

External appointments

None



Simon Dingemans 54
Chief Financial Officer

Nationality

British

Appointed

4 January 2011. Chief Financial Officer from 1 April 2011

Skills and experience

Prior to joining GSK, Simon had over 25 years of experience in investment banking at SG Warburg and Goldman Sachs. Simon advised GSK for over a decade before his appointment and was closely involved in a number of GSK's key strategic projects. Simon was previously Chairman of the 100 Group of Finance Directors.

External appointments

None



Dr Hal Barron 55
Chief Scientific Officer and President, R&D

Nationality

American

Appointed

1 January 2018

Skills and experience

Hal was President R&D at Calico LLC (California Life Company), an Alphabet-funded company that uses advanced technologies to increase understanding of lifespan biology. Prior to joining Calico, Hal was Executive Vice President, Head of Global Product Development, and Chief Medical Officer of Roche, responsible for all the products in the combined portfolio of Roche and Genentech. At Genentech, he was Senior Vice President of Development and Chief Medical Officer. Hal was a Non-Executive Director and Chair of The Science & Technology Committee at Juno Therapeutics, Inc.

External appointments

Hal is Associate Adjunct Professor, Epidemiology & Biostatistics, University of California, San Francisco.



Dr Patrick Vallance 58
Outgoing President, R&D

Nationality

British

Appointed

1 January 2017

Skills and experience

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

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

External appointments

Patrick stepped down as President, R&D at the end of 2017 and will step down as an Executive Director with effect from 31 March 2018 to become the UK Government's Chief Scientific Adviser and Head of the Government's Office for Science.

Key

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

Our Board continued



Manvinder Singh (Vindi) Banga 63
Senior Independent
Non-Executive Director

(N) (A) (R)

Nationality
Indian

Appointed

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

Skills and experience

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

External appointments

Vindi is a Partner at private equity investment firm Clayton Dubilier & Rice. He is also Chairman of Kalle GmbH, Senior Independent Director of Marks & Spencer Group plc, a member of its Nomination Committee and Chairman of its Remuneration Committee. Vindi is a Non-Executive Director of the Confederation of British Industry (CBI), a Director of High Ridge Brands Co, a member of the Holdingham International Advisory Board and Chair of the Board of Trustees of Marie Curie. He is also on the Governing Board of the Indian School of Business (ISB), Hyderabad, and is a member of the Indo UK CEO Forum.



Professor Sir Roy Anderson 70
Independent Non-Executive
Director & Scientific and
Medical Expert

(N) (S) (C)

Nationality
British

Appointed

1 October 2007

Skills and experience

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

External appointments

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



Dr Vivienne Cox 58
Independent Non-Executive
Director

(R) (C)

Nationality
British

Appointed

1 July 2016

Skills and experience

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

External appointments

Vivienne is Senior Independent Director of Pearson plc, a Non-Executive Director of Stena AB and Chairman of the Supervisory Board of Vallourec, a supplier to the energy industry.



Lynn Elsenhans 61
Independent Non-Executive
Director

(C) (N) (A)

Nationality
American

Appointed

1 July 2012

Skills and experience

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

External appointments

Lynn is a Non-Executive Director of Baker Hughes, a GE company, and Chair of its Audit Committee, and a Director of the Texas Medical Center. She is also a Trustee of the United Way of Greater Houston.



Dr Laurie Glimcher 66
Independent Non-Executive
Director & Scientific and
Medical Expert

(A) (S)

Nationality

American

Appointed

1 September 2017

Skills and experience

Laurie is currently Professor of Medicine at Harvard Medical School and is CEO, President and an Attending Physician at the Dana-Farber Cancer Institute.

In addition to a number of senior leadership positions held at both Harvard Medical School and Harvard School of Public Health, Laurie has also served as Stephen and Suzanne Weiss Dean and Professor of Medicine at Weill Cornell Medical College and as an Attending Physician at the New York Presbyterian Hospital/Weill Cornell Medical Center. Laurie stepped down from the Board of Bristol-Myers Squibb Co (BMS) in 2017 after serving for 20 years on its Board. Laurie brings scientific and public health expertise to the Board's deliberations.

External appointments

Laurie is a member of the US National Academy of Sciences and the National Academy of Medicine. She is a member of the Scientific Steering Committee of the Parker Institute for Cancer Immunotherapy and a Non-Executive Director of the Waters Corporation, where she also serves on its Corporate Governance Committee. In addition, Laurie is co-founder and Chair of the Scientific Advisory Board of Quentis Therapeutics Inc and a Scientific Advisory Board member of Repare Therapeutics Inc and the American Asthma Foundation.



Dr Jesse Goodman 66
Independent Non-Executive
Director & Scientific and
Medical Expert

(S) (C)

Nationality

American

Appointed

1 January 2016

Skills and experience

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

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

External appointments

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



Judy Lewent 69
Independent Non-Executive
Director

(A) (N) (R) (S)

Nationality

American

Appointed

1 April 2011

Skills and experience

Judy has extensive knowledge of the global pharmaceutical industry and of corporate finance, having joined Merck & Co in 1980 and then served as its Chief Financial Officer from 1990 to 2007 when she retired. Judy previously served as a Non-Executive Director of Dell Inc, Quaker Oats Company and Motorola Inc.

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

External appointments

Judy is a Non-Executive Director of Thermo Fisher Scientific Inc and Motorola Solutions Inc. She is also a Trustee of the Rockefeller Family Trust, a life member of the Massachusetts Institute of Technology Corporation, a member of the American Academy of Arts and Sciences and a member of the Business Advisory Board of twoXAR.



Urs Rohner 58
Independent Non-Executive
Director

(R) (N)

Nationality

Swiss

Appointed

1 January 2015

Skills and experience

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

External appointments

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

Key

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

Our Corporate Executive Team



1

2

3

4

1. Emma Walmsley
Chief Executive Officer

2. Simon Dingemans
Chief Financial Officer

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

4. Dr Patrick Vallance
Outgoing President, R&D

> For biographical details,
see page 83.

Abbas Hussain was a member of
CET before leaving the company
on 31 July 2017.



Roger Connor
President, Global Manufacturing & Supply

Roger joined CET in 2012 and was appointed President, Global Manufacturing & Supply in 2013, after working for a year as President Designate. Prior to this, he was Vice President, Office of the CEO and Corporate Strategy. Roger joined GSK in 1998 from AstraZeneca.

He was appointed to the Board of GSK Consumer Healthcare, our joint venture with Novartis, in April 2017.

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



Nick Hiron
Senior Vice President, Global Ethics
and Compliance

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

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

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



Luc Debruyne
President, Global Vaccines

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

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



Brian McNamara
CEO, GSK Consumer Healthcare

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

He is Chairman of the World Self-Medication Industry Association.

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



Luke Miels

President, Global Pharmaceuticals

Luke joined GSK and CET in September 2017 as President, Global Pharmaceuticals responsible for our commercial portfolio of medicines and vaccines.

Previously, he worked for AstraZeneca as Executive Vice President of their European business and, prior to that, Executive Vice President of Global Product and Portfolio Strategy, Global Medical Affairs and Corporate Affairs. Before then, he held roles of increasing seniority at Roche and Sanofi-Aventis.

He holds a Bachelor of Science degree in Biology from Flinders University in Adelaide and an MBA from the Macquarie University, Sydney.



David Redfern

Chief Strategy Officer

David joined CET as Chief Strategy Officer in 2008 and is responsible for corporate development and strategic planning. Previously, he was Senior Vice President, Northern Europe with responsibility for GSK's pharmaceutical businesses in that region and, prior to that, was Senior Vice President for Central and Eastern Europe. David joined GSK in 1994.

He was appointed Chairman of the Board of Viiv Healthcare Limited in 2011 and a Non-Executive Director of the Aspen Pharmacare Holdings Limited Board in 2015.

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



Karenann Terrell

Chief Digital & Technology Officer

Karenann joined GSK and CET in September 2017 as Chief Digital & Technology Officer, responsible for our technology, digital, data and analytics strategy.

Previously, she worked for Walmart as Chief Information Officer. Prior to this, she was at Baxter International, where she was Chief Information Officer, and before that Daimler Chrysler Corporation. Karenann began her career in General Motors.

Karenann is a member of the board of trustees for the New York Hall of Science and in 2017 she became a Non-Executive Director of Pluralsight LLC.

She earned graduate and post-graduate degrees in Electrical Engineering from Kettering and Purdue Universities respectively.



Claire Thomas

Senior Vice President, Human Resources

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

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

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

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



Phil Thomson

President, Global Affairs

Phil joined CET in 2011. He was appointed President, Global Affairs in April 2017, with specific responsibilities for the Group's strategic approach to Reputation, Corporate Responsibility, Global Health, China and Britain's withdrawal from the European Union. He is responsible for our engagement with investors, media, government, key global community partners and employees.

Previously, he was Senior Vice President, Communications and Government Affairs. He joined GSK as a commercial trainee in 1996.

Phil is Chairman of The Whitehall & Industry Group and a Board Member of the China-Britain Business Council.

He earned his degree in English, History and Russian Studies from Durham University.



Dan Troy

Senior Vice President & General Counsel

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

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

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

It was announced in January 2018 that Dan Troy will leave GSK at a later date in 2018 when his role relocates to the UK.

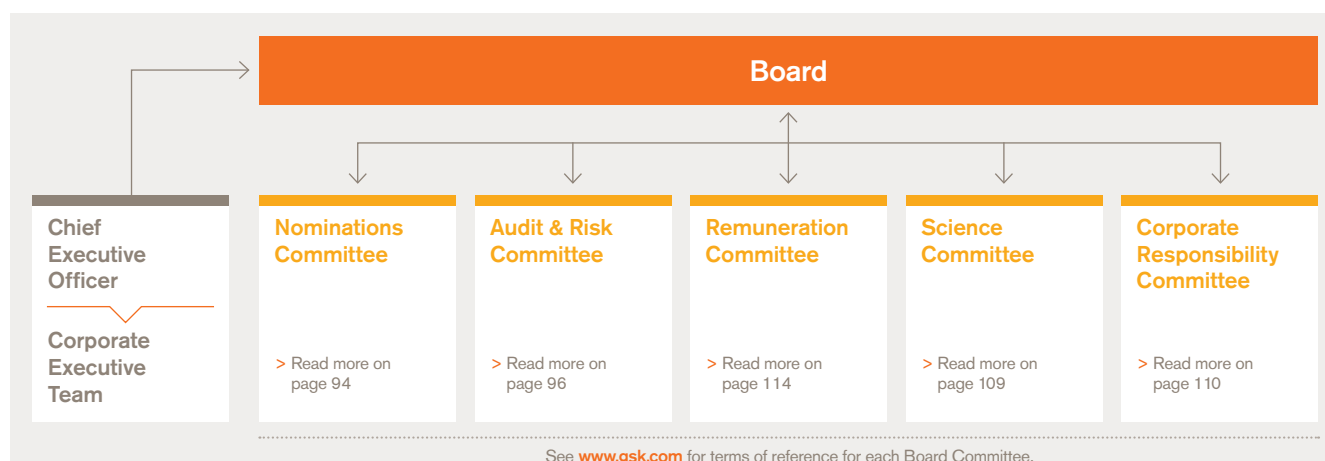
Corporate Governance continued

Leadership and effectiveness

Corporate governance framework

The Board has established a corporate governance framework with clearly defined responsibilities and accountabilities. The framework is designed to safeguard and enhance long-term shareholder value and to provide a platform to realise the Group's strategy through GSK's new Innovation, Performance and Trust priorities. Our internal control and risk management arrangements, described on pages 20 to 21 and 105 and 106, are an integral part of GSK's governance framework.

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



See www.gsk.com for terms of reference for each Board Committee.

Scheduled Board and Committee attendance during 2017

	Board	Nominations	Audit & Risk	Remuneration	Science	Corporate Responsibility
Total number of scheduled meetings	6	6	6	5	4	4
Members	Attended	Attended	Attended	Attended	Attended	Attended
Philip Hampton	6	6				
Emma Walmsley	6					
Simon Dingemans	6					
Dr Patrick Vallance	6					
Professor Sir Roy Anderson	6	6			4	4
Vindi Banga	6	6	6	5		
Dr Vivienne Cox	5			4		4
Lynn Elsenhans	6	6	6			4
Dr Laurie Glimcher Appointed on 1 September 2017	2 (2)		2 (2)		2 (2)	
Dr Jesse Goodman	6				4	3
Judy Lewent	6	6	6	5	4	
Urs Rohner	6			5		
Sir Andrew Witty Retired on 31 March 2017	2 (2)					
Dr Moncef Slaoui Retired on 31 March 2017	2 (2)					
Total number of ad-hoc meetings	10	1	4	7	0	0

For Directors who served for part of the year, the numbers in brackets denote the number of meetings the Directors were eligible to attend.

> See the Committee Reports for other attendees at Committee meetings, such as the Chairman, CEO and other Executive Directors, and the work of the Committees during the year. These reports are included later in the Corporate Governance Report.





















2017 Board programme

The Board is responsible for the long-term success of the company and has the authority, and is accountable to shareholders, for ensuring that the Group is appropriately managed and achieves the strategic objectives it sets. In the performance of these duties, it has regard to the interests of other key stakeholders and is cognisant of the potential impact of the decisions it makes. The Board discharges those responsibilities through an annual programme of meetings and during the year it focused on a number of specific areas outlined in the table, in line with its new long-term priorities of Innovation, Performance and Trust.

In addition, during the year the CEO met with Non-Executive Directors to discuss various matters, including the evolution of her thinking on the company's strategy, succession planning and the ongoing SFO investigation.

Areas of focus

Long-term priorities link

Areas of focus	Long-term priorities link
Strategy	The Board's oversight of the execution of our strategy included:
– Receiving and discussing reports from our principal three businesses, Pharma, Vaccines and Consumer	
– Briefings on products. In particular, the Board was keen to oversee launch plans for the <i>Shingrix</i> vaccine, <i>Trelegy Ellipta</i> and <i>Nucala</i> products. It also reviewed the background to the withdrawal of <i>Tanzeum</i>	
– A joint Board and Corporate Executive Committee strategy day was held to discuss the new Innovation, Performance and Trust priorities against external landscape changes, business performance, competitors and governance arrangements	
– The evolution of our approach and changes to medical engagement with key external experts	
– Conducting a deep dive on the Group's business strategy in China	
– Receiving and discussing reports on our pensions, insurance, tax and treasury strategies.	
Performance	The Board's focus on performance included:
– Setting the new CEO's objectives	
– Setting, reviewing and agreeing the annual budget and forward looking three year plan	
– Receiving reports from the CEO on our principal three businesses	
– Scrutinising the Group's financial performance	
– Reviewing Brexit impacts and planning arrangements	
– Reviewing progress of the pipeline.	
Governance	The Board's approach to discharging its corporate governance duties included:
– Receiving reports from Board Committees	
– Approving the 2016 Annual Report	
– Reviewing AGM preparation and approving the 2017 Notice of AGM	
– Considering observations and agreeing actions from the internal evaluation of the Board's performance	
– Receiving reports on corporate governance and regulatory developments	
– Undertaking training on GSK's Code of Conduct	
– Approving the appointment of a new Chief Scientific Officer and President, R&D and a new Non-Executive Director and Scientific & Medical Expert.	
Cultural transformation	The Head of HR briefed the Board on:
– Aligning GSK's culture and values to support our strategy and long-term priorities.	

Link to long-term priorities



Corporate Governance: Leadership and effectiveness continued

Key Board roles and responsibilities

Leadership

Chairman

Philip Hampton

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

The Chairman's role description is available on www.gsk.com

Chief Executive Officer

Emma Walmsley

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

The Chief Executive Officer's role description is available on www.gsk.com

Independent oversight and rigorous challenge

Non-Executive Directors

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

Independence statement

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

Senior Independent Non-Executive Director

Vindi Banga

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

The Senior Independent Non-Executive Director's role description is available on www.gsk.com

Company Secretary

Victoria Whyte

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

Board induction and development

The Company Secretary assists the Chairman in designing and facilitating individual induction programmes for new Directors. They are designed with the purpose of orientating and familiarising new Directors with our industry, organisation, governance and our strategy and Innovation, Performance and Trust priorities.

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

New Corporate Executive Team (CET) members meet with Board members as part of their induction, and to ensure the Board maintains its connections with the CET.

During 2017, Dr Laurie Glimcher, a new US-based Science and Medical Expert, and in January 2018, Dr Hal Barron, a highly experienced R&D leader, joined the Board. Their customised induction programmes are summarised below.

2017 Board induction

General Board induction

Executive

- Role of an Executive Director
- Build relationship with Chairman and the Board
- Fill any capability gaps

Non-Executive

- Role of a Non-Executive Director
- GSK strategy, competitors and external environment
- Meet CET members
- GSK's financial structure

All Directors

- Director's duties and responsibilities
- GSK's Corporate Governance structure
- GSK's Code of Conduct training

Personal Executive Director induction

Dr Hal Barron

Chief Scientific Officer and President, R&D

- Maximise handover opportunity with the outgoing President, R&D
- Detailed review of pipeline assets, including R&D governance, processes and team, and business development landscape to inform updated R&D strategy

Personal Non-Executive Director induction

Dr Laurie Glimcher

Scientific & Medical Expert

- R&D and Vaccines deep dives
- Briefings on R&D's key therapy areas
- Site visits to: Ware, Stevenage and Wavre
- Briefing on US business and commercial model
- Audit & Risk and Science Committee inductions

Board, business and key stakeholder awareness

To ensure that our Non-Executive Directors develop and maintain a greater insight and understanding of the business and key stakeholders they:

- are invited to attend internal management meetings, including meetings of the CET
- meet employees informally during visits to the Group's operations and at receptions held with staff around Board meetings
- receive monthly investor relations and stakeholder reports to maintain awareness of investor and stakeholder views
- measure progress in implementing our Innovation, Performance and Trust business priorities and evolving our culture through an all-employee survey undertaken every six months and through reports on the regular conversations the CET has directly with the workforce through the Let's Talk programme.

Training

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

During 2017, the Board members undertook training on GSK's Code of Conduct.

Corporate Governance: Leadership and effectiveness continued

2017 External evaluation of the Board

The Board carries out an evaluation of its performance and that of its Committees every year and the evaluation is facilitated externally every third year. After a market review, Ms Ffion Hague of Independent Board Evaluation was appointed to independently facilitate the 2017 Board and Committee evaluation. Neither Ms Hague nor Independent Board Evaluation has any other connection with the company.

Ms Hague met with the Chairman, Senior Independent Non-Executive Director (SID), CEO and the Company Secretary, to discuss and agree the scope of the evaluation exercise and the timetable of activities.

The Secretary provided the evaluation team with access to Board and Committee papers and other materials as part of their preparatory work for the evaluation.

The evaluation team attended the Board and Committee meetings held in December 2017, to observe Directors and the operation and dynamics of meetings.

See page 93.



2017 External evaluation of the Board continued

2017 Board review feedback and outcomes

Ms Hague's report had noted the context in which her 2017 Board evaluation has been conducted, where there has recently been significant change to the composition of the Board, which is still settling down, including:

- a new Chairman appointed in May 2015;
- the new CEO starting her role in April 2017;
- five other members joining the Board within the past three years, some of whom, though experienced in their field, did not have previous UK listed company experience; and
- welcoming Dr Barron to the Board in January 2018.

Due to the timing of the review, on this occasion the review team only took input from Board members. In this context, Board members expressed a broad range of views and, as the Board settles down, some issues were identified as the focus for an action plan over the coming year. The Board is strongly supportive of the new CEO. It was pleased with the ongoing work to strengthen the focus on science with the new Chief Scientific Officer and President, R&D, Non- Executive Scientific and Medical Experts and the creation of the Science Committee which is in its formative stages.

In response to the report, Board members are highly engaged and committed to the best interests of the company and feel that the Board's work is underpinned by the mechanisms it has established to support its operations. The Board takes governance very seriously and has chosen to work further on the following areas:

- A review of R&D strategy following the appointment of the new Chief Scientific Officer and President, R&D.
- Enhancing the Board's focus and decision making by agreeing its clear priorities to focus on each year.
- Succession planning at senior executive and Board level.
- Building Board relationships and culture in line with the CEO's culture work across the Group.

2017 Board performance

Progress against the conclusions of the 2016 Board evaluation review, internally facilitated by our Company Secretary, is set out below.

Areas of focus for 2017	Progress/Achievements
– Create more opportunities for deeper strategic discussions, particularly on the evolution of the pharmaceuticals industry, the competitive landscape, therapy areas and GSK culture and performance.	During the year, the Board considered a detailed review of the company's strategy with management in the context of the operating environment, the company's culture and industry dynamics in global healthcare.
– Identify ways to further improve the Board's decision making.	All papers submitted to the Board have been streamlined and re-shaped to align with the new Innovation, Performance and Trust long-term business priorities to allow continuing oversight and more focused decision-making.
– Further increase Board oversight of science and innovation in collaboration with the new Science Committee.	Good progress was made in establishing the Science Committee, further details of which can be found in the Science Committee report on page 109.
– Consider how data from the new IT systems can contribute to greater understanding and hence help evolve the business strategy.	Reporting to the Board has been enhanced in this area within a new Innovation, Performance and Trust long-term business priorities framework and dashboards aiding the Board's oversight of the company's key performance indicators.

Corporate Governance: Leadership and effectiveness continued

Nominations Committee report



Philip Hampton
Nominations Committee
Chair

Role

The Committee reviews and recommends to the Board:

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

Membership

Committee members	Committee member since
Philip Hampton Chair from 27 January 2015	27 January 2015
Professor Sir Roy Anderson	1 October 2012
Vindi Banga	1 January 2016
Lynn Elsenhans	27 January 2015
Judy Lewent	8 May 2014
Urs Rohner	1 January 2017

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

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

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

Advisory services

During the year, Korn Ferry and Egon Zehnder provided recruitment consultancy services to the Committee, in addition to recruitment and HR services which they provide to the company. They are both signatories to the Voluntary Code of Conduct for Executive search firms on gender diversity and best practice.

Dear Shareholder

The Committee has worked over the last few years to refresh the Board and replace retiring directors. Following the CEO transition, Emma Walmsley has established Innovation, Performance and Trust as the long-term priorities for the business and the Committee's focus has turned to supporting the CEO in establishing the team she needs to lead the company for the opportunities and challenges ahead.

Executive management succession

When Dr Patrick Vallance, President, R&D informed the Board of his intention to become the UK Government's Chief Scientific Adviser and Head of the Government's Office for Science, the Committee engaged Korn Ferry, who had previously conducted a proactive desktop talent mapping exercise for R&D executives. The Committee, with full participation of the other Non-Executive Directors, compiled a profile for the next leader of R&D. The profile contained a brief of the requirements and the desired skill set that a potential successor to Patrick would need. The brief was drafted to emphasise the importance the CEO and the Committee placed on identifying and recruiting a world-renowned R&D leader with a strong track record of developing R&D organisational capabilities and significant new medicines. On reviewing the profile, the Committee decided that it needed to look externally for such talent.

Korn Ferry then initiated global searches against this agreed profile across the pharmaceuticals industry. Given the importance of this search, the Committee sought a second opinion from Egon Zehnder, who are also experts in the field of executive search. This yielded a pool of candidates which was reduced to a shortlist of several potential candidates. These shortlisted candidates met and were subsequently interviewed by the company's designated Scientific and Medical Experts (SME), the Audit & Risk Committee Chair and the Chairman, and their feedback on each candidate was compiled. The Committee received the CEO's analysis of the candidates and a separate analysis by the Head of HR.

The process culminated with the Committee meeting to agree a recommendation to the Board that proposed the appointment of Dr Hal Barron as Chief Scientific Officer and President, R&D. The recommendation received unanimous Board approval. On 8 November 2017, it was announced that Hal would join the Board as an Executive Director with effect from 1 January 2018. Patrick stepped down as President R&D at the end of 2017 and will resign as an Executive Director and CET member from 31 March 2018. The Board was pleased that Hal's appointment demonstrated the company's continued ability to attract world class talent to the organisation. As one of the world's foremost R&D leaders, Hal possesses an exceptional track record of developing significant new medicines at Roche and Genentech, while recently at Calico building a research organisation that uses cutting-edge technologies in drug discovery and development.

In my Committee report last year, we reported that Mr Luke Miels had been recruited from AstraZeneca, where he was Executive Vice President of its European business, to succeed Abbas Hussain as President, Global Pharmaceuticals. Luke subsequently joined GSK and the CET on 1 September 2017. Luke and Hal had previously worked together at Roche, and their appointments complete the top team for our Global Pharmaceuticals business.

Nominations Committee report continued

Finally, in terms of senior executive appointments, Ms Karenann Terrell was appointed, with the support of Korn Ferry, to the CET in September 2017 as GSK's first Chief Digital & Technology Officer. She has a company-wide remit to transform how new technologies are used to improve performance across the Group. Karenann's previous role was Chief Information Officer for Walmart, where she led a multi-year effort to transform Walmart in the use of data, analytics and digital engagement with its customers.

These senior executive appointments underscore the immediate areas of focus for our new CEO since taking up her appointment, as she continues to build her senior leadership team to drive the Innovation, Performance and Trust agenda.

New Non-Executive Director appointment

During the year, Korn Ferry also assisted the Committee with a search for an additional SME Non-Executive Director to further enhance the Board's scientific capabilities, strengthen the Board's scientific perspective and to join the new Science Committee. After interviewing suitable SME candidates, the Committee recommended Dr Laurie Glimcher to the Board as a potential Non-Executive Director and SME. The Board subsequently approved Dr Glimcher's appointment to the Board with effect from 1 September 2017. Laurie brings a wealth of expertise in scientific and medical innovation and public health which will be invaluable in assisting the Board's focus on delivering its long-term Innovation, Performance and Trust priorities. She was also appointed a member of the Science and Audit & Risk Committees.

Board composition and diversity

We have sought to balance the composition of the Board and its Committees over time.

Longer serving Directors maintain an understanding of the Group and the sector, whilst newer appointees bring fresh external perspectives and insights.

Our Non-Executive Directors have experience of a wide range of industries and backgrounds, including the pharmaceuticals industry and R&D, vaccines, consumer products and healthcare, medical research and academia, insurance and financial services, as well as complex organisations with global reach. Importantly, the majority of our Board have a scientific or mathematical background which means they are more attuned to the fundamentals of the industry in which we operate.

GSK is committed to equal opportunities for all our employees at all levels of the organisation and the Board is committed to encouraging a diverse and inclusive culture led by the CET.

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

The Committee is responsible for developing measurable objectives to support the implementation of the Board's diversity policy, which is to meet the measurable targets set out in:

- the Parker Review Commission's report 'Beyond One by '21' published in October 2017 to increase ethnic diversity appointments on the boards of FTSE 100 companies; and
- the Hampton-Alexander Review's report, which I worked on with the late Dame Helen Alexander, published in 2016 to increase the number of women in senior leadership positions in all FTSE 350 companies.

We are currently meeting the Parker Report's recommendation of at least one board director of colour by 2021.

At this point, I wish to personally acknowledge how much I and everyone involved in the work of the Hampton-Alexander Review will miss Dame Helen, who sadly passed away in August last year. She was an outstanding leader who believed that women could and should be able to contribute far more to business than has ever been acknowledged. The Review team and I will continue the work in her memory.

The Committee was pleased at the progress made towards our female Board representation and combined Corporate Executive Team (CET) and Direct Reports targets of at least 33% by 2020. GSK ranked 8th in the FTSE 100. A summary of our standing in the Hampton-Alexander Review's 2017 FTSE Women Leaders report is reproduced below:

2017 Report Female Representation Metrics	Female Representation as at 30 June 2017	
	Board	Combined Executive Committee and Direct Reports
2020 FTSE 100 target	33.0%	33.0%
GSK	41.7% (ranked 8th in FTSE 100)	25.7%
FTSE 100 average	27.7%	25.2%
FTSE 100 highest	44.4%	47%

We currently have:

- 38% women on our Board (2016 – 31%), which will rise to 41.7% on 1 April 2018 after Dr Patrick Vallance has stepped down from the Board and left the company; and
- 21% women on our CET (2016 – 14%).

Going forward, closing the gap between the Board and CET gender representation and further increasing the pipeline of female direct reports to the CET to achieve our 2020 target is an area of focus. In support of this approach, GSK has various actions to enhance our development pipeline; including the Accelerating Difference programme, Women's Leadership Initiative and the Accelerating Transitions coaching programme for those joining or re-joining the company after an extended time of absence.

The representation of women in management positions is illustrated on page 49 as part of the gender diversity of GSK's global workforce and alongside initiatives to promote diversity and inclusion throughout the organisation.

Committee evaluation

The Committee's annual evaluation exercise was externally facilitated by Ms Ffion Hague of Independent Board Evaluation and concluded that the Committee continued to operate effectively. It was agreed that the Committee's effectiveness could be further improved by:

- refining the approach to long-term succession planning around key additional skills and capability needs of the Board; and
- improving the dialogue with the full Board on evolving areas of focus for the Committee.

Philip Hampton
Nominations Committee Chair

12 March 2018

Accountability

Audit & Risk Committee report



Judy Lewent
Audit & Risk Committee
Chair

Role

The Committee reviews and is responsible for:

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

Membership

Committee members	Committee member since
Judy Lewent Chair from 1 January 2013	1 April 2011
Vindi Banga	1 January 2016
Lynn Elsenhans	1 January 2014
Dr Laurie Gilmcher	1 September 2017

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

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

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

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

The Committee has, as a whole, competence relevant to the sector in which the company operates.

Dear Shareholder

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

Overseeing a smooth audit transition process was an important focus for the Committee during the year. This exercise, together with details of the Committee's continued scrutiny of further enhancements and simplifications to our internal controls, risk management and financial reporting systems and processes, are covered below.

External auditors

Last year, we advised shareholders that after the conclusion of a competitive audit contract tender, the Board appointed the Committee's preferred choice of Deloitte LLP (Deloitte) as the company's new auditors from GSK's 2018 financial year onwards. The Committee has overseen the significant activity necessary to transition from PricewaterhouseCoopers LLP (PwC) to Deloitte. This initially required Deloitte to achieve independence in the first half of the year before they could observe PwC's work as statutory auditors during the 2017 year-end audit. The Committee has received regular reports on the audit transition and I met regularly with the lead audit partners from PwC and Deloitte to discuss progress.

I was pleased to hear more of the new perspectives that Deloitte will bring to the audit when they presented their audit scoping at the end of 2017. This included the significant opportunities that data analytics can bring. A full report on the audit transition arrangements is given on pages 103 to 104.

I would like to thank the PwC team for their professionalism in continuing to deliver a high-quality audit, particularly against the backdrop of the transition. Both audit firms have cooperated to make the transition a smooth one with minimal disruption to the business. I look forward to reporting to shareholders on Deloitte's first audit in GSK's 2018 Annual Report.

Internal framework for control and risk management developments

This is a core focus for the Committee. In 2017, the following developments in the business units and across the enterprise helped strengthen our culture of compliance and risk management.

- **GSK Values & Expectations:** These are a high priority for the Committee. During the year, it oversaw progress driven by Global Ethics & Compliance (GEC) to embed and measure the effectiveness of our values and further integrate these values into existing control processes. For example, the Third-Party Oversight framework was updated to require third parties to confirm adherence to our values and the third-party Code of Conduct. GSK's values and Speak Up programme elements were also included into the General Manager (GM) certification process where the company's GMs confirm their adherence to our Internal Control Framework. During 2017, GEC has continued to deploy the Leader Led discussion programme on GSK's values and 'right first time' culture and ethical decision making workshops.

Audit & Risk Committee report continued

– Values Maturity Assessments & Values Assessment Reviews:

The Committee learned how the outcomes from Values Maturity Assessments (VMAs) performed in 2016 had been used to target assessments in specific areas during 2017. The implementation of business unit specific action plans to address the areas for improvement identified by the VMAs was overseen by our local Risk Management & Compliance Boards. The VMA insights highlighted that overall Patient Focus and Integrity are the values with which our employees feel most affinity and are well embedded. During 2017, a positive shift in perception relating to our values of Transparency and Respect for People was noted as a result of the Audit & Assurance team's Values Assessment Reviews that assess how well our values are embedded in the organisation.

– **The revised GSK Employee Survey:** In 2017, more than 84,000 of our people took part in GSK's employee engagement survey, whose purpose and outcomes are discussed on page 48 of our Strategic report.

– **Written standards & controls:** During 2017, work has continued to harmonise and simplify written standards across several parts of the enterprise; recognising that improved accessibility and clarity around written standards is an enabler to improved risk management and informed decision making.

– **Training & communication:** Our GEC function has continued to focus on personal development, including:

– **Ethics and Compliance Academy:** In 2017, GEC ran a face-to-face Ethics and Compliance Academy and launched a Virtual Academy to enable more flexible participation. The first Virtual Academy was held at the end of 2017 and will be held each quarter. There are currently over 350 certified ethics and compliance professionals since the inception of the Academy in 2015.

– **Living our Values:** In April 2017, Part 1 of an enterprise-wide 'Living our Values' training was issued to a population of over 100,000 employees and complementary workers. The training included scenarios which explored our values and their application to the company's ways of working, including the awareness of our Enterprise Risks and Speak Up arrangements. Part 2 focused on several critical risks, including Privacy and Anti-bribery & Corruption (ABAC). Mandatory training on ABAC and the US Corporate Integrity Agreement (CIA) was also completed by targeted areas of our workforce, depending on the role they performed.

Monitoring

Monitoring is a key element of our Internal Control Framework. It serves as a continuous source of insights that inform improvements in the control environment and there was significant focus by each of our businesses in this area during 2017.

Compliance activities

– **SEC settlement:** The Committee continues to review and consider updates to the US Securities and Exchange Commission (SEC), as agreed under the settlement made with the SEC in 2016. Our compliance with the terms of the settlement is on track with a final report due for submission to the SEC in the summer of 2018.

– **CIA:** The Committee also has oversight of the company's responsibilities under the CIA entered into with the Office of Inspector General (OIG) of the US Department of Health and Human Services in 2012. Last year, the Group reported to the OIG on commercial practices within Global Pharmaceuticals. Affirmative obligations under the CIA expired in 2017, but the Group is waiting for official closure once the OIG completes the review of the Group's final CIA Annual Report. The CIA required the Group to ensure sufficient internal controls to mitigate risks associated with commercial practices involving US pharmaceutical products and interactions with US healthcare professionals. The Group received positive feedback from the OIG, and, consequently, received a release 6 months earlier than the original 5½ year term of the CIA, although commitments with certain US states regarding salesforce compensation extend into 2019. During 2017, the Committee continued to receive quarterly CIA assurance updates from the Head of GEC.

– **Responding to issues:** During 2017, an integrated investigations process was developed by GEC, HR and Legal to clarify accountabilities, further safeguard reporters using our Speak Up channels and deliver improved outcomes and decisions. These improvements have helped to accelerate the steps taken to substantiate an allegation and investigate it to a resolution, as well as delivering enhancements in engagement with key stakeholders and individuals who raise issues. Further details on reporting and investigating concerns in GSK are set out on page 50 of our Strategic report.

– **Enterprise risk framework and strategies:** During the year, the Committee considered GSK's Enterprise Risks and the strategies to address them. These reviews were undertaken through:

– Annual unit risk and assurance update reports.

– Enterprise Risk strategy papers for each of our most significant risks.

– Annual risk reviews contained in the Risk Management and Internal Control Report, which is presented by the Head of GEC.

Corporate Governance: Accountability continued

Audit & Risk Committee report continued

As part of its review, the Committee assesses whether the key Enterprise Risks affecting the unit are being managed and mitigated in a proportionate way. The Committee examines whether it is satisfied with the control environment, its operation and effectiveness and whether refinements that management propose to ensure the environment remains fit for purpose are appropriate. It also assesses the commitment of the unit's leadership to maintaining a strong controls culture.

The Committee noted that progress has been made in delivering the enablers to drive an even stronger top down risk management approach for GSK's Enterprise Risks to provide greater consistency in risk management and drive efficiencies. This included a common list of Enterprise Risks and sub-risks to be assessed by each unit and a single list of business activities against which these risks can be mapped.

- **Third Party Oversight programme:** The Committee was pleased to note that by the end of December 2017, over 96,000 assessments across 217 countries had been completed since the Third-Party Oversight (TPO) programme had commenced in 2015, with a further 9,500 assessments currently in progress. The assessments have resulted in the issue of approximately 5,500 Corrective and Preventative Actions designed to improve our third-party engagements. The TPO framework continues to evolve so that it is more efficient and easier to use and is currently being embedded in GSK's 'Making It Easier' Buying Goods & Services programme. Further details on working with third parties was set out on page 50 of our Strategic report.
- **Enhanced Privacy compliance capability:** The Privacy Centre of Excellence (CoE) is delivering a change programme to improve and sustainably manage GSK's data privacy compliance, whilst also complying with the EU General Data Protection Regulations (GDPR) that come into effect in May 2018. During 2017, the CoE made good progress defining a privacy risk framework to enable GSK to design proportionate controls, prioritise deployment, and make effective decisions about risk. Whilst the programme's purpose is to increase privacy maturity globally, the CoE's remediation efforts are focused initially on our European operations to mitigate the highest near-term risk created by the GDPR. However, further remediation is expected to be delivered by December 2018, at which point GSK's enhanced privacy operating model will have been deployed globally.

Financial Reporting – framework enhancements

The Committee continued to improve the clarity of GSK's external financial reporting by reviewing the company's financial reporting framework. The Committee made recommendations to the Board which it approved for adoption in early 2017. These changes further improved the way that GSK reports and explains its adjusted results and adjusting items in line with European Securities and Markets Authority and SEC requirements. In addition, two changes were made to the company's use of Adjusted Performance Measures to further improve the clarity of our financial reporting. Finally, our free cash flow calculation was adjusted to include all contingent consideration payments.

Global reporting system platforms

The Committee was pleased to oversee the continued progress being made in moving towards more standardised, global systems which support our end-to-end processes. The last significant deployments under this multi-year programme will have been completed by early 2019, with the focus moving to capturing the benefits that these new standardised systems and processes can generate for GSK.

My role

Finally, my role as Chair of the Committee continues to be busy and varied. During the year, I had significant interactions with key senior executives and our auditors, and attended a range of management meetings.

The Committee and I have worked closely with Emma Walmsley, GSK's new CEO, as she set her new business priorities of Innovation, Performance and Trust. The Committee has monitored, and will continue to monitor, the evolution of GSK's culture as the company sharpens its business performance to ensure performance is delivered appropriately.

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

Committee evaluation

The Committee's annual evaluation exercise was externally facilitated by Ms Ffion Hague of Independent Board Evaluation. Her report was largely positive and confirmed that the Committee covered the ground in detail. After consideration of her report, the Committee concluded that it continued to operate effectively but agreed to implement further performance improvements by reviewing:

- the format of papers in terms of their accessibility and considering how to increase the focus of the Committee's time in meetings, allowing more opportunity for review and discussion; and
- with the Nominations Committee, the succession planning for Board and Committee members with financial experience.

Judy Lewent
Audit & Risk Committee Chair

12 March 2018

What the Committee did during 2017

Areas of Committee focus	Items discussed	Frequency
Financial reporting	– Reviewed integrity of draft financial statements, appropriateness of accounting policies and going concern assumptions	A
	– Considered approval process for confirming and recommending to the Board that the 2016 Annual Report is fair, balanced and understandable	A
	– Reviewed and recommended to the Board approval of the 2016 Annual Report and Form 20-F	A
	– Reviewed and approved Directors' expenses	A
	– Reviewed and recommended approval of quarterly and preliminary results announcements and dividends	Q
	– Reviewed significant issues in relation to the quarterly and preliminary results	Q
	– Considered evolving market practice on the Viability Statement requirements	A
	– Reviewed and recommended inclusion of the Viability Statement for the 2016 Annual Report	A
	– Reviewed accounting developments and their impacts and key accounting issues.	P
External auditors	– Received external auditors' transition updates from management	S
	– Reviewed and approved audit/non-audit expenditure incurred during 2016	A
	– Considered the auditors' report on the 2016 annual results	A
	– Performed evidence-based assessment of external auditors and the effectiveness of 2016 external audit	A
	– Considered qualifications, expertise and independence of the external auditors	A
	– Recommended to the Board the re-appointment of the external auditors and for the Committee to agree auditors' remuneration	A
	– Approved the 2017 audit plan and audit fee proposal and set performance expectations for auditors	A
– Considered initial results of 2017 external audit.	P	
Global internal control & compliance	– Reviewed assurance reports from Global Pharmaceuticals, Vaccines, Consumer Healthcare, R&D, GMS and ViV Healthcare	A
	– Reviewed GSK's internal control framework	A
	– Confirmed compliance with Sarbanes-Oxley Act	A
	– Reviewed Audit & Assurance work during 2016 and approved the planned work for 2017	A
	– Undertook Corporate Integrity Agreement (CIA) training	A
	– Received and reviewed CIA compliance and assurance reports	Q
	– Reviewed reports on the Operational Excellence programme	Q
	– Reviewed the implementation of new systems for Group Support Functions	P
	– Received litigation reports and updates	S
– Received reports on ongoing investigations and on ABAC issues.	S	
Risk	– Reviewed risk management framework compliance	A
	– Reviewed the risk elements of Group treasury, pensions, risk and insurance and tax policies	A
	– Received status reports on the following Enterprise Risks: ABAC, EHSS, Information Protection, Patient Safety, Privacy, Product Quality, Research Practices and Third Party Oversight	P
	– Received terrorism and cyber security risk assessment update	P
	– Received updates on the implications of Brexit	P
	– Received Risk Oversight and Compliance Council meeting updates	S
	– Considered emerging risks.	S
Governance and other matters	– Confirmed compliance with UK Corporate Governance Code	A
	– Reviewed the Committee's terms of reference and confirmed that they had been adhered to during 2017	A
	– Received corporate governance updates	P
	– Reviewed the Committee's performance and effectiveness	A
	– Reviewed and approved the Group's approach to the Modern Slavery Act 2016	P
	– Met privately and separately with the Heads of Global Ethics & Compliance and Audit & Assurance	P
	– Met privately with the external auditors at the end of each meeting as required	S
	– Approved the publication of the Group's Tax strategy.	A

Corporate Governance: Accountability continued

Significant issues relating to the financial statements

In considering the quarterly financial results announcements and the financial results contained in the 2017 Annual Report, the Committee reviewed the significant issues and judgements made by management in determining those results. The Committee reviewed papers prepared by management setting out the key areas of risk, the actions undertaken to quantify the effects of the relevant issues and the judgements made by management on the appropriate accounting required to address those issues in the financial statements.

The significant issues considered in relation to the financial statements for the year ended 31 December 2017 are set out in the following table, together with a summary of the financial outcomes where appropriate. In addition, the Committee and the external auditors have discussed the significant issues addressed by the Committee during the year and the areas of particular audit focus, as described in the Independent Auditors' Report on pages 149 to 157.

Significant issues considered by the Committee in relation to the financial statements	How the issue was addressed by the Committee
Going concern basis for the preparation of the financial statements	The Committee considered the outcome of management's half-yearly reviews of current and forecast net debt positions and the various financing facilities and options available to the Group. Following a review of the risk and potential impact of unforeseen events, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate.
Revenue recognition, including returns and rebates (RAR) accruals	The Committee reviewed management's approach to the timing of recognition of revenue and accruals for customer returns and rebates. The US Pharmaceuticals and Vaccines accrual for returns and rebates was £2.8 billion at 31 December 2017 and the Committee reviewed the basis on which the accrual had been made and concurred with management's judgements on the amounts involved. A fuller description of the process operated in the US Pharmaceuticals and Vaccines business in determining the level of accrual necessary is set out in 'Critical accounting policies' on page 76.
Provisions for legal matters, including investigations into the Group's commercial practices	The Committee received detailed reports on actual and potential litigation from both internal and external legal counsel, together with a number of detailed updates on investigations into the Group's commercial practices. Management outlined the levels of provision and corresponding disclosure considered necessary in respect of potential adverse litigation outcomes and also those areas where it was not yet possible to determine if a provision was necessary, or its amount. At 31 December 2017, the provision for legal matters was £0.2 billion, as set out in Note 29 to the financial statements, 'Other provisions'.
Provisions for uncertain tax positions	The Committee considered current tax disputes and areas of potential risk and concurred with management's judgement on the levels of tax contingencies required. At 31 December 2017, a tax payable liability of £1.4 billion, including provisions for uncertain tax positions, was recognised on the Group's balance sheet.
Impairments of intangible assets	The Committee reviewed management's process for reviewing and testing goodwill and other intangible assets for potential impairment. The Committee accepted management's judgements on the intangible assets that required writing down and the resulting impairment charge of £680 million in 2017. See Note 19 to the financial statements, 'Other intangible assets' for more details.
Valuation of contingent consideration in relation to ViiV Healthcare	The Committee considered management's judgement that following the further improved sales performance of <i>Tivicay</i> and <i>Triumeq</i> it was necessary to increase the liability to pay contingent consideration for the acquisition of the former Shionogi-ViiV Healthcare joint venture. At 31 December 2017, the Group's balance sheet included a contingent consideration liability of £5.5 billion in relation to ViiV Healthcare. See Note 39 to the financial statements, 'Contingent consideration liabilities' for more details.
Consumer Healthcare put option	The Committee considered management's judgement on the valuation of the liability of £8.6 billion recognised in respect of Novartis' put option over its shareholding in the Consumer Healthcare Joint Venture. This included a review of the impact of unwinding the discounting of the liability and the decrease in the liability caused by the significant strengthening of Sterling in the latter part of the year.
ViiV Healthcare put option	The Committee reviewed and agreed the accounting for the Pfizer put option and concurred with management's judgement on the valuation of the put option of £1.3 billion at 31 December 2017.

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Auditors' appointment

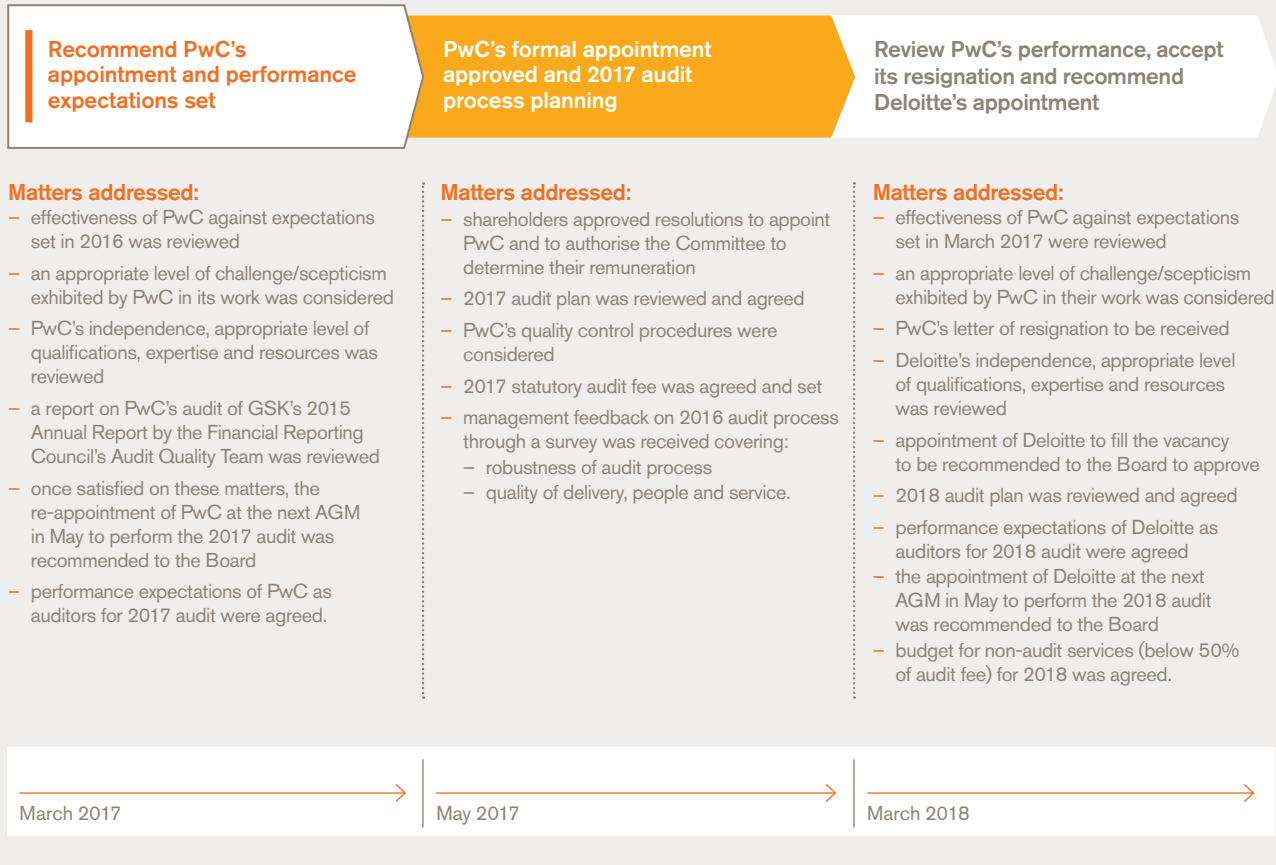
External auditors

PricewaterhouseCoopers LLP (PwC) has been the auditor of the company and the Group since the inception of each in 2000. Its performance has been reviewed annually and audit partner rotation requirements have been observed. GSK conducted an external audit tender in 2016 with a view to replacing PwC from our 2018 financial year onwards. As disclosed in last year's report, PwC was not invited to participate in this audit tender process to comply with audit firm rotation requirements. The audit tender process was completed in December 2016 when the Board announced that it had appointed Deloitte LLP (Deloitte) as GSK's new external auditors with effect from 1 January 2018.

Effectiveness and quality of external audit process

The Committee is committed to ensuring on an ongoing basis that GSK receives a high quality and effective audit from its external auditors. The effectiveness of PwC's performance and the quality of the external audit process during 2017 was formally evaluated by the Committee in early 2018 against criteria which it agreed, in conjunction with management, in early 2017.

The Committee has undertaken a number of activities during the year to satisfy itself of PwC's continuous external audit quality and effectiveness, particularly in a year of audit firm transition from PwC to Deloitte. These activities and their timelines are set out below:



Corporate Governance: Accountability continued

Auditors' appointment continued

The detailed criteria the Committee used for judging the effectiveness of PwC as the external auditors and its overriding responsibility to deliver a smooth-running, thorough and efficiently executed audit for 2017 are set out below:

Performance expectations for GSK's external auditors

Specific auditor responsibilities	<ul style="list-style-type: none"> - Discuss audit approach and areas of focus in advance and early engagement on understanding the implications of the new operating model - Ensure Sarbanes-Oxley Act scope and additional procedures are discussed and endorsed by management and communicated in a timely basis within GSK and PwC - Avoid surprises through timely reporting of issues at all levels within the company - Ensure clarity of roles and responsibilities between local PwC and GSK Finance Services - Respond to any issues raised by management on a timely basis - Meet agreed deadlines - Provide continuity and succession planning of key staff members of PwC - Provide sufficient time for management to consider draft auditors' reports and respond to requests and queries - Ensure consistent communication between local and central audit teams.
Wider auditor responsibilities	<ul style="list-style-type: none"> - Provide timely up-to-date knowledge of technical and governance issues, including evolving market practice on the viability statement requirements, European Securities and Markets Authority and Securities and Exchange Commission (SEC) guidelines and new IFRS standards IFRS 15 and IFRS 16 - Serve as an industry resource, communicating best practice trends in reporting and integrated reporting - Adhere to all independence policies (GSK's, Financial Reporting Council's 2016 Revised Ethical Standard and applicable SEC standards); - Deliver a focused and consistent audit approach globally that reflects local risks and materiality - Liaise with Audit & Assurance to avoid duplication of work and Global Ethics and Compliance to ensure a common understanding of audit outcomes - Provide consistency of advice at all levels - Ultimately, provide a high quality service to the Board, be scrupulous in their scrutiny of the Group and act with utmost integrity.
Specific audit firm transition responsibilities	<ul style="list-style-type: none"> - Contribute to a seamless, effective and efficient auditor transition to Deloitte that includes the following actions: <ul style="list-style-type: none"> - Provide access to all relevant information in respect of the audit of GlaxoSmithKline plc and its subsidiaries in relation to the audit of the Group's consolidated accounts - Provide information concerning GSK obtained during the course of providing non-audit services, where this constitutes relevant information for the audit of the Group's consolidated accounts - Provide factual/evidenced based oral or written explanation in a timely manner to aid Deloitte's understanding of audit working papers - Agree practical: <ul style="list-style-type: none"> - terms of interaction to establish an appropriate environment/forum - arrangements for providing access to information, including the format, mechanism and response time - Liaise with Deloitte to enable their observation of audit activities once independent - Provide sufficient analysis of the hours spent in the provision of relevant information - Complete any additional ad-hoc handover expectations agreed during the year.

Competition and Markets Authority compliance statement: The Committee considers that, during 2017, the company has complied with the mandatory audit processes and audit committee responsibility provisions of the Competition and Markets Authority Statutory Audit Services Order 2014. Pages 96 to 104 of this report describes the work of the Committee in discharging these responsibilities.

Non-audit services

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

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

- ensuring all non-audit services over £50,000 are put out to competitive tender with financial service providers other than the external auditor, in line with the Group's procurement process, unless the skills and experience of the external auditor make them the only suitable supplier of the non-audit service under consideration;

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

The existing policy was reviewed and revised by the Committee in December 2016 to ensure compliance with the Financial Reporting Council's (FRC) 2016 Revised Ethical Standard and the EU Audit Regulation (new regulations). The new policy, which was implemented across the Group from the beginning 2017, contains the following three policy guidelines:

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

Non-audit services continued

Prohibitions: GSK's new policy includes a 'black list' of prohibited non-audit services in the new regulations.

Pre-approval: The category-wide pre-approval process was updated to reflect the restrictions in the FRC's 2016 Guidance on Audit Committees, so that all non-audit services:

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

As part of the external audit firm transition arrangements described below, Deloitte has been subject to the restrictions of this policy since it started its required period of independence from 1 July 2017 in advance of taking on the statutory audit of the Group's 2018 financial statements from 1 January 2018.

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

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

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



Auditors' transition

This has been a significant activity for the Committee during the year. The Committee has exercised its oversight responsibilities to manage the transition period between PwC and Deloitte and for the Committee to satisfy itself that there is a smooth handover of audit responsibilities from one to the other. The Committee's specific audit transition performance expectations for PwC are set out on page 101.

The Committee has received detailed transition papers at each scheduled meeting. To begin with, a primary focus was to oversee the steps needed for Deloitte to achieve independence by 1 July 2017 so that the firm could commence their audit planning activities.

This has involved scrutinising Deloitte's plan to achieve independence, together with progress made in overseeing the termination of non-audit services that would be prohibited when Deloitte takes up the role of auditor. For example, this included Deloitte stepping down from its role as the Remuneration Committee's advisers before the end of June 2017.

Since independence has been achieved:

- Deloitte has been formally observing PwC's work and its 2017 audit
- The prospective lead audit partner and his support have been invited to attend all Committee meetings
- The Committee Chair has held a number of meetings with the lead partner.

Throughout the year, to enhance their understanding of GSK, the Deloitte audit team has engaged extensively with various GSK business stakeholders with a primary focus on the Finance and IT communities. They have also begun to engage with priority local market entities that have been identified as representing higher transition complexity, given local regulatory requirements, and with entities covered by the Group audit. These local introductions will progress throughout 2018.

Deloitte has held a series of regional academies to on-board their local teams and communicate the audit vision and approach to all their local partners. Deloitte has also centrally coordinated introductory meetings between senior finance managers and Deloitte partners in every location where statutory audit is required.

Deloitte has, and will continue to take part in the key PwC clearance meetings and targeted PwC walkthroughs to leverage its own work from existing PwC procedures. The Deloitte team have performed their initial audit scoping and risk assessment, designed a detailed audit plan and compiled an initial insights report which it presented to the Committee in December 2017.

PwC will resign after the firm has concluded the 2017 external audit process and the Committee will recommend to the Board that Deloitte be appointed to fill the casual vacancy. Shareholders will be invited to appoint Deloitte as GSK's new statutory auditors at the 2018 AGM. PwC's audit partner will make himself available at the AGM to answer shareholder questions on the 2017 Annual Report.

The transition process has been thorough with minimal disruption to GSK's business.

Corporate Governance: Accountability continued

Auditors' transition continued

2017 External Audit Firm Transition Process

Key phases



Key steps



Key tasks

- Achieving independence
- Building understanding of the GSK organisation structure and business units
- Undertaking appropriate audit team selection and on-boarding
- Agreeing process for data extraction tools
- Agreeing collaboration terms with PwC.
- Completing full risk assessment and scoping
- Implementing audit analytics tools
- Deepening understanding of business and processes
- Walking through processes and assessing design of controls
- On-boarding of global teams and communicating of audit approach
- In-country market introductions
- Assessing and concluding on key historic accounting judgements
- Observing PwC interim review process
- Agreeing terms of engagement.

Fair, balanced and understandable assessment

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

The Committee received a summary of the approach taken by management in the preparation of GSK's 2017 Annual Report to ensure that it met the requirements of the Financial Reporting Council's 2016 UK Corporate Governance Code. This enabled the Committee, and then the Board, to confirm that GSK's 2017 Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Code of Conduct and reporting lines

We also have a number of well-established policies, including a Code of Conduct, which are available on the Governance section of our website, and confidential Speak Up reporting lines for the reporting and investigation of unlawful conduct. An updated version of the Code of Conduct was last published in April 2017.

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Internal control framework

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

The Internal Control Framework (the Framework) is a comprehensive enterprise-wide risk management model and the means by which GSK ensures the reliability of financial reporting and compliance with laws and regulations. The Framework supports the continuous process of the Board's identification, evaluation and management of GSK's Principal Risks, as required by the Financial Reporting Council's (FRC's) UK Corporate Governance Code (UK Code), and is designed to enable GSK to achieve its business objectives.

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

GSK's **Risk Oversight and Compliance Council (ROCC)** is a team of senior leaders. It is mandated by the Board to assist the Committee in overseeing risk management and internal control activities. It also provides the business units with a framework for risk management and upward escalation of significant risks. Each business unit is governed by a **Risk Management & Compliance Board (RMCB)** which reports to the ROCC. The business unit RMCBs are responsible for promoting the local 'tone from the top' and risk culture, as well as ensuring effective oversight of internal controls and risk management processes.

Risk owners, who are members of senior management, are assigned for each Principal Risk. Each risk owner is accountable for the management of their respective Principal Risk and for reporting on the risk management strategy to the ROCC and the Committee at least once every two years. The ROCC and the RMCBs are assisted by Global Ethics and Compliance (GEC), which is responsible for advancing risk management across the enterprise and for the development of working practices that are risk based and ethically sound. GEC actively promotes ethical behaviours within the organisation. It seeks to establish a framework in which all of its employees can operate in accordance with GSK Values and comply with applicable laws and regulations.

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

The **Committee** receives regular reports from business units, Principal Risk owners, GEC and A&A on areas of significant risk to GSK and on related internal controls. These reports provide an assessment on the internal control environment within each Principal Risk area, including enhancements to strengthen the control environment. Following the consideration of these reports, the Committee concludes on the effectiveness of the internal control environment and reports to the Board annually. In accordance with the UK Code provisions, the Committee, on the Board's behalf, has conducted a robust assessment of the Group's Principal Risks. This includes the consideration of the nature and extent of risk it is willing to take in achieving the Group's strategic objectives.



Corporate Governance: Accountability continued

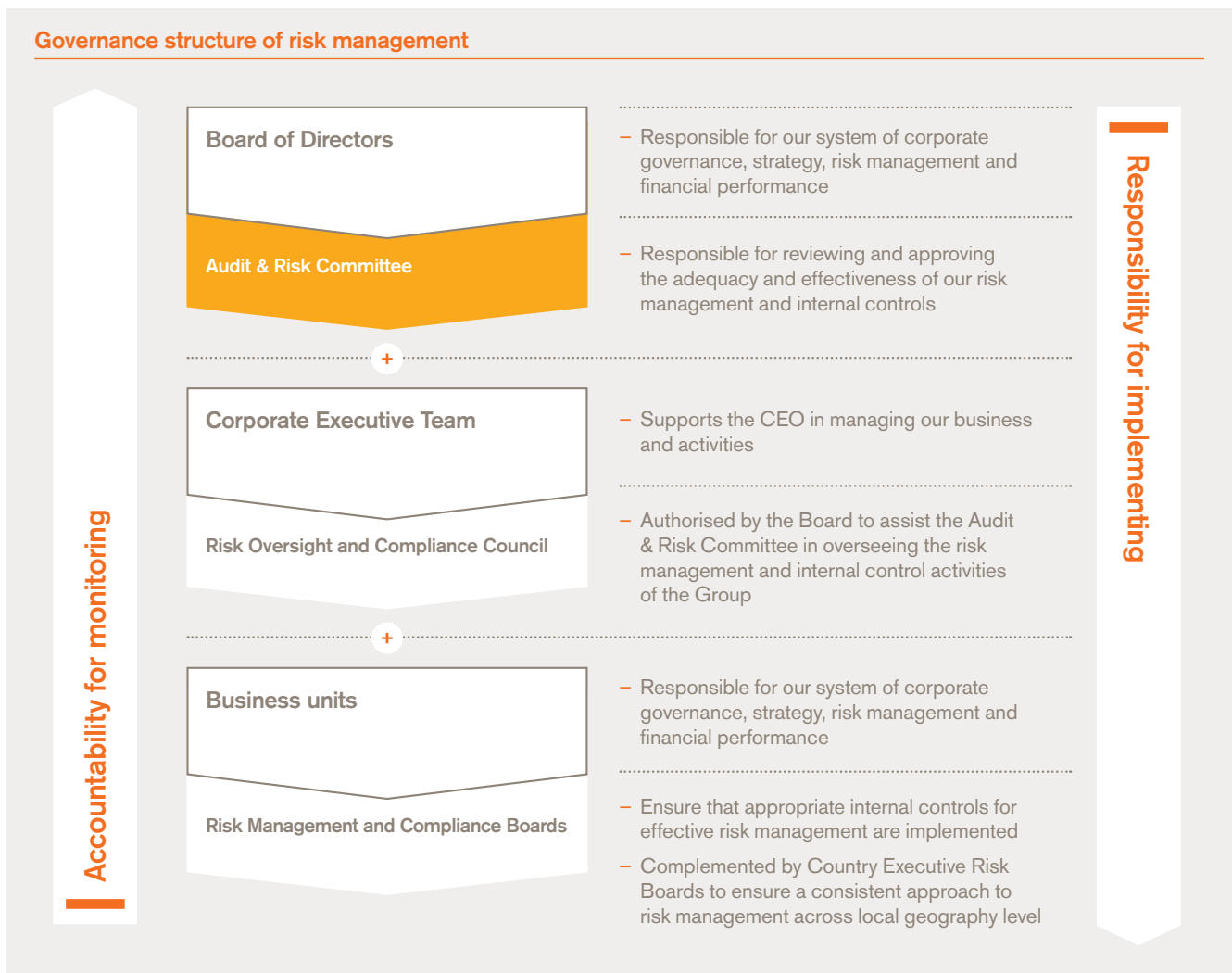
Internal control framework continued

The Board, through the Committee, has maintained oversight to ensure the effectiveness of the internal control environment and risk management processes in operation across GSK for the whole year, and up to the date of the approval of this Annual Report.

The Board's review focuses on the company and its subsidiaries but does not extend to material associated undertakings, joint ventures or other investments, although it considers the risk of the company's participation in these activities. There are established procedures and controls in place to identify entities whose results must be consolidated with the Group's results. We believe the process followed by the Board, through the Committee, in reviewing regularly the system of internal controls and risk management processes is in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the FRC.

Further information on GSK's risk management approach is provided in the 'How we manage risk' section of the Strategic report on pages 20 to 21. Our management of each Principal Risk is explained in 'Principal risks and uncertainties' on pages 257 to 266. The Group's viability is discussed in the Group financial review section of the Strategic report on page 57.

Governance structure of risk management



Relations with stakeholders

Engagement activities

In the performance of its duties and as the company seeks to build on its Trust priority, the Board listens to the views of shareholders and other key stakeholders, including our patients, consumers, customers and employees, and is cognisant of the potential impacts of decisions it makes.

Our principal Board Committees have delegated powers that enables a more in-depth assessment of the impacts of the company's engagement with stakeholders. It also provides a means of identifying emerging stakeholder-related issues that can be brought the attention of the Board, which in turn enables us to further invest in activities to build trust.

All shareholders

We try to engage with shareholders in several ways. This includes regular communications, the AGM and other investor relations activities. We announce our results on a quarterly basis and our annual results are included in our Annual Report. All shareholders receive an Annual Summary which advises them that our Annual Report and Notice of our Annual General Meeting are available.

Our major shareholders

During the year, after publication of our quarterly results Emma Walmsley and Simon Dingemans gave presentations to institutional investors, analysts and the media by webcast teleconference. In July, Emma Walmsley and her senior team held an investor update event with the same audience at which she shared her Innovation, Performance and Trust long-term priorities and which concluded with an in-depth Q&A session.

Emma and Simon maintain a continual and active dialogue with institutional shareholders on performance, plans and objectives through a programme of regular meetings. During the year, they held a total of 87 individual meetings with major shareholders and they have hosted a total of 25 group meetings with major shareholders and potential major shareholders.

Philip Hampton also meets with major shareholders to hear their views and discuss issues of mutual importance. He then communicates their views to the rest of the Board. During the year, he held over 15 individual meetings with major shareholders on a range of issues. Our Senior Independent Non-Executive Director (SID) and our other Non-Executive Directors are available to meet with major shareholders.

On an ongoing basis, our Investor Relations department, with offices in London and Philadelphia, acts as a focal point for communication with investors. The Company Secretary acts a focal point for communications on corporate governance matters.

Annual Governance event

A cornerstone of our investor calendar is the annual governance event that we hold with institutional shareholders, key investment industry bodies and influential proxy advisory firms. This year's event was held in December 2017 at the Francis Crick Institute in London and was hosted by the Chairman, our SID, and our Committee Chairs.

We valued prior engagement with and input from the Investor Forum and their members in helping shape the agenda for the event. The Chairman shared updates on key areas of focus for the Board including:

- Overview of business performance for 2017
- Board and CET Succession – skills, capabilities and diversity
- New CEO
- Oversight of new business priorities:
 - Innovation, Performance and Trust
 - Capital Allocation

- Aligning culture and strategy
- Board stewardship and stakeholder relationships
- Brexit.

Lynn Elsenhans, Dr Jesse Goodman, Judy Lewent and Urs Rohner provided an overview of the work of their respective Board Committees undertaken during the year. Finally, Vindi Banga, our SID, provided his insights and perspectives on Board dynamics and the role and contribution of the Non-Executive Directors in challenging and shaping the Group's strategy and business model.

Listening to the views of our shareholders and receiving their feedback during this event held in the run up to the corporate reporting and AGM season, helps the Board to understand shareholders' views.

Corporate Governance: Relations with stakeholders continued

Engagement activities continued

Our retail shareholders

The Company Secretary acts a focal point for retail investors and manages key relationships with the company's registrars, Equiniti in the UK and The Bank of New York Mellon, who administer our ADR programme in the US.

Our people

The Board is fully supportive of the Group's commitment to being a progressive, modern employer to attract and retain the best talent and drive high levels of employee engagement. In 2017, a key transformation priority for Emma Walmsley and her CET was to evolve the culture of the company to enhance business performance. Our strategic success relies on our ability to engage our employees behind the delivery of the company's Innovation, Performance and Trust long-term priorities. This was discussed at some length by the Board, as well as at a three-day conference in October 2017 attended by 600 senior leaders.

Annual General Meeting

All shareholders are invited to attend our Annual General Meeting, which this year will be held in May at the QEII, London. Our 2017 AGM had a good level of attendance and engagement by shareholders. All our proposed resolutions were approved by shareholders. The level of support ranged from 93% to 99%. It provides an opportunity to put questions to our Board and the Chairs of each of our Board Committees during the formal AGM proceedings, while providing shareholders the chance to meet informally with our Board directors who will make themselves available before the meeting.

Employee engagement enhancements

To help enhance our existing employee consultation activities, the Board supported management's introduction and roll out of the following engagement activities from 2017 into 2018:



Trust

Further details on our Trust priority, including employee engagement and the company's approach to developing its workforce in a safe, diverse and ethical environment, can be found on pages 48 to 50.

Science Committee report



Dr Jesse Goodman
Science Committee
Chair

Role

The Committee:

- undertakes periodic reviews of R&D strategy and progress
- assesses the overall performance, including relevant financial metrics, effectiveness and competitiveness of R&D
- helps identify critical emerging trends in science and medicine and their potential impact on the company
- undertakes periodic reviews of the company's scientific capability and talent
- reviews the scientific opportunity in specific large scale investments or business transactions
- reviews the output of the Group's science advisory boards.

Membership

Committee members	Committee member since
Dr Jesse Goodman Chair	from 1 January 2017
Professor Sir Roy Anderson	1 January 2017
Dr Laurie Glimcher	1 September 2017
Judy Lewent	1 January 2017

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

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

Attendee	Regular attendee	Attends as required
Company Chairman	✓	
Chief Scientific Officer and President, R&D	✓	
President, Global Vaccines	✓	
Independent senior external scientific adviser(s)		✓
Chief Financial Officer		✓
Other company executives		✓

Dear Shareholder

I am pleased to present this first report of the Science Committee (the Committee), which was established by the main Board to consider our science, pipeline and R&D capital allocation priorities. The Committee's core role throughout the first year of its operation has been to provide assurance to the Board on the quality, competitiveness and integrity of R&D. To discharge this role effectively requires a Committee to be composed of members with strong scientific capabilities. I am therefore pleased to be joined on the Committee by fellow Scientific and Medical Experts, Professor Sir Roy Anderson and Dr Laurie Glimcher, who, together with Judy Lewent, each have a background in life sciences from either a specialist or commercial perspective.

What the Committee did during 2017

During 2017, the Committee focused on establishing its role and remit and considered the following matters:

- R&D's Pharmaceutical Strategy, Performance and Transformation Programme
- Review of vaccines strategy and science
- Medical Healthcare Trends
- Anti-Microbial Resistance.

An overarching focus of the Committee's work has been its appraisal of the R&D transformation proposals and associated funding requirements prepared by our new CEO, Emma Walmsley and President, R&D, Dr Patrick Vallance. The Committee shared its feedback with management for incorporation into the proposals and was pleased to note the key milestones below to date:

- **Driving focus and prioritisation:** Core therapy areas have been refocused.
- **Enhancing pipeline governance:** The Committee noted the effect of the changes to strengthen portfolio governance, creating greater robustness of financial, commercial and strategic review following the introduction of a new Portfolio Strategy Committee to guide and challenge this work.
- **Improving Development:** Significant progress has been made in creating the roadmap for improving the company's overall capability in Development. In 2017, 'quick wins' included talent development, team optimisation and acceleration planning, in partnership with the commercial organisation.

Committee Evaluation

The first annual evaluation of the Committee was externally facilitated by Ms Ffion Hague of Independent Board Evaluation and concluded that the Committee was establishing itself, formalising its structure and ways of working, including how to continue its oversight of R&D.

Next steps

The Committee is looking forward to working with Hal. It will oversee the development of his plans to further reinvigorate R&D and accelerate the discovery and development of transformational new medicines.

Finally, I would like to thank Dr Patrick Vallance, who steps down from the Board at the end of March, for his significant contribution in helping to establish the Committee, devising its remit and helping me develop a programme of activities as a basis for the Committee's deliberations. I wish him well for the future.

Dr Jesse Goodman
Science Committee Chair

12 March 2018

Corporate Governance continued

Corporate Responsibility Committee report



Lynn Elsenhans
Corporate Responsibility
Committee Chair

Role

The Committee reviews:

- external issues that have the potential for serious impact upon GSK's business and reputation
- oversight of stakeholder views and engagement
- annual governance oversight of progress against GSK's Responsible Business Commitments.

Membership

The membership of the Committee and appointment dates are set out below:

Committee members	Committee member since
Lynn Elsenhans Chair from 8 May 2015	1 October 2012
Professor Sir Roy Anderson	1 May 2016
Dr Vivienne Cox	1 July 2016
Dr Jesse Goodman	1 May 2016

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

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

Attendee	Regular attendee	Attends as required
Chief Executive Officer	✓	
Company Chairman	✓	
General Counsel	✓	
President, Global Affairs	✓	
Chief Scientific Officer and President, R&D	✓	
President, GMS	✓	
President, Global Pharmaceuticals	✓	
President, Global Vaccines		✓
CEO, GSK Consumer Healthcare		✓
Head of Human Resources		✓
SVP, Corporate Affairs		✓
Head of Global Corporate Responsibility	✓	
Other Executives		✓
Independent external corporate responsibility adviser	✓	

Dear Shareholder

The Corporate Responsibility Committee (the Committee) acts as custodian of the policies and practices that define and safeguard the reputation of the company. As Chair of the Committee I continue, together with my fellow Committee members, to challenge and shape the company's responsible business agenda. Committee members bring a wide range of sector experience, insight and stakeholder perspectives to help provide oversight on these topics. This helps the Board monitor the company's work to engage effectively with its key stakeholders and to assess if the company is operating in a way that seeks to meet the high expectations of GSK as a global healthcare company that delivers long-term value for both shareholders and society.

The work of the Committee has again focused on topics that are material to the company's mission, strategy and values. During 2017, much of the Committee's focus has been on reviewing the company's proposals for future responsible business activity in support of the company's new long-term priority of Trust. The Committee has also provided oversight of management's work to review and refocus GSK's activity in support of global health moving forward.

The Committee pays close attention to the evolving views and expectations of the company's broad range of key stakeholders and a regular report on stakeholder developments is reviewed and discussed at each meeting. This year the Committee also received an external report and held a discussion on the trends and stakeholder expectations that are likely to influence trust in the company over the long-term. The Committee and the Remuneration Committee were interested to review the preparation of the company's gender pay gap disclosures set out on page 49.

Since the Committee's membership was refreshed in mid-2016, I have been impressed with the way in which Roy, Jesse and Vivienne have exercised their knowledge and understanding of the issues under discussion, which has brought new challenge and oversight to the Committee and will stand us in good stead in 2018 as the company further evolves its responsible business agenda. I was also pleased to invite Roger Connor, President, GMS, who has company responsibility for Product Quality as well as Environment, Health, Safety and Sustainability, to attend the Committee on a regular basis as the Committee continues to increase its focus in these vital areas of the company's operations.

This year we have continued to enjoy positive engagement with investors on our responsible business approach and performance, in particular where there are opportunities to enhance investment value, create business opportunities and mitigate risk, alongside creating social value.

The company is well positioned in 2018 to evolve its Responsible Business Commitments to a new set of focused activity that will support the delivery of Trust as one of GSK's long-term business priorities.

Lynn Elsenhans
Corporate Responsibility Committee Chair

12 March 2018

Corporate Responsibility Committee report continued

Main responsibilities

The main responsibilities of the Committee are set out on page 110.

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

- **Health for all:** innovating to address currently unmet health needs; improving access to our products, irrespective of where people live or their ability to pay; and controlling or eliminating diseases affecting the world's most vulnerable people.
- **Our behaviour:** Putting the interests of patients and consumers first, driven by our values in everything we do and backed by robust policies and strong compliance processes.
- **Our people:** Enabling our people to thrive and develop as individuals to deliver our mission.
- **Our planet:** Growing our business while reducing our environmental impact across the value chain.

In addition, at each meeting the Committee considers an analysis by management of engagement with and expectations of the company's key stakeholders which may have a bearing on the company's reputation and the delivery of its responsible business agenda. The Committee also reviews and approves the Responsible Business Supplement which is available for reference on www.gsk.com/responsibility.

Work of the Committee in 2018

In 2018, the Committee will continue to seek to understand how management is responding to the expectations of external stakeholders and will seek to align its agendas to the activities that support the company's long-term priority of Trust.

Independent External Corporate Responsibility Adviser

To support the Committee in ensuring that we give sufficient consideration to the views of key stakeholders at each meeting, in May 2013, Sophia Tickell was appointed as an independent external adviser to the Committee, a position that she had previously held until July 2011. Ms Tickell has extensive experience in the pharmaceuticals industry in improving health systems' productivity, sustainability in energy supply and distribution, climate change policy and short-termism in financial markets.

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

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

Committee evaluation

The Committee's annual evaluation exercise was externally facilitated by Ms Ffion Hague of Independent Board Evaluation and concluded that the Committee continued to operate effectively.

Corporate Governance continued

Directors

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

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

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

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

Directors' conflicts of interest

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

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

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

The Nominations Committee reviewed the register of potential conflict authorisations in January 2018 and reported to the Board that the conflicts had been appropriately authorised and that the process for authorisation continues to operate effectively. Except as described in Note 35 to the financial statements, 'Related party transactions', during or at the end of the financial year no Director or Person Closely Associated had any material interest in any contract of significance with a Group company.

Independent advice

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

Indemnification of Directors

Qualifying third party indemnity provisions (as defined in the Companies Act 2006) are in force for the benefit of Directors and former Directors who held office during 2017 and up to the signing of the Annual Report.

Change of control and essential contracts

We do not have contracts or other arrangements which individually are fundamental to the ability of the business to operate effectively, nor is the company party to any material agreements that would take effect, be altered, or terminate upon a change of control following a takeover bid. We do not have agreements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the company's share plans may cause options and awards granted under such plans to vest on a takeover. Details of the termination provisions in the Executive Directors' service contracts are given in the full version of the company's 2017 Remuneration policy report which is available at www.gsk.com in the Investors section.

Directors' Report

For the purposes of the UK Companies Act 2006, the Directors' Report of GlaxoSmithKline plc for the year ended 31 December 2017 comprises pages 79 to 112 of the Corporate Governance Report, the Directors' statements of responsibilities on pages 148 and 233 and pages 257 to 286 of Investor Information. The Strategic report sets out those matters required to be disclosed in the Directors' Report which are considered to be of strategic importance:

- risk management objectives and policies (pages 20, 21 and 77 to 78)
- likely future developments of the company (Strategic report)
- research and development activities (pages 23 to 41)
- diversity and inclusion (page 49)
- provision of information to, and consultation with, employees (page 48)
- carbon emissions (page 51)

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

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

The Directors' Report has been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

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

Philip Hampton
Chairman

12 March 2018