gsk

do more
feel better
live longer

Annual Report 2020

We are a science-led global healthcare company

2020 performance summary

£34.1bn Group turnover — AER +1%, CER +3%

£9.7bn New and specialty medicines — AER +11%, CER +12%

£7.8bn Total operating profit — AER +12%, CER +15%

£8.9bn Adjusted operating profit — AER -1%, CER +2%

115.5p Total earnings per share — AER +23%, CER +26%

115.9p Adjusted earnings per share — AER -6%, CER -4%

9 major pipeline approvals

80p Dividend

1st in the Access to Medicine Index

2nd in the pharmaceutical industry for Dow Jones Sustainability Index

Contents

Cautionary statement

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

Non-IFRS measures

We use a number of adjusted, non-IFRS, measures to report the performance of our business. Total reported results represent the Group's overall performance under IFRS. Adjusted results, pro-forma growth rates and other non-IFRS measures may be considered in addition to, but not as a substitute for or superior to, information presented in accordance with IFRS. Adjusted results and other non-IFRS measures are defined on pages 51 to 53 and reconciliations to the nearest IFRS measures are on pages 64 and 68.

Our business model

Every day, we help improve the health of millions of people around the world by discovering, developing and manufacturing innovative medicines, vaccines and consumer healthcare products.

Our operations span the value chain from identifying, researching, developing and testing ground breaking discoveries, to regulatory approval, manufacturing and commercialisation. We remained resilient through a challenging year for the world by being agile and maintaining focus on our purpose and strategic long-term priorities.

Central to our success are our people: experts in science, technology, regulation, intellectual property and commercialisation. We also collaborate with world-leading experts and form strategic partnerships to complement our existing capabilities.

Our purpose and strategy

Our purpose is to improve the quality of human life by helping people do more, feel better and live longer. It guides all of our actions and is key to the delivery of our strategy – to bring differentiated, high-quality and needed healthcare products to as many people as possible, preventing and treating disease and keeping people well with our scientific and technical know-how and talented people.

Our long-term priorities

Our priorities of Innovation, Performance and Trust are underpinned by our ambition to build a more purpose and performance driven culture, aligned to our values – patient focus, transparency, respect and integrity – and expectations – courage, accountability, development and teamwork.

Innovation is critical to how we improve health and create financial value. In 2020 Total R&D expenditure was £5.1 billion, which was 15.0% of turnover, and an increase of 12% (AER and CER) from the previous year. On an Adjusted basis, R&D expenditure was £4.6 billion (13.5% of turnover), 6% higher at AER, 7% higher at CER, than in 2019. On a pro-forma basis, Adjusted R&D expenditure grew 6% CER compared with 2019.

In Pharmaceuticals and Vaccines, we focus on science related to the immune system, human genetics and advanced technology. In Consumer Healthcare we leverage our scientific expertise and deep consumer insights to create healthcare products that meet consumer demands. As a research-based healthcare company we rely on intellectual property protection to help ensure a reasonable return on our investments so we can continue to research and develop new and innovative medicines.

Performance is delivered by investing effectively in our business and our people and executing competitively. Our ability to launch new products successfully and grow sales from our existing portfolio is key to our commercial success.

Trust is also critical to our success. We are a responsible company and commit to use our science and technology to address health needs, make our products affordable and available, and be a modern employer. Our 13 public commitments support our Trust priority and cover a broad range of environmental, social and governance (ESG) aspects. The commitments are designed to help us respond to ESG challenges and opportunities within our industry and society more broadly and contribute to many of the UN Sustainable Development Goals particularly Goal 3: ensure healthy lives and promote wellbeing.

The value we create

By delivering on our purpose, the greatest contribution we make is to improve the health of people around the world. In 2020 that included delivering 2.2 billion packs of medicines, over 580 million vaccine doses and 3.8 billion consumer healthcare products.

For our shareholders, as part of our capital allocation framework, we invest in our business to provide shareholder returns. In 2020 we paid a dividend of 80p per share and delivered £5.4 billion of free cash flow.

We make a positive contribution to the communities in which we operate. We employ over 94,000 people across 96 countries and work directly with 36,000 suppliers. In 2020 we paid £1.7 billion in corporation tax. We also pay a significant amount of other business and employment related taxes. We aim to be a modern employer and offer a broad range of employee benefits, including preventative healthcare services, so that we are able to attract and retain the best people.

Preparing for the future

Creating two new companies

In early 2020, consistent with our strategic priorities and previous announcements, we started a two-year programme to prepare GSK for separation into two new leading companies: New GSK, a new biopharma company, focused on specialty medicines and vaccines with an R&D approach focused on the science related to the immune system, the use of human genetics and new technologies; and a new leader in consumer healthcare with category-leading power brands and innovation based on science and consumer insights.

We are on track for separation into new standalone Biopharma and Consumer Healthcare companies in 2022.

The programme is using the unique catalyst of separation to reset the capabilities and cost base for both companies, and help support delivery of the significant value creation opportunities we see in both New GSK and new Consumer Healthcare.

For New GSK, we see a clear opportunity to drive a common approach to R&D as the science related to the immune system converges across both pharmaceuticals and vaccines.

During the year we achieved an important milestone with the launch of our One Development organisation in R&D. This is already enabling us to be even more effective in how we allocate our budget, share technical and scientific expertise and deliver our pipeline, regardless of modality.

Under the programme, we are seeking to improve our capabilities and create efficiencies in our global support functions; continuing to simplify and focus our manufacturing network, ensuring our supply chain is ready to launch our new specialty medicines; and rationalising our portfolio through divestments.

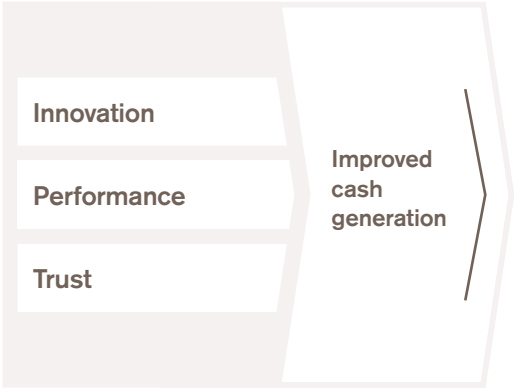
For the new Consumer Healthcare company, this programme is supporting the building of key technology infrastructure and the expertise necessary to operate as a standalone company.

We believe that increased investment in our pipeline and new products, together with effective implementation of our two-year programme, will set each new company up with strong foundations for future performance.

The financial benefits, costs and reporting associated with the programme are set out on pages 65 and 66.

Capital allocation

Capital allocation framework



	Key priorities for capital
Invest in the business	– R&D pipeline (including business development) – Vaccines capacity – New products
Shareholder returns	– Dividends – Target 1.25x to 1.5x cover before returning dividend to growth
Other M&A	– Strict discipline on returns

Chairman's statement

2020 was an extraordinary and challenging year. We continued to progress our strategy towards the creation of two new companies.

The COVID-19 pandemic dominated all aspects of life and business and GSK was no exception with impacts felt both operationally and among our people. In the face of huge challenges we delivered our financial guidance for the year and continued to make progress on our strategy.

This is a testament to the leadership of Emma and her management team who have navigated the company through the year and ensured people across GSK remained focused on our purpose and delivery of performance.

Strategy

The Board was pleased to see the continued progress made against the company's strategic goals in 2020. While it is disappointing this has not yet translated into improved Total Shareholder Returns (TSR), the progress made reinforces the Board's confidence in the direction of the company and its eventual split next year into two new companies in Biopharma and Consumer Healthcare. This, combined with meaningful improvements to operating performance from 2022 onwards, provides significant opportunity to create value for shareholders.

Strengthening the Biopharma pipeline remains the Company's number one priority, and this continued through 2020 (despite the pandemic), with nine significant approvals, nine pivotal trial starts and a pipeline now consisting of 58 potential medicines and vaccines focused on infectious diseases, oncology and immune-mediated diseases. A number of these assets could be significant launches over the next five years, with the potential to change medical practice and provide material value for the company. The Board's Scientific Committee is closely involved with Hal and his team on the pipeline.

Operational and financial performance was resilient through the year. Importantly we are seeing evidence of significantly improved commercial capability and execution and this is driving good expansion in our key growth products. Management also maintained its strong focus on cost controls and cash generation. 2021 will see further pipeline investment and continued short-term disruption to our adult vaccines business, both of which are reflected in our earnings guidance for the year.

GSK's capital allocation framework focuses on investing in the R&D pipeline, new product launches, vaccine supply capacity and disciplined business development.

In 2020, we paid 80p per share to shareholders and expect to do the same in 2021. We intend to implement a new distribution policy for dividends from 2022, the year we will separate into two new companies. This will ensure both businesses are competitive and have the right capital structure with the capacity to invest to deliver growth and shareholder returns. Overall, we expect that aggregate distributions for GSK and across the two new companies will be lower than the 80p per share currently paid.

The importance of businesses acting responsibly is central to how an increasingly broad range of stakeholders view companies. As part of this, global health has always been an important element of GSK's Trust priority and the Board was pleased to see that GSK once again topped the Access to Medicine Index. Environmental, social and governance (ESG) are increasingly a focus for investors and other stakeholders and the Board fully supports the ambitious, new environmental goals on climate and nature, and new inclusion and diversity (I&D) targets, including on race and ethnicity, that management have announced.

The Board also supports management's efforts to contribute on COVID-19, including progression of potential vaccines and therapeutic treatments. As a company with a world leading infectious diseases portfolio and scientific expertise, GSK has an opportunity both to contribute meaningfully to the current response to the pandemic and to work with global institutions to support better long-term preparedness planning.

Board changes

The Board continues to adapt to support the company's priorities and ensure effective delivery. Specifically, a new committee was established to oversee the separation and transformation into two companies, and the Corporate Responsibility Committee has taken on an expanded remit in line with the greater focus on ESG. The Science Committee continues to provide excellent oversight and direction for the R&D strategy.

In May, Charles Bancroft joined the Board as a Non-Executive Director. Charlie will succeed Judy Lewent as Chair of the Audit & Risk Committee on completion of the 2020 annual reporting cycle. Judy steps down from the Board at the AGM and I would like to thank her for her enormous contribution to GSK over 10 years. I am also grateful to Lynn Elsenhans, who has agreed to stay on the Board for a further year, to ensure that there is continuity in the important work of the Corporate Responsibility Committee.

Finally, I would like to thank all GSK's employees, partners, shareholders and customers for their support during this unprecedented year.

Sir Jonathan Symonds
Chairman

CEO's statement

Innovation for healthcare impact is the heart of our purpose. In 2020 we made further significant progress, continuing to build a high-value biopharma pipeline focused on vaccines and specialty medicines.

2020 was a remarkable year for us all. Despite the challenges it was also a year of progress for GSK and I'm proud of the way the company has responded to support patients, healthcare systems and our people while also delivering good financial performance and advancing our strategic transformation.

This progress means we have high confidence in our ability to launch new competitive, standalone Biopharma and Consumer Healthcare companies in 2022 that can achieve meaningful global impact to health and have the opportunity to create significant value for shareholders.

Growth in 2020 sales

Group sales grew 1% at actual exchange rates (AER) and 3% at constant exchange rates (CER) to £34 billion. This is a testament to the increased focus we have continued to place on improving commercial execution.

New and Speciality products drove growth with sales of £9.7 billion, up 11% AER and 12% CER. This group of innovative products now account for more than half of pharmaceutical sales.

In respiratory we saw strong growth for *Nucala*, our biologic for asthma and *Trelegy* our 3-in-1 inhaler for asthma and COPD. In HIV, new two-drug regimens *Dovato* and *Juluca* more than doubled sales to £869 million while our oncology portfolio continued to grow with *Zejula*, for ovarian cancer, significantly growing market share, and the launch of *Blenrep,* for heavily pre-treated multiple myeloma patients. *Shingrix*, our successful vaccine for shingles, continued to grow and had sales of £2 billion, despite the significant disruption to adult vaccinations from the COVID-19 pandemic. We also saw a strong Consumer Health performance with sales up 4% CER on a pro-forma basis, excluding brands divested and under review, reflecting the underlying strength of brands across our portfolio.

This strong performance in our growth drivers and disciplined cost control allowed us to deliver our guidance for the year, which was set before the pandemic. Total earnings per share were 115.5p, up 23% AER, up 26% CER while Adjusted earnings per share were 115.9p, down 6% AER and down 4% CER.

We had strong cash generation, with free cash flow of £5.4 billion. We declared a dividend of 80p per share and expect to pay the same again in 2021.

Continued R&D delivery

Innovation for healthcare impact is the heart of our purpose and strengthening our R&D pipeline remains our first priority. In 2020 we made further significant progress, continuing to build a high-value biopharma pipeline focused on vaccines and speciality medicines, harnessing the science related to the immune system, the use of human genetics and advanced technologies.

We had nine major approvals in 2020 for medicines in respiratory, oncology, HIV and immuno-inflammation – a remarkable achievement. This included *Zejula*'s expanded label in ovarian cancer, making it potentially available to more women, and *Cabenuva*, the world's first long-acting injectable for the treatment of HIV which allows patients to have 12 injections a year instead of taking daily pills. Nine pivotal trials were started in the year, including for a vaccine candidate for RSV – a virus with a high unmet need and which causes thousands of deaths and hospitalisations a year. If successful, this vaccine could play a significant role in easing this burden. We will start other late stage trials this year including for a new long-acting asthma medicine which, if successful, would be given every six months – a further testament to how we put patients at the heart of our R&D.

Overall, we now have more than 20 assets in late stage development, many of which could be transformational for patients. These products could all launch by 2026 and we believe more than 10, if data is positive, have the potential to be very significant commercially.

Last year we also executed more than 20 business development deals, strengthening our capabilities with the acquisition of new antibody, mRNA and genetic platforms and technologies.

We continue to use our science to contribute to the COVID-19 response on multiple fronts. We were of course disappointed with the delay to our vaccine being developed with Sanofi, but we continue to progress this along with others as well as in-house and externally-partnered therapeutics. Importantly, we are looking ahead to the potential need for next generation COVID-19 vaccines to use with emerging variants or as a booster and we are delighted with our recent collaboration with CureVac to research and develop several mRNA vaccines, including for COVID-19.

CEO's statement continued

Separation preparation

We remain firmly on track with our intention to separate into two new, exciting companies next year – a New GSK in Biopharma and a new world leader in Consumer Healthcare.

We have met all our first year targets for the separation programme and the integration of the Consumer JV is substantially complete. As the second year of our two-year transformation, 2021 will see further investment in our pipeline and behind successfully launching new products to sustain our long-term competitive growth. Short-term disruption from the pandemic to our vaccines business is reflected in the financial guidance we have set out for 2021. We continue to expect a meaningful improvement in performance from 2022 onwards.

Building Trust

Building trust with all our stakeholders – in addition to delivering sustainable financial returns – is critical. The pandemic has highlighted the need for businesses to operate in a responsible way and, for life sciences companies, to ensure there is widespread access to medicines.

Investor interest in environmental, social and governance (ESG) issues has increased significantly over the last year. We believe in the need to transition to a net zero economy and we want to play our part in protecting and restoring people's and the planet's health. In November we set ambitious, industry leading environmental targets to have a net-zero impact on climate change and net-positive impact on nature by 2030.

GSK firmly believes in the value of inclusion and diversity and we have set aspirational targets for the proportion of ethnically diverse leaders at VP level and above in the US and UK by 2025 and reset our gender target, aiming to further increase female representation at VP level and above globally by 2025. We are also focusing on improving diversity in clinical trials to ensure that they represent – and our medicines are safe and effective in – real-world patient communities.

We have continued to work with partners on other long-term urgent global health needs. Following positive data for our single dose treatment for the *P. vivax* strain of malaria, we have filed alongside our partners Medicines for Malaria Venture (MMV) for its use in children – a population disproportionately affected by the disease and we have licensed our TB candidate vaccine to the Bill & Melinda Gates Research Institute for its continued development and potential use in low-income countries with high TB burdens. I am pleased that our commitment to this important work has been recognised again by the Access to Medicines Index, which we have topped for the seventh time in a row.

Our people and culture

Our people have shown remarkable dedication, agility and resilience through the year in unprecedented circumstances. This has included the thousands of employees who have continued to work in our manufacturing facilities throughout the pandemic to ensure our vital medicines, vaccines and consumer products continued to reach patients and consumers.

Their efforts have meant that despite the challenges we enter 2021 with our pipeline stronger, our commercial execution sharper and our confidence higher in our ability to deliver sustainable long-term growth post separation.

I want to thank our fantastic people and our partners, for without them we would not succeed and we count on them now as we prepare for our exciting future.

Emma Walmsley
Chief Executive Officer

Financial performance

Operating performance – 2020

Turnover

	2020			
	£m	Growth £%	Growth CER%	*Pro-forma growth CER%
Pharmaceuticals	**17,056**	(3)	(1)	(1)
Vaccines	**6,982**	(2)	(1)	(1)
Consumer Healthcare	**10,033**	12	14	(2)
	34,071	1	3	(2)
Corporate and other unallocated turnover	**28**			
Group turnover	**34,099**	1	3	(2)

Financial results

	2020			
	£m	£%	Growth CER%	*Pro-forma growth CER%
Turnover	**34,099**	1	3	(2)
Total operating profit	**7,783**	12	15	
Total earnings per share	**115.5p**	23	26	
Adjusted operating profit	**8,906**	(1)	2	(3)
Adjusted earnings per share	**115.9p**	(6)	(4)	
Net cash from operating activities	**8,441**	5		
Free cash flow	**5,406**	7		

* Pro-forma CER growth rates are calculated as if the equivalent seven months of Pfizer consumer healthcare business results, as reported by Pfizer, were included in the comparative period of 2019. Please see page 53 for more information.

Turnover

Strong sales performance from key growth drivers in HIV, Respiratory, Oncology and Consumer Healthcare offset disruption from COVID-19 to adult vaccinations.

Group turnover was £34,099 million in the year, up 1% AER, 3% CER. On a pro-forma basis, Group turnover was down 2% CER, but up 1% at CER excluding the impact of divestments in Vaccines and brands divested or under review in Consumer Healthcare.

Pharmaceuticals turnover in the year was £17,056 million, down 3% AER, 1% CER. Respiratory sales were up 22% AER, 23% CER, to £3,749 million, on growth of *Trelegy*, *Nucala* and *Relvar/Breo*. HIV sales were flat at AER, up 1% CER, to £4,876 million, with growth in *Juluca* and *Dovato* partly offset by declines in *Tivicay* and *Triumeq*. Sales of Established Pharmaceuticals declined 16% AER, 15% CER to £7,332 million.

Vaccines turnover declined 2% AER, 1% CER to £6,982 million, primarily driven by the adverse impact of the COVID-19 pandemic on Hepatitis vaccines, DTPa-containing vaccines, *Synflorix* and *Bexsero*, together with the divestment of Rabipur and Encepur. This decline was partly offset by higher sales of Influenza vaccines across all regions and by *Shingrix* growth in Europe, China and the US together with a strong performance from *Cervarix* in China.

Reported Consumer Healthcare sales grew 12% AER and 14% CER to £10,033 million for the full year, largely driven by the inclusion of the Pfizer portfolio, partly offset by brands divested/under review. On a pro-forma basis, sales declined 2% CER, but grew 4% CER excluding brands divested/under review, reflecting the underlying strength of brands across the portfolio and categories, strong growth in e-commerce, and successful execution meeting evolving consumer demand as a result of the pandemic.

Operating profit

Total operating profit was £7,783 million in 2020 compared with £6,961 million in 2019. The total operating margin was 22.8%. This reflected the profit on disposal of the Horlicks and other Consumer Healthcare brands and resultant sale of shares in Hindustan Unilever as well as increased income from asset disposals. This was partly offset by higher re-measurement charges on the contingent consideration liabilities.

Adjusted operating profit was £8,906 million, 1% lower than 2019 at AER and 2% higher at CER on a turnover increase of 3% CER. Pro-forma adjusted operating profit declined 3%. This primarily reflected the adverse impact from the reduction in sales in Vaccines as a result of the COVID-19 pandemic, investment in R&D, and investments in promotional product support, particularly for new launches in Vaccines, HIV and Respiratory. This was partly offset by effective cost control, including reduced promotional and variable spending across all three businesses as a result of the COVID-19 lockdowns and the continuing benefit of restructuring in Pharmaceuticals and Consumer Healthcare.

Earnings per share

Total EPS was 115.5p, compared with 93.9p in 2019. The increase in EPS primarily reflected the net profit on disposal of Horlicks and other Consumer Healthcare brands as well as increased income from asset disposals, partly offset by higher re-measurement charges on the contingent consideration liabilities, higher major restructuring charges and a one-off benefit in 2019 from increased share of after tax profits of the associate Innoviva.

Adjusted EPS was 115.9p compared with 123.9p in 2019, down 6% AER, 4% CER, on a 2% CER increase in Adjusted operating profit. The reduction primarily resulted from a higher non-controlling interest allocation of Consumer Healthcare profits, higher investment in R&D and reduced share of after tax profits of associates resulting from a non-recurring income tax benefit in Innoviva.

Cash flow

The net cash inflow from operating activities for the year was £8,441 million (2019 – £8,020 million). Free cash flow was £5,406 million for the year (2019 – £5,073 million). The increase in free cash flow primarily reflected increased proceeds from disposal of intangible assets, beneficial timing of payments for returns and rebates, reduced legal payments and improved operating profits, partly offset by higher dividends to non-controlling interests, increase in trade receivables, increased tax payments including tax on disposals and adverse exchange impacts.

Financial performance continued

Total and Adjusted results

Total reported results represent the Group's overall performance.

GSK uses a number of Adjusted, non-IFRS, measures to report the performance of its business. Adjusted results and other non-IFRS measures may be considered in addition to, but not as a substitute for or superior to, information presented in accordance with IFRS. See page 51 for a fuller definition.

GSK believes that Adjusted results, when considered together with Total results, provide investors, analysts and other stakeholders with helpful complementary information to understand better the financial performance and position of the Group from period to period, and allow the Group's performance to be more easily compared against the majority of its peer companies. These measures are also used by management for planning and reporting purposes. They may not be directly comparable with similarly described measures used by other companies.

GSK encourages investors and analysts not to rely on any single financial measure but to review GSK's Annual Reports, including the financial statements and notes, in their entirety.

GSK is undertaking a number of Board-approved Major restructuring programmes in response to significant changes in the Group's trading environment or overall strategy, or following material acquisitions. Costs, both cash and non-cash, of these programmes are provided for as individual elements are approved and meet the accounting recognition criteria.

As a result, charges may be incurred over a number of years following the initiation of a Major restructuring programme.

GSK's reported results for the year ended 31 December 2019 included five months of results of the former Pfizer consumer healthcare business compared with twelve months in 2020. Pro-forma growth rates at CER have been calculated for 2020 including the equivalent seven months of results for the period to 31 July 2019 of the former Pfizer consumer healthcare business, as more fully described on page 53.

Adjusting items	Total results £m	Intangible asset amortisation £m	Intangible asset impairment £m	Major restructuring £m	Transaction-related £m	Divestments, significant legal and other items £m	Separation costs £m	Adjusted results £m
Turnover	34,099							34,099
Cost of sales	(11,704)	699	31	667	116			(10,191)
Gross profit	22,395	699	31	667	116			23,908
Selling, general and administration	(11,456)	1	18	659	(23)	16	68	(10,717)
Research and development	(5,098)	75	214	206				(4,603)
Royalty income	318							318
Other operating income/(expense)	1,624				1,215	(2,839)		–
Operating profit	7,783	775	263	1,532	1,308	(2,823)	68	8,906
Net finance costs	(848)			2		2		(844)
Share of after-tax profits of associates and joint ventures	33							33
Profit before taxation	6,968	775	263	1,534	1,308	(2,821)	68	8,095
Taxation	(580)	(150)	(47)	(292)	(229)	17	(14)	(1,295)
Tax rate	*8.3%*							*16.0%*
Profit after taxation	6,388	625	216	1,242	1,079	(2,804)	54	6,800
Profit attributable to non-controlling interests	639				392			1,031
Profit attributable to shareholders	5,749	625	216	1,242	687	(2,804)	54	5,769
Earnings per share	115.5p	12.6p	4.4p	25.0p	13.8p	(56.5)p	1.1p	115.9p

Intangible asset amortisation and impairment

Amortisation and impairment of intangible assets and goodwill excludes computer software.

Major restructuring

Major restructuring costs, which include impairments of tangible assets and computer software (under specific Board-approved programmes that are structural, of a significant scale and where the costs of individual or related projects exceed £25 million), including integration costs following material acquisitions.

Transaction-related

Transaction-related accounting or other adjustments related to significant acquisitions.

Divestments, significant legal and other items

Proceeds and costs of disposals of associates, products and businesses; significant legal charges (net of insurance recoveries) and expenses on the settlement of litigation and government investigations; other operating income other than royalty income, and other items.

Separation costs

Additional costs to prepare Consumer Healthcare for separation.

Adjusted results

	2020		2019				
	£m	% of turnover	£m	% of turnover	£%	Growth CER%	Pro-forma growth CER%
Turnover	**34,099**	**100**	33,754	100	1	3	(2)
Cost of sales	**(10,191)**	**(29.9)**	(10,079)	(29.9)	1	2	(3)
Gross profit	**23,908**	**70.1**	23,675	70.1	1	3	(1)
Selling, general and administration	**(10,717)**	**(31.4)**	(10,715)	(31.7)	–	2	(3)
Research and development	**(4,603)**	**(13.5)**	(4,339)	(12.9)	6	7	6
Royalty income	**318**	**0.9**	351	1.1	(9)	(9)	(9)
Operating profit	**8,906**	**26.1**	8,972	26.6	(1)	2	(3)
Net finance costs	**(844)**		(810)				
Share of after-tax profits of associates and joint ventures	**33**		74				
Profit before taxation	**8,095**		8,236		(2)	1	
Taxation	**(1,295)**		(1,318)				
Tax rate	*16.0%*		*16.0%*				
Profit after taxation	**6,800**		6,918		(2)	1	
Profit attributable to non-controlling interests	**1,031**		787				
Profit attributable to shareholders	**5,769**		6,131				
Earnings per share	**115.9p**		123.9p		(6)	(4)	

How we performed

Cost of sales

Adjusted cost of sales as a percentage of turnover was 29.9%, flat at AER, but 0.1 percentage points lower at CER compared with 2019. On a pro-forma basis, Adjusted cost of sales as a percentage of turnover was 29.9%, 0.3 percentage points lower at CER, compared with 2019. This reflected a more favourable product mix in Pharmaceuticals and a further contribution from restructuring and integration savings, partly offset by adverse product mix in Vaccines and continued adverse pricing pressure in Pharmaceuticals.

Selling, general and administration

Adjusted SG&A costs as a percentage of turnover were 31.4%, 0.3 percentage points lower at AER than in 2019 and 0.3 percentage points lower on a CER basis. On a pro-forma basis, Adjusted SG&A costs as a percentage of turnover were 31.4%, 0.4 percentage points lower at CER, compared with 2019.

The growth in Adjusted SG&A costs, although flat at AER, grew 2% CER. On a pro-forma basis costs reduced 3% CER and reflected the benefits from restructuring including one-off benefits from restructuring of post-retirement benefits, reduced variable spending across all three businesses and the tight control of ongoing costs, partly offset by increased investment in promotional product support.

Research and development

Adjusted R&D expenditure was £4,603 million (13.5% of turnover), 6% higher at AER, 7% higher at CER than in 2019. On a pro-forma basis, Adjusted R&D expenditure grew 6% CER, primarily driven by the significant increase in investment in Oncology, as well as progression of COVID-19 treatment programmes. This has been partly offset by a reduction in investment in research and several Specialty and Primary Care programmes as well as efficiency savings from the implementation of the Separation Preparation restructuring programme and reductions in variable spending.

Operating profit

Adjusted operating profit was £8,906 million, 1% lower than 2019 at AER and 2% higher at CER on a turnover increase of 3% CER. The Adjusted operating margin of 26.1% was 0.5 percentage points lower at AER, and 0.2 percentage points lower on a CER basis than in 2019. On a pro-forma basis, Adjusted operating profit was 3% lower at CER on a turnover decrease of 2% at CER. The Adjusted pro-forma operating margin of 26.1% was 0.4 percentage points lower on a CER basis than in 2019.

The reduction in pro-forma Adjusted operating profit reflects the adverse impact from the reduction in sales in Vaccines, investment in R&D, continuing price pressure, and investments in promotional product support, particularly for new launches. This was offset by reduced promotional and variable spending, a one-off benefit from restructuring of post-retirement benefits and the continuing benefit of restructuring and the tight control of ongoing costs.

Tax

Tax on Adjusted profit amounted to £1,295 million and represented an effective Adjusted tax rate of 16.0% (2019 – 16.0%), reflecting the impact of the settlement of a number of open issues with tax authorities and the cancellation by the UK Government of a reduction in the UK corporation tax rate.

Non-controlling interests

The allocation of Adjusted earnings to non-controlling interests amounted to £1,031 million (2019 – £787 million). The increase in allocation primarily reflected an increased allocation of Consumer Healthcare profits.

Earnings per share

Adjusted EPS was 115.9p compared with 123.9p in 2019, down 6% AER, 4% CER, on a 2% CER increase in Adjusted operating profit. The reduction primarily resulted from a higher non-controlling interest allocation of Consumer Healthcare profits and reduced share of after tax profits of associates resulting from a non-recurring income tax benefit in Innoviva.

Our long-term priorities

We believe GSK's long-term priorities will create lasting value for our patients, consumers and shareholders. In 2020, despite a very challenging operating environment, we delivered a resilient performance and our strategic objectives remain on track.

Innovation

We invest in scientific and technical excellence to develop and launch a pipeline of new products that meet the needs of our patients, payers and consumers.

2020 objectives

- Deliver Innovation sales with excellent commercial, R&D and supply chain execution
- Further accelerate and strengthen pipeline with six potential approvals expected

Progress

- Strong performance from new innovations including *Shingrix*, *Trelegy*, *Juluca*, *Dovato* and *Zejula*
- Nine major regulatory approvals, including in HIV, Oncology and Respiratory
- Extended indications across portfolio, including for *Shingrix*, *Bexsero*, *Trelegy Ellipta* and *Benlysta*
- Accelerated pipeline with nine pivotal study starts and now have over 20 assets in late-stage development
- Established multiple partnerships to develop COVID-19 solutions, including with CureVac to develop next generation mRNA COVID vaccines and Vir Biotechnology for therapeutic antibody treatments
- Strengthened capabilities with more than 20 business development deals
- 28 first-market launches for Consumer Healthcare

2021 priority objectives

- Deliver Innovation sales with excellent commercial, R&D and supply chain execution in Oncology, HIV and Vaccines
- Accelerate and strengthen pipeline with robust commercial input, including business development

Performance

We deliver growth by investing effectively in our business, developing our people and executing competitively.

2020 objectives

- Prioritise spending to deliver growth and return on investment
- Successful Consumer Healthcare JV integration, including driving growth and delivering synergies
- Deliver further capability building in specialty Pharmaceuticals
- Deliver two-year programme to prepare GSK for separation into two new companies

Progress

- Strong sales performance from key growth drivers in HIV, Respiratory, Oncology and Consumer Healthcare, reflecting our resource focus on therapy areas, markets and brands with greatest potential
- Advanced Consumer Healthcare integration; on track for £500 million annual cost savings by 2022 and £1.1 billion divestment proceeds achieved
- Advanced specialty medicine capabilities with over 500 new hires in Oncology
- Programme to separate GSK into two leading businesses remains on track

2021 priority objectives

- Continue to prioritise spending to deliver growth and return on investment
- Continue to deliver two-year programme to prepare GSK for separation into two new leading companies
- Build a stronger, more diverse workforce for two new leading companies

Trust

We are a responsible company. We commit to use our science and technology to address health needs, make our products affordable and available and be a modern employer.

2020 objectives

- Continue to deliver on-time, in-full supply of our products
- Build reputation with a focus on Innovation
- Deliver progress on Trust commitments

Progress

- Sector leading positions in ESG indices including 1st in the Access to Medicine Index
- Despite the pandemic, we have been able to maintain the supply of our pharmaceutical, vaccine and consumer healthcare products and continue manufacturing without significant disruption
- FDA and EMA approved paediatric dolutegravir
- Joined global efforts to develop COVID-19 solutions and supported partners
- Set ambitious new environmental sustainability goals in climate and nature
- Introduced all-employee mandatory inclusion and diversity training

2021 priority objectives

- Continue to deliver on-time, in-full supply of our products
- Improve manager capability to motivate, focus, develop and care for people
- Continue to deliver progress on Trust commitments

Culture

As we move towards the creation of two new leading companies, we continue to focus on being more performance driven, while remaining firmly purpose led and values based. We track our cultural change with a range of indicators and the Board receives regular updates. See pages 90 and 102.

Principal risks

Our principal risks are: patient safety; product quality; financial controls and reporting; anti-bribery and corruption; commercial practices and pricing; non-promotional engagement; privacy; research practices; environment, health and safety; environmental sustainability; information security; supply continuity; and transformation. Our risk management framework is designed to support our long-term priorities. See pages 43 to 45 and 261 to 275.

Our culture

We are building a stronger purpose and performance culture, to inspire our people and power delivery of our long-term priorities.

Our people are inspired by our purpose – to help people do more, feel better, live longer. Our *Purpose and Performance* culture is underpinned by our values of Patient Focus, Respect, Transparency and Integrity. As we move towards the creation of two new leading companies, it is critical for us to focus on being more performance driven, while remaining firmly purpose led and values based.

We track our cultural change with a range of indicators focused on embedding a culture that prioritises Innovation; our competitive edge, speed and agility to deliver growth orientated Performance; and employee Trust, including pride in our purpose, embedding our values and expectations (Accountability, Courage, Development, Teamwork) and progress as a Modern Employer.

As we do this, we check the health of our culture with a range of indicators. We are making good progress. In what has been a challenging year for everyone, our survey saw the highest response rate to date (85%), and the main measure of culture – employee engagement – reported the highest scores (84%) since inception of the survey in 2012, an increase of 6% since our last survey in 2019. There were improvements across all Innovation scores (up on average by 5%), with Performance scores showing the largest overall improvements across all the questions (up on average by 7%). Scores on employee Trust also scored strongly (up on average by 4%).

The way we have been working through the COVID-19 pandemic has led to positive changes in our culture. During 2020, close to three quarters of our employees moved to remote working, while around a quarter have continued to work at our essential sites ensuring our medicines, vaccines and everyday healthcare products reached the millions of patients and consumers who needed them. Through this period, we have seen a deeper connection to our purpose, greater focus on the work that matters most to deliver our priorities, dynamic teams moving at pace with clear accountabilities, and greater connectivity and care for each other. We will continue to focus on these positives throughout 2021 as part of our culture ambition for the long term.

Living and working through a pandemic, while also making progress in our transformation programme – Future Ready – brought change and personal challenges for some of our employees. To support them through this period, we ensured that our employee health and wellbeing services were fully accessible (see page 38).

The pandemic meant we also had to be much more flexible in how we got our work done. To support this, we implemented new principles for employees who carry out office-based work; to do that work in a place and in a way that enables them to perform at their best, based on their role, team, and personal circumstances. The principles – *Performance with Choice* – are anchored in driving individual and collective performance, while creating more flexibility about where and how those employees perform their work.

In addition, as a company that has respect for people at its core and takes pride in providing access to our medicines, vaccines and consumer products to all, we have an opportunity and an obligation to build an inclusive culture internally and to be a force for good in improving diversity and inclusion in society. In 2020 we focused on building a more inclusive culture, including inclusion training for all employees alongside our work to evolve our policies, processes and practices. We also set new aspirational targets for gender and for race and ethnicity (see page 37).

Our leaders have played a crucial role and we know that how they role-model culture is one of the biggest drivers of culture change. We continue to build the expertise in our senior leaders, with 13% new appointments to our top 125 leaders in 2020. The effectiveness of our global manager population is measured through our annual One80 feedback tool (see page 38) and this year we saw continued improvements in manager scores, with 80% of our managers being seen as highly effective by the people they manage.

Key performance indicators

We track progress against our long-term priorities with ten operating key performance indicators. These measure our performance at a Group level and across our three businesses.

Our operating key performance indicators (KPIs) are reviewed regularly by our Corporate Executive Team and the Board. Our employees are updated on our progress against them every quarter. Our performance system aligns employees' bonuses with a relevant subset of our ten indicators and the remuneration policy used to reward the performance of our executives also includes measures linked to our KPIs (see pages 113, 119 and 121).

We track all of our operating KPIs internally, and below we provide performance data for those that we report externally. Due to commercial sensitivities we do not publish data for all operating KPIs (indicated as n/r). We use a number of adjusted, non-International Financial Reporting Standards (IFRS) measures to report our business performance, as described on pages 51 to 53. These include Adjusted results, free cash flow and CER growth rates.

Innovation

	2020	2019	2018
Innovation sales (R)			
Pharmaceuticals and Vaccines – sales of products launched in the last five years	**£4.1bn**	£3.0bn[a]	£1.1bn[a]
Consumer Healthcare – sales from products which are new to a market in the last three years as a % of total sales	**11%**	12%	11%
Pipeline value and progress – the value of products in our pipeline and R&D milestones achieved	**n/r**	n/r	n/r

Performance

	2020	2019	2018
Group turnover (R) – up 1% AER, 3% CER	**£34.1bn**	£33.8bn	£30.8bn
Profit (R)			
Total operating profit – up 12% AER, 15% CER	**£7.8bn**	£7.0bn	£5.5bn
Adjusted operating profit – down 1% AER, up 2% CER	**£8.9bn**	£9.0bn	£8.7bn
Total operating margin	**22.8%**	20.6%	17.8%
Adjusted operating margin	**26.1%**	26.6%	28.4%
Free cash flow (R) – up 7%	**£5.4bn**	£5.1bn	£5.7bn
Market share – our market share in relation to our competitors	**n/r**	n/r	n/r
Top talent and succession plans for key roles – our most talented employees in key roles with succession plans in place	**n/r**	n/r	n/r

Trust

	2020	2019	2018
Employee feedback – employee engagement scores from our global employee survey	**84%**	78%	78%
Supply service level – percentage of orders delivered on-time, in-full	**n/r**	n/r	n/r
Corporate reputation – reputation index among stakeholders and informed public measured globally and in top 13 markets	**n/r**	n/r	n/r

(R) Linked to Executive LTI awards and bonus, see pages 113, 119 and 121.
a Comparative information reflects sales of those products that meet the definition for 2020.
n/r Not reported externally due to commercial sensitivities.

Industry trends

We are operating in a dynamic environment, shaped by fast-changing and interdependent global trends, many of which were accelerated by the COVID-19 pandemic. We continue to respond to this changing environment by advancing our strategy and long-term priorities.

The global economy was significantly affected by the COVID-19 pandemic during the year and economic uncertainty has continued. In January 2020 the global economy was forecast to grow by 3.3% but the impact of COVID-19 containment measures stalled the economies of many countries and the global economy is now facing a deep recession.[1]

Investment in COVID-19 solutions, healthcare systems and economic support during national lockdowns will have a significant long-term effect on the global economy and government finances. This fiscal challenge is likely to have a lasting impact on national healthcare budgets and, in markets with out-of-pocket patient payments, personal budgets too.

The pandemic has put the healthcare industry centre stage and demonstrated its vital role as a powerful force for good, in discovering, developing and supplying essential medicines, vaccines and consumer healthcare products. The need for rapid solutions to the pandemic prompted unprecedented technological acceleration and collaboration between companies, governments, regulators and international organisations to mobilise R&D, deliver novel products, speed up regulatory processes and scale up manufacturing capacity.

As COVID-19 dominated people's lives, discussions about safe and effective innovation, particularly around vaccines, rose high on the public agenda. The industry united around a common commitment to apply the highest levels of rigour and safety standards to potential COVID-19-related solutions. The pandemic also raised questions around the affordability of, and equality of access to, healthcare with demands that, when licensed, COVID-19 vaccines and medicines became widely available. Multi-stakeholder organisations such as COVAX were critical in helping to navigate such challenges as governments looked to secure access for their own citizens as well as ensuring global access. Pressure for governments to seek domestic healthcare supply chains, particularly for COVID-19 solutions, became a pressing issue as the disruption of international logistics systems impacted security of supply.

The COVID-19 pandemic has underlined the centrality of health to the security, stability and prosperity of nations and the need to strengthen approaches to preventing, identifying and managing future pandemics. Already, the industry is engaging with key partners to consider how to work collectively to develop sustainable solutions that will enhance pandemic preparedness and strengthen global health security overall.

The global healthcare market

The global healthcare market has grown during the year, with worldwide pharmaceutical sales totalling £869 billion from September 2019-2020, up 4%. North America remains the largest pharmaceutical market with a 47% share of global sales, with Europe representing 23%. China is the second largest individual country for pharmaceutical sales, representing 7.6% of global sales.[2] Global vaccine sales remained flat at approximately £23.8 billion in 2020. The global consumer healthcare market is estimated to be valued at more than £140 billion.[3]

Prescription medicines and consumer products proved largely resilient to the economic effects of the pandemic. Common trends of stockpiling, the issuing of long-term prescriptions and dramatic increases in purchasing, were followed by falls in demand driven by fewer consultations during lockdowns. The vaccines market was, however, impacted significantly, as global vaccination rates fell sharply as patients were unable to visit healthcare professionals. Rates recovered as lockdowns eased in the middle of the year but declined again as pandemic conditions worsened. Some commentators predict that economic recession will suppress pharmaceutical growth potential in countries where private funds underpin a significant proportion of healthcare costs.[4]

Global trends: opportunities and challenges

Changing demographics

Demographic change is increasing demand for preventive and therapeutic healthcare products.

The global population is predicted to grow to 8.5 billion by 2030, up from an estimated 7.7 billion in 2019.[5] Virtually all countries are experiencing population ageing, with the proportion of those over 65 projected to double between 2019 and 2050.[6] More people are living in cities and becoming affluent, particularly in China which is experiencing the world's fastest-ever expansion of the middle class, and where by 2027 1.2 billion people are projected to be middle class – one quarter of the world's total.[7]

1 IMF Annual Report 2020
2 IQVIA data
3 Internal data
4 IQVIA, The Impact of COVID-19 on Global Pharmaceutical Growth, June 2020
5 United Nations Department of Economic and Social Affairs, World Population Prospects 2019
6 United Nations Department of Economic and Social Affairs, World Population Ageing 2019
7 Brookings, China's influence on the global middle class, October 2020

Industry trends continued

Our response

These factors are all contributing to rising demand for healthcare – including in our areas of focus, such as vaccines and specialty medicines as well as general medicines – and to pressure on healthcare systems to restrain growth in spending. In line with our Innovation priority we are investing in developing and launching a pipeline of new products that meet the changing needs of patients, payers and consumers (see pages 18 to 25). Our global health and pricing strategies ensure that our products serve a broad demographic (see pages 34 to 35).

Advances in science and technology

Rapid advances in innovative science and technology are transforming the sector. New advances in functional genomics, such as CRISPR, are changing what is possible in drug discovery and will enable researchers to pinpoint novel targets with a higher probability of success. Cell therapy technologies, where cells become living medicines, are altering the definition and profile of medicine. The scale of data from genetic libraries and genomics requires artificial intelligence (AI) to interpret, with machine learning helping to design new experiments to increase the likelihood of success. The growth in data is also improving the healthcare ecosystem and helping to build a virtuous cycle of data, technology and R&D. Regulators and purchasers can harness these technologies to track product effectiveness, while researchers can build a better understanding of genetics and disease through consumer use of digital tools to manage their health and determine their genetic profiles.

COVID-19 has demonstrated how advanced technology is accelerating and enabling innovation for our entire industry, with unprecedented government funding and collaborations between companies and research institutes. This has been especially true for the rapid acceleration of vaccine innovation, including mRNA technology, which enables specific proteins, or antigens, to be produced by the body's own cells, enabling the human immune system to prevent or fight disease. This advance in vaccine innovation is likely to have implications beyond the current pandemic, resulting in a new range of highly innovative technologies that mark a step change in how we are able to fight infectious disease.

Our response

The application of advanced technologies is central to our R&D approach, as part of our Innovation priority. We are developing core capabilities in AI, machine learning, functional genomics and cell therapy to accelerate the pace at which we identify and develop novel targets and medicines. In vaccines our leadership in platform technologies continues to play a central role, for example in adjuvants, and also mRNA technology, which we pursue in-house with our own self-amplifying mRNA (SAM) platform, and through our strategic mRNA technology collaboration with CureVac, a clinical stage biotechnology company (see page 25 for more details). In February 2021 we announced an additional new agreement with CureVac to jointly develop next generation mRNA vaccines for COVID-19. In 2020 we also established a dedicated central London hub for our AI team to complement our two collaborations focused on applying CRISPR gene editing technologies to drug discovery: the Laboratory for Genomics Research and our partnership with The Broad Institute, the world-leading genomics centre.

GSK moved swiftly to join global efforts against the COVID-19 pandemic. Company-wide, we used our science, technology, portfolio and resources where we could have the biggest impact to progress promising vaccines and medicines that could be produced at scale to prevent and treat the virus (see page 24 for more details).

Pricing and access

The pricing of healthcare products and the increasing pressure to fund high-cost, innovative therapies continue to attract significant attention from governments and the public. Scrutiny on access to innovation during the pandemic has been particularly intense.

Governments have long sought to control healthcare expenditure, particularly around pharmaceuticals. Growing populations, increased comorbidities and improved screening have escalated demand for medicines, vaccines and consumer healthcare products. In parallel, new innovative medicines are more complex but better at targeting diseases.

Governments and payers are increasingly cooperating across jurisdictions, with ever more restrictive measures to control growth in pharmaceutical expenditure. In some cases, this has led to more reimbursement hurdles, with consequent delays to making innovative medicines and vaccines available to patients.

In the US, controlling the pandemic, stimulating the economy and addressing environmental issues are expected to be some of the Biden administration's key priorities. The administration plans to expand the federal government's role in the COVID-19 response by proposing a major stimulus bill, a nationwide testing and vaccine distribution strategy and rejoining the World Health Organization. In healthcare, the Biden administration is expected to seek to expand access through the Affordable Care Act comprehensive reforms, including for prescription drugs, but these are unlikely to be implemented in the short term.

There remains intense public scrutiny of the cost of prescription medicines for American citizens, and the Biden administration is expected to pay attention to this over the course of its term. Prior to leaving office, the Trump administration had announced several regulatory changes to address healthcare costs, most notably the restructuring of pharmaceutical rebates to benefit patients at the pharmacy counter and an intention to proceed with international reference pricing (IRP) or a 'most-favoured nation' pricing policy, which is indefinitely on hold pending resolution of legal challenges from industry. Though the exact shape and impact of these measures has yet to be finalised, if implemented they have the potential to significantly change industry's operating environment in the US over the long term.

Industry trends continued

In the US, there is a determination to control costs, improve access to healthcare and address out-of-pocket patient payments. Countering this is a growing recognition of the importance of innovation and earlier access to it in the US versus markets with more restricted access.

In Europe, although most markets have established price control processes, national healthcare authorities are continually looking to sharpen these tools. Disparity in access and supply availability across EU markets is a recurring topic of debate, with member states repeatedly raising concerns over medicine shortages. This concern heightened sharply in the crisis phase of the pandemic, and although companies mitigated the risk by reacting quickly and cooperating with EU and national authorities, COVID-19 has created an impetus for greater centralised procurement of vaccines and medicines at an EU level. In November, the European Commission (EC) published a Pharmaceutical Strategy focused on improving patient access to affordable medicines while also strengthening the region's competitive pharmaceutical industry. The strategy includes both legislative and non-legislative proposals spanning access, affordability, innovation and competitiveness, touching the whole legislative framework under which pharmaceutical companies operate in Europe. The EU Commission also announced plans to improve cross-border preparedness for health emergencies and the creation of a new agency, the Health Emergency Response Authority (HERA), modelled on US Biomedical Advanced Research and Development Authority (BARDA), which would build up reserves of medicines and equipment and 'surge capacity' to support manufacturing.

There are growing calls for transparency of prices, development costs and public subsidies, with draft legislation in France and Italy requiring publication of R&D investment costs, the ability to manage unexpected supply constraints and details of prices in other jurisdictions. Various cross-border alliances, such as the Valletta Declaration Group, the Beneluxa Initiative, the Nordic Council and the Visegrad Group, have emerged to exert greater leverage in price negotiations.

In Europe, as well as many emerging markets, IRP continues to gain traction, with more than 80 markets now using it as a primary lever for pricing control. Increasingly countries are also cooperating on health technology assessments (HTAs), with a new EU HTA regulation proposal aiming to centralise the clinical assessments of new medicines and medical devices.

Beyond Europe many countries are implementing various reforms ranging from regulatory pathways to cost containment. In China, key changes include the alignment of drug regulatory review and approval processes with international standards, and improved government reimbursement for innovative medicines. The pricing and access environment also continues to evolve with a move towards evidence-based assessments. However, IRP is still used as an instrument to control costs. Additionally, although the latest national reimbursement drugs list negotiations in 2019 reduced prices they offered the opportunity of improved access for innovative medicines. There is evidence that access for oncology medicines, in particular, is improving.

In Japan, where HTAs were introduced in April 2019, the pharmaceutical industry remains concerned about the use of the assessments for pricing control rather than value assessment. A number of Latin American nations including Colombia, Mexico, Uruguay and some Central American countries are also increasingly engaging in HTAs and are considering establishing or strengthening existing assessments.

Our response

We aim to improve the health of millions of people each year by making our products available at responsible prices that are sustainable for our business.

Getting the balance right between responsible pricing and sustainable business is fundamental to our Innovation, Performance and Trust priorities. When setting the price of our medicines in developed markets, we apply a value-based approach to balance reward for innovation with access and affordability (see page 35). We aim to provide truly differentiated, innovative products that deliver effective health outcomes for patients and payers, so that even high-cost products deliver value. By investing in genetics, genomics, big data and AI we are accelerating the pace at which we develop transformational medicines and prioritising those molecules with a higher probability of success. Genetically validated drug candidates are twice as likely to become registered medicines, so such investments are also improving the productivity of our R&D investment.

Industry trends continued

Regulatory environment

Healthcare is a highly regulated industry, reflecting public expectations that products comply to stringent levels of quality, safety and efficacy.

COVID-19 has presented a number of challenges. Both regulators and the industry have had to maintain supplies of essential medicines and vaccines, continue development programmes for new products, and support and accelerate the development of solutions for COVID-19. Many of the necessary adaptations have been based on important regulatory efforts and initiatives already underway. These have included work on novel regulatory approaches to encourage biopharmaceutical innovation, including addressing new technologies, such as digital healthcare, cell and gene therapies, complex clinical trials, big data and real world evidence.

Regulators have recognised the need for increased cooperation with industry to tackle the pandemic and this has been one of the key enablers for the acceleration of timelines for pandemic innovation. Regulators have built on existing interactions through supranational bodies, such as the International Coalition of Medicines Regulatory Authorities. The response to COVID-19 presents opportunities as well as challenges, such as the potential for the permanent application of regulatory adaptations, to support the development and approval of a broader range of new medicines and vaccines, and the simplification of regulatory processes.

In parallel to the challenges posed by COVID-19, the industry continued to prepare for the end of the transition period of the UK's exit from the EU and for the development of the UK's future regulatory framework with the Medicines and Healthcare products Regulatory Agency (MHRA) as an independent regulator.

Our response

GSK closely monitors and, where relevant and appropriate, engages in ways to improve regulation, particularly in the UK, Europe, US, China and Japan. For example, as scientific innovation moves beyond the scope of current regulation and standards, and as we learn from experience with COVID-19, we are working with our peers to engage with governments in exploring new policies, processes and incentives that would support the discovery and delivery of medicines and vaccines developed through emerging technologies and techniques. In addition, we are working with the sector to realise the opportunities for MHRA to establish new or enhanced partnerships with regulators outside the EU and to lead globally on the creation of a balanced regulatory framework that supports innovation.

Societal expectations

Societal expectations of business continue to evolve, at a time when expected progress on global development has been slowed by political and economic challenges and the pandemic.

As concern around these issues grows, the financial community has shown increasing interest in corporate management of environmental, social and governance (ESG) risks and opportunities as a better foundation for long-term growth. There has also been a rise in civic protest movements, aiming to hold companies and governments to account on social issues such as racial and gender inequality.

During the pandemic, there has been rising scrutiny of how companies have supported their employees, suppliers and wider communities through the crisis. On the environmental agenda, there is a growing sense of urgency around the pace and scale of action needed to address climate change, and an increasing focus on the degradation of the natural world and biodiversity loss, together with a deeper understanding of how planetary health is linked to human health.

Our response

Our Trust priority and approach to ESG is designed to create long-term value for both shareholders and society. We have set public commitments across our most material issues to support our Trust priority and are making good progress against them (see pages 33 to 42). We recognise that expectations are moving quickly and that we need to respond accordingly. This is why in 2020 we outlined a new global approach to inclusion and diversity and announced two ambitious new environmental goals, of net zero impact on climate and net positive impact on nature by 2030 (see pages 37 and 41). In our response to the pandemic, GSK has taken an agile, people-centric approach, including a strong focus on supporting our employees and suppliers.

Stakeholder engagement

Engaging and building trust with the broad range of stakeholders that interact with, or are impacted by, our business is key to delivering our strategy and ensuring our success over the long term.

Our approach to enable management and the Board to understand and consider stakeholder views as part of their oversight and decision making is explained in our section 172 statement, set out in full on page 108 and incorporated by reference into this Strategic report. On this page we summarise our key stakeholder groups, how we engage with them, the issues that matter most to them and what we are doing in response.

Patients and consumers

Insights from patients and consumers enable us to develop products that better meet their needs.

How we engage
- Advisory boards, disease-specific patient panels and Patient Advocacy Leaders Summits to provide patient insights
- Engagement and support for patient groups (disclosed on GSK.com), and initiatives that empower patients to get involved in medicine development
- Market research including consumer sensory labs

What matters
- Differentiated product innovation based on patient and consumer needs
- Access to a reliable supply of high-quality, safe products
- Pricing of healthcare products, particularly out-of-pocket expenses

What we are doing
- Strengthening our pipeline of innovative products
- Maintaining high standards for product quality and safety
- Continuing to take a value-based approach to pricing to balance reward for innovation with access and affordability

Investors

We maintain regular and constructive dialogue with investors to communicate our strategy and performance in order to promote investor confidence and ensure our continued access to capital.

How we engage
- Ongoing communications including the AGM, quarterly results calls, in-person and virtual roadshows and detailed company information online
- One-to-one meetings between Board members, senior executives and institutional investors
- Biennial investors and analysts perception study

What matters
- Financial performance and commercial success
- Understanding how our R&D strategy is successfully developing our pipeline
- The increasing importance of good management of ESG issues

What we are doing
- Good financial performance and transparent reporting
- Business and R&D updates and events on key pipeline milestones
- Increasing our engagement on ESG matters

Healthcare professionals and medical experts

We work with healthcare professionals (HCPs) and medical experts to understand patient needs and to ensure our products are being administered in the right way.

How we engage
- Scientific dialogue to increase understanding of disease management and patient experience
- Providing high-quality, balanced information about our medicines and vaccines
- Collaborating on clinical trials and research

What matters
- Access to product and scientific information
- Responsible sales and marketing practices
- Safety, efficacy and differentiated innovation

What we are doing
- Increasing the use of digital channels to deliver a more personalised and effective sharing of information to HCPs
- Ensuring we attract and retain the best talent while upholding responsible sales and marketing standards
- Using HCP insights on disease management and patient experience to inform the development of our medicines

R&D partners and academia

We partner with scientific institutions, national health systems, business partners and academia to help ensure we develop differentiated healthcare products.

How we engage
- Collaborating with outstanding scientists from organisations across the globe
- Establishing joint ventures to strengthen innovation and efficiency
- Working with academic institutions to accelerate discovery and development of new medicines

What matters
- Finding the right partner to accelerate a potential medicine or vaccine to approval to reach patients
- Pushing the science as far as it can go to advance human health
- Dissemination and advancement of scientific knowledge

What we are doing
- Working with world-leading experts at biotechs, universities and other scientific institutions to improve drug discovery and increase the productivity of our R&D pipeline
- Collaborating with partners such as with CureVac on mRNA technology and Vir Biotechnology for new antibody therapies; and expanding genetic and genomics collaborations such as with the Broad Institute

Stakeholder engagement continued

Governments and regulators

We work with governments and regulators to advocate for policies that encourage innovation, promote efficient management of healthcare spending and give patients the support they need.

How we engage

- Meeting with regulatory bodies throughout the development process to ensure high-quality and safe new products
- Engaging with government health agencies to demonstrate the value of our products for patients and economies
- Working with governments to protect and strengthen the right operating environment for life sciences innovation and launches
- Participating in international efforts to address global health threats, such as the COVID-19 pandemic

What matters

- Investment in innovation and life sciences
- Scientific funding and collaboration
- Medicines pricing and reimbursement
- Public health threats – COVID-19 and antimicrobial resistance (AMR)
- Investment in preventive health and strengthening health systems

What we are doing

- Working with UK and EU policymakers to ensure post-Brexit there remains a sustained flow of goods, investment capital and talent for life sciences innovation
- Engaging in US policy pricing/reimbursement debates and, with phRMA, commenting on legislative proposals for healthcare reform
- Partnering across industry and governments to tackle AMR
- Engaging with governments, including the US, UK, EU and Canada, regarding production and procurement of COVID-19 vaccines

NGOs and multilateral organisations

We work with partners to improve access to healthcare services and our products, and to advocate for the policy environment in which we can be successful.

How we engage

- Working with non-governmental organisations (NGOs) and partners to research and develop products to address global health challenges
- Collaborating with NGOs and generic manufacturers to sustainably supply our products to developing countries
- Partnering to strengthen health systems in developing countries and drive progress on global health priorities

What matters

- Access to medicines and vaccines
- UN SDGs and WHO targets for specific disease areas
- Universal health coverage and the future of health systems
- Financing for global health, including COVID-19 solutions

What we are doing

- Focusing on our unique role as a global health partner to develop products where we have scientific expertise
- Partnering with organisations that have complementary capabilities and reach to create sustainable models that share risk, including our partnership with Gavi to support access to vaccines in low and lower middle-income countries
- Leveraging our community investment programmes to support our scientific expertise and deliver greater impact for patients

Suppliers

We work with thousands of suppliers, large and small, who provide goods and services that support us in delivering a reliable supply of high-quality, safe products for our patients and consumers.

How we engage

- Regular direct engagement with suppliers to ensure they support GSK's strategies and targets
- Engaging with suppliers through our Third-Party Oversight programme and by conducting in-depth audits
- Participating in forums such as the Pharmaceutical Supply Chain Initiative and the Consumer Goods Forum to improve supply chain sustainability

What matters

- Prompt payment for smaller suppliers
- Understanding GSK policies to ensure compliance
- Opportunities to innovate and grow the relationship

What we are doing

- Engaging with our suppliers throughout the COVID-19 pandemic to understand their operating and financial status, and offering support if necessary
- Engaging with suppliers to develop improvement plans and track progress when we identify areas for improvement
- Providing proactive support through our third-party EH&S team in countries where our priority suppliers are located

Employees

We involve and listen to employees to help us maintain strong employee engagement and retain talented people.

How we engage

- Regular 'Let's Talk' and 'Let's Listen' events with the Corporate Executive Team and other senior leaders
- Facilitating dialogue and collaboration through our internal communications platform
- Through Works Councils, Employee Forums and Employee Resource Groups
- Global all-employee survey and One80 Survey for employees to provide feedback on line managers

What matters

- Our purpose and being able to see the difference we make
- Having a great line manager
- Feeling understood and valued
- Being part of an inclusive and diverse workplace

What we are doing

- Delivering more frequent, authentic communications during the pandemic
- Clarifying our expectations of managers to motivate, focus, care for and develop our employees
- Supporting employee safety, mental wellbeing and enabling work-life balance
- Expanded our I&D commitments by setting aspirational targets to improve ethnic and gender diversity in leadership

Innovation

2020 was a year of significant progress for R&D. Across our biopharma portfolio, we achieved a substantial number of new launches, regulatory filings and late-stage research milestones. In Consumer Healthcare, we delivered first market launches of new innovations across all categories.

Progress

- Strengthened the biopharma pipeline with nine major approvals and nine pivotal study starts
- Accelerated the portfolio with approvals in Oncology for *Blenrep* and *Zejula,* in HIV for *Rukobia* and *Cabenuva/Vocabria+Rekambys,* and in specialty for *Duvroq*
- Over 20 assets in late-stage development, many that could potentially significantly change medical practice
- Fast tracked COVID-19 solutions, with three vaccine approaches in clinic and three therapeutics in clinical studies
- Started phase III trials for our RSV maternal, RSV older adults and MenABCWY candidate vaccines
- Launched first clinical trial of an asset in the 23andMe collaboration
- Invested significantly in strategic partnerships, including immunology company Vir Biotechnology and mRNA technology specialist CureVac
- Consumer Healthcare had 28 first-market launches for new innovations in 2020 and rolled out more than 200 recent innovations into new markets

For Consumer Healthcare read more on page 27

Pharmaceuticals and Vaccines

Our approach to R&D focuses on the science related to the immune system, the use of human genetics and the application of advanced technologies, such as AI and machine learning, to deliver transformational medicines and vaccines. This distinctive approach has enabled us to strengthen our pipeline in vaccines and specialty medicines and accelerate the pace at which we discover, develop and deliver for patients. We are embedding an agile, performance-driven culture by encouraging clear accountability and incentivising our people to pursue bold research, backed by data and strong science. We also partner with, and hire, outstanding talent from cutting-edge fields outside the pharmaceutical industry such as technology, data science and academia. At the same time, we have ambitious collaborations with other world-class companies and institutions, partnering on research and accessing advanced technologies, such as CRISPR and mRNA, to deliver a higher number of differentiated medicines and vaccines.

GSK's biopharma R&D pipeline contains 40 potential new medicines and 19 candidate vaccines. Our focus on immunology is strengthening and diversifying our portfolio with promising clinical assets in immune-mediated diseases, infectious diseases and oncology. More than 70% of our research targets are genetically validated, with over 30 novel targets identified through our collaboration with consumer genetics and research company, 23andMe. Based on our current projections, by 2026 we have the potential to launch numerous new vaccines and medicines as well as new indications for existing assets. Should all data be positive we could have more than 10 high-potential late-stage assets that could significantly change medical practice. We continue to focus the pipeline on assets with the greatest probability of success.

Lifecycle innovation, where we focus on evolving and increasing the impact of our existing products, is also a key component of strengthening the pipeline. This ensures our vaccines and medicines reach and protect more people and continue to play a strong role in our business performance.

We have made significant progress across our biopharma portfolio, with nine major GSK assets targeting unmet medical need gaining regulatory approval. In our infectious diseases portfolio, we received approvals in HIV for our first-in-class attachment inhibitor, *Rukobia*, in the US and Europe, and for our long-acting regimen, *Cabenuva*, in Canada, the US and Europe, where it is licensed as *Vocabria + Rekambys*. We also received European regulatory approval to extend the use of several of our vaccines against infectious diseases: *Shingrix* – to expand its use from people aged over 50 to those over 18 who are at increased risk of shingles; *Boostrix*, our tetanus, diphtheria, and pertussis vaccine – an expanded indication to include maternal immunisation; and for *Bexsero*, a Europe-wide label update for its 2+1 schedule starting with infants of two months. In oncology we received significant US and European approvals, first for *Zejula*, which was approved for an expanded indication in ovarian cancer, and secondly for *Blenrep*, our first-in-class anti-BCMA (B-cell maturation antigen) treatment for multiple myeloma. In respiratory, *Nucala*, our first-in-class, anti-IL5 biologic, was approved in the US for hypereosinophilic syndrome, and *Trelegy Ellipta*, our once-daily single inhaler triple therapy, was approved in the US for asthma. *Duvroq*, for chronic kidney disease-related anaemia, was approved in Japan. *Benlysta* was approved in the US for an expanded indication in lupus nephritis.

Innovation continued

Nine of our assets entered pivotal studies, including one of our COVID-19 vaccine collaborations, our therapeutic COVID-19 antibody treatment, which we are co-developing with Vir Biotechnology, and our candidate vaccine against five Neisseria serotypes (A, B, C, W, Y) causing meningitis, as well as our candidate vaccine against respiratory syncytial virus (RSV) for maternal immunisation.

The successful progression of our pipeline and our ability to fast track COVID-19 solutions were achieved despite disruption from international lockdowns. Throughout the pandemic we have continued to deliver trial drugs to thousands of patients within sealed-off healthcare systems, and assured patient and employee safety and study integrity. The resilience of our operations and supply chains has allowed the majority of our clinical studies to remain open.

Infectious diseases

GSK has a world-leading infectious diseases portfolio with 30 medicines and vaccines in clinical testing. This reflects both our focus on immunology and GSK's 70-year track record of using pioneering research methods and novel technologies to find solutions to diseases caused by bacteria, viruses and parasites. For information on our response to COVID-19, see page 24.

HIV

Around 38 million people across the world live with HIV, including approximately 1.7 million children. Although sub-Saharan Africa remains the most affected region, the number of cases globally continues to grow with approximately 38,000 new infections each year in the US alone.

GSK has long been committed to combatting, preventing and ultimately curing HIV, and thereby limiting its impact on people's lives. Our HIV business is managed through ViiV Healthcare, the sole global specialist HIV pharmaceutical company, which is majority owned by GSK with Pfizer and Shionogi as shareholders. The business is underpinned by a mission to leave no person living with HIV behind.

Whilst curing HIV remains ViiV Healthcare's ultimate aim, our portfolio of 16 approved antiretroviral medicines offers a range of therapeutic options for people living with HIV. They include *Tivicay* and *Triumeq*, which contain our medicine dolutegravir, the most widely prescribed integrase inhibitor worldwide; we believe around 17 million people living with HIV globally are now taking a dolutegravir-based regimen. Ensuring no child living with HIV is left behind, in June 2020 we received US Food and Drug Administration (FDA) approval, followed by European Medicines Agency (EMA) approval in January 2021, of the first-ever dispersible tablet formulation of dolutegravir, *Tivicay*, for children from four weeks of age.

We fundamentally believe no person living with HIV should take more medicines than they need. Our two-drug regimen (2DR) treatments *Dovato* and *Juluca*, which have been shown to be as safe and effective as three-drug regimens, allow people living with HIV to maintain viral suppression while taking fewer HIV drugs over a lifetime.

Dovato is a once-daily, single-pill containing dolutegravir and lamivudine, for the treatment of adults living with HIV-1. Following its 2019 launch in the US and Europe, *Dovato* received marketing approval for treatment of naïve adults with HIV in Japan. The US, Japan and Australia received approval for the switch indication in the third quarter of 2020. Long-term data from the GEMINI 1 and 2 and TANGO studies showed *Dovato* was as effective as a number of three-drug regimens. Data from the STAT clinical trial also demonstrated that *Dovato* was effective and well tolerated as a treatment for rapid initiation after diagnosis. *Dovato* is now included in international guidelines, as an initial therapy for HIV and as a switch option.

In 2020 we received approval of *Rukobia* (fostemsavir), our first-in-class attachment inhibitor, in the US, followed by approval in Europe in February 2021. *Rukobia* was approved in the US after being fast tracked with an FDA breakthrough therapy designation. The therapy provides an option for heavily treatment-experienced adults with HIV-1 infection, including those who are failing on current antiretroviral regimens and have exhausted all treatment options. It had previously delivered positive results from its 96-week phase III BRIGHTE study.

ViiV Healthcare also received regulatory approval of the world's first complete long-acting injectable regimen for the treatment of people living with HIV. This regimen, which contains cabotegravir and rilpivirine, reduces the number of treatment dosing days from 365 to 12 per year, with the potential to extend that further to just six. It was approved in Canada and the US, as *Cabenuva*, and in Europe, as *Vocabria* (cabotegravir) and *Rekambys* (rilpivirine).

Complementary to these approvals, and aligned with our goal of providing convenient, simplified treatments for people living with HIV, we are advancing further research in long-acting therapies. In September 2020, we began a one-year study to identify and evaluate approaches to integrating our once every two months injectable cabotegravir and rilpivirine HIV treatment into European healthcare practices. In October, we completed the final study visits of our year-long CUSTOMIZE study, which investigated the best ways of implementing a once-monthly HIV regimen into clinical practice across the US. Results indicate a high level of patient preference for the long-acting injectable as it offers the potential to reduce the frequency of dosing and is as effective as daily, oral, three-drug regimens in maintaining viral suppression among adults living with HIV.

With around 1.7 million people newly diagnosed with HIV every year, focus on developing effective prevention is essential. In 2020 we reported positive results from trials of our investigational, long-acting injectable cabotegravir treatment against HIV acquisition. Interim analysis from a Global HIV Prevention Trials Network (HPTN) study showed the once every two months treatment is 66% more effective than, and superior to, daily pre-exposure prophylaxis pills in preventing HIV acquisition in men. The results were released earlier than anticipated following this outcome. Similarly, results were released earlier than anticipated in a second HPTN study in women that showed cabotegravir was 89% more effective than the daily oral standard of care for pre-exposure prophylaxis (PrEP). We intend to apply for marketing authorisation of this therapy with regulators from the first half of 2021.

Shingles

Our launch of *Shingrix* in late 2017 signalled a step change in the prevention of shingles, a painful and potentially serious illness. Approximately one in three people will develop shingles in their lifetime. The vaccine addresses the age-related decline in immunity, achieving more than 90% efficacy across all age groups. It is the first non-live shingles vaccine to combine a specific subunit antigen with an adjuvant to sustain the immune response.

In 2020 we received European approval to expand the use of *Shingrix* from people aged over 50, to those over 18 who are at increased risk of shingles. We also applied to broaden its indication in the US to include adults with immunodeficiency or immunosuppression who are more likely to contract shingles.

Respiratory syncytial virus (RSV)

One of our innovation priorities is the development of novel prophylactic vaccines for diseases with significant unmet medical need, such as RSV.

RSV is a leading cause of lower respiratory tract infection, such as pneumonia and bronchiolitis, with infants and older adults most at risk. Currently no vaccine is licensed to protect against the virus, which every year is estimated to hospitalise about 3 million under-fives globally and 177,000 older adults in the US alone.

GSK is the only company to develop a portfolio of three dedicated RSV candidate vaccines, each of which has been fast tracked by the FDA. These candidate vaccines are tailored to the needs of the most vulnerable populations – infants (through the complementary maternal and paediatric candidate vaccines) and older adults (through our candidate vaccine targeted at people aged over 60).

GSK's maternal candidate is based on a recombinant pre-fusion F antigen to boost the pre-existing immune response of the vaccinated mother whose protective antibodies would then be transferred to the unborn child. Our paediatric candidate harnesses our adenovirus vector technology and contains three RSV antigens aiming to induce active immunity and extend protection of infants during the first two years of life.

Our older adult candidate leverages a recombinant pre-fusion F antigen combined with our AS01 adjuvant system, which is a key ingredient in our successful shingles vaccine *Shingrix*, to enhance the immune response in a population with a naturally declining immune system.

After promising phase I/II data for our older adults and maternal RSV candidate vaccines showed that both assets triggered a robust immune response and were well-tolerated, we began the phase III trial of our maternal candidate vaccine in November 2020, and the phase III programme for older adults in February 2021. Phase I/II studies of our paediatric RSV candidate vaccine are ongoing, with safety and immunogenicity data in seronegative infants expected in May 2021.

Meningitis

Approximately 1.2 million people develop invasive meningococcal disease (IMD) every year with infants, young children and adolescents particularly vulnerable. Even when the disease is diagnosed early and adequate treatment is started, 8% to 15% of patients die, often within 24 to 48 hours after the onset of symptoms. If untreated, meningococcal meningitis is fatal in 50% of cases and may result in brain damage, hearing loss or disability in 10% to 20% of survivors.

GSK is the market leader in vaccines against IMD, based on 2020 revenue.[1] Our complementary portfolio of *Bexsero*, our market-leading meningitis B vaccine, and *Menveo*, our meningitis ACWY vaccine, helps protect against the majority of IMD cases.

2020 saw the publication of multiple studies with real-world evidence of *Bexsero*'s effectiveness in different settings, including Europe where serogroup B is the most prevalent. Public Health England's *Bexsero* immunisation programme in the UK demonstrated a 75% reduction in expected cases in fully vaccine-eligible infants. This evidence led to a Europe-wide label update for *Bexsero*'s 2+1 schedule starting with infants of two months.

Meanwhile, phase II trials of the liquid presentation of *Menveo* were completed in December. The new format aims to simplify vaccine preparation steps for healthcare providers.

In August 2020, we began phase III clinical trials of our MenABCWY pentavalent vaccine. This candidate vaccine builds on the successful technology used in *Bexsero* and *Menveo*, both of which have favourable safety and efficacy profiles. Currently no meningitis vaccine exists against all five serogroups (ABCWY). A 5-in-1 vaccine would require just one vaccine, rather than two, and fewer injections.

1 Internal data

Innovation continued

New antibiotics and AMR-related vaccines

We aim to tackle the urgent threat of antimicrobial resistance (AMR) for organisms recognised by the Centers for Disease Control (CDC) and World Health Organization (WHO) as having a significant negative impact on global public health. This reflects our strategic commitment to develop novel targeted solutions for new areas of high medical need. Gepotidacin, a potential first-in-class antibiotic with a distinct mechanism of action, is in phase III studies for urogenital gonorrhoea and uncomplicated urinary tract infection, with the first data expected by the first half of 2022. This marks the first time these infections have been addressed by new oral antibiotics in 20 years.

In 2020 we began a phase I study of a candidate vaccine for preventing primary and recurrent soft-skin tissue infections caused by *Staphylococcus aureus*. The *Staphylococcus aureus* pathogen swiftly acquires antibiotic resistance, with multi drug-resistant strains being a serious threat to human health. In the US alone, methicillin-resistant strains of *Staphylococcus aureus* annually cause more than 300,000 cases in hospitalised patients and an estimated 10,600 deaths.

We are also progressing a phase I study of a vaccine against another pathogen frequently displaying AMR, *Clostridium difficile*. This bacterium causes more than 200,000 cases in hospitalised patients, leading to an estimated 12,800 deaths in the US every year.

Support from antibacterial research accelerator CARB-X has helped us with the development of a new drug to treat and prevent recurrent urinary tract infections caused by the *Escherichia coli (E. coli)* bacteria. The project aims to explore the safety, tolerability and pharmacokinetics of the FimH antagonist in a phase I study which was initiated in September 2020 and is due to finish in 2021. The support will also enable us to scale up the drug for future clinical and non-clinical studies.

For more information about our work on AMR, see the Trust section on page 35.

Other infectious diseases

Hepatitis B virus (HBV) can chronically infect the liver leading to serious health conditions, including cirrhosis, liver failure and liver cancer. Despite existing treatment options, almost 900,000 people die from HBV each year.

We started a phase IIb study with GSK3228836, our investigational antisense oligonucleotide drug against HBV, which was in-licensed from Ionis in 2019. Data from the phase IIa study suggested that GSK3228836 has the potential to suppress hepatitis B surface antigen after four weeks of treatment.

We are also investigating a therapeutic candidate vaccine for chronic hepatitis B infections that is currently in phase I/II trials. The work on chronic hepatitis B is part of our focus to progress therapeutic vaccines to help the immune system better respond to existing diseases, help to reduce chronic diseases' exacerbations and slow their progress – and hopefully improve the quality of life of the growing number of people suffering from chronic diseases worldwide.

Boostrix, our tetanus, diphtheria, and pertussis vaccine, received approval in Europe for an expanded indication to include maternal immunisation. Immunisation of pregnant mothers will enable the mother's immune system to make and transfer antibodies to help protect the unborn child against pertussis (whooping cough). The expansion was supported by robust data from the largest phase IV randomised, placebo-controlled clinical trial ever performed on pertussis maternal immunisation.

Rotarix, our vaccine against rotavirus infections, received European approval for our porcine circovirus-free presentation in 2020.

For information on our malaria vaccines, see the global health section on page 34.

Oncology

Our work in oncology is focused on maximising patient survival through the discovery and development of transformational medicines. We have a portfolio of 14 oncology assets in clinical development, both individually and in novel combination studies, across four areas of focus. The first of these is immuno-oncology which uses the human immune system to treat cancer, where our portfolio of nine assets includes *Blenrep*, dostarlimab and feladilimab. Next, synthetic lethality, a concept where two mechanisms work together to destroy cancerous cells, and our lead asset in this area is *Zejula*. Third, cell therapy, where human T-cells are engineered to target the disease. Our NY-ESO asset leads this portfolio. Lastly, cancer epigenetics, where the gene-regulatory system of the epigenome is modulated to curb cancer and we have two assets in this field, a Type 1 PRMT inhibitor and a PRMT5 inhibitor.

Starting with immuno-oncology, we received regulatory approval in the US and Europe for *Blenrep* (belantamab mafodotin), our first-in-class, humanised antibody drug conjugate against BCMA, for relapsed or refractory multiple myeloma. Multiple myeloma is the third most common blood cancer, for which there is currently no cure. *Blenrep*, which is the first anti-BCMA therapy to be approved, could provide a treatment option for patients with relapsed or refractory myeloma, who currently have limited treatment options. The approval followed positive results from the pivotal DREAMM-2 study.

We continue to progress *Blenrep's* extensive clinical development programme, to enable us to advance into earlier lines of treatment. We began two pivotal second-line multiple myeloma studies, DREAMM-7, of *Blenrep* in combination with bortezomib and dexamethasone and DREAMM-8, of *Blenrep* in combination with pomalidomide and dexamethasone. We also initiated a pivotal third-line multiple myeloma study, DREAMM-3, of *Blenrep* as a monotherapy; and a phase Ib combination study evaluating the asset in combination with nirogacestat, SpringWorks' investigational gamma secretase inhibitor, for relapsed/refractory multiple myeloma. The latter combination is a sub-study in the ongoing DREAMM-5 trial.

Dostarlimab is an investigational anti-programmed death-1 (PD-1) inhibitor, which we are evaluating as a potential treatment for endometrial cancer. We filed for European regulatory approval of dostarlimab as a monotherapy for second-line endometrial cancer, based upon data from the GARNET trial. Dostarlimab is also in a phase III study (RUBY) of first-line recurrent or primary advanced endometrial cancer in combination with standard of care (chemotherapy) with and without *Zejula*.

We continue to progress feladilimab, our humanised non-T cell depleting IgG4 antibody engineered to enhance T-cell driven anti-tumour responses by activating the immune co-stimulatory receptor ICOS. We are studying the antibody alone and in combination with other therapies, due to its potential across a range of tumour types. First patient enrolment was achieved for INDUCE-4, our second phase II/III gated study of feladilimab in combination with pembrolizumab and chemotherapy for recurrent/metastatic head and neck squamous cell carcinoma, expanding our active trial programmes for this molecule.

In 2020 we also announced a new addition to our immuno-oncology pipeline, anti-CD96 (GSK6097608), an immune checkpoint receptor expressed on T-cells and natural killer cells. This potential first-in-class antibody is the first molecule to be co-developed with 23andMe. In early 2020, we began a phase I study of the asset in monotherapy and in combination with dostarlimab for patients with advanced solid tumours.

Zejula, our lead synthetic lethal asset, further expanded its indication in 2020, with approval in the US and Europe as the only once-daily oral poly (ADP-ribose) polymerase (PARP) inhibitor in first-line monotherapy maintenance treatment for all patients with platinum-responsive advanced ovarian cancer. This followed positive results from the phase III PRIMA study, which showed a significant reduction in disease progression for patients, regardless of their biomarker status.

Originally approved in 2017 in the US and Europe for patients with recurrent ovarian cancer, we first expanded *Zejula*'s indication in October 2019 in the US as a late-line treatment for advanced ovarian cancer associated with homologous recombination deficiency. We are pursuing a number of further clinical studies of *Zejula*, alone and in combination with other therapies. These include combination therapy for first-line ovarian cancer with our PD-1 inhibitor dostarlimab, and the initiation of the ZEAL-1 trial in combination with pembrolizumab in non-small cell lung cancer. To further strengthen our pipeline, and our capabilities in synthetic lethality, we agreed a broad strategic partnership with IDEAYA Biosciences, an oncology-focused precision medicine company.

Our lead oncology cell therapy asset is a T-cell immunotherapy, letetresgene autoleucel (lete-cel; GSK3377794), that is genetically modified to express a T-cell receptor (TCR) targeting the NY-ESO-1 antigen present across multiple cancer types, including various solid tumours. In 2020, we began a registrational trial in second-line advanced/metastatic synovial sarcoma. The therapy is on an accelerated development path, having received European PRIME and FDA breakthrough status. Two next generation T-cell immunotherapies, GSK3901961 and GSK3845097, were transitioned from pre-clinical to clinical development. These therapies build on our TCR platform and utilise enhancements to improve cell efficacy and persistence. We also announced a strategic collaboration with the biopharmaceutical company Immatics Biotechnologies to further enhance our capabilities in cell therapy. Working with Immatics we will identify, research and develop novel adoptive cell therapies with a focus on solid tumours, and this work complements our existing relationships in cell therapy with Lyell Immunopharma and Adaptimmune.

Respiratory

GSK is extending 50 years of leadership in respiratory medicine with continued innovation in the development of treatments for asthma, chronic obstructive pulmonary disease (COPD), and other debilitating respiratory conditions. Our portfolio of three candidate vaccines for respiratory syncytial virus, as mentioned earlier, is just one example of our world-leading R&D in this area. Since 2012, we have launched five new inhaled therapies and our first-in-class biologic, *Nucala*, giving us one of the broadest portfolios of respiratory medicines in our industry. In 2020 new respiratory products made up 54% of our portfolio, compared with just 6% in 2015. This growth has offset the decline in *Advair/Seretide*, which moved from 64% of our portfolio to 22% in the same period.

Innovation continued

Recognising the potential of our medicines to help as many patients as possible, in 2020 we worked to deliver lifecycle innovations for our market-leading treatments, single inhaler triple therapy *Trelegy Ellipta* and *Nucala*. *Trelegy Ellipta* received regulatory approval in the US and Japan for the treatment of adults with asthma, following earlier positive results from the phase III CAPTAIN study. This expanded *Trelegy Ellipta*'s original COPD indication, making it the first single inhaler triple therapy to be approved for both asthma and COPD in the US.

Extending its leadership in eosinophil-driven diseases, *Nucala* was approved in the US for patients with hypereosinophilic syndrome (HES), adding to its indications in severe eosinophilic asthma (SEA) and eosinophilic granulomatosis with polyangiitis (EGPA). The approval, which followed the granting of an FDA priority review, makes *Nucala* the first and only targeted biologic treatment for patients with this rare and life-threatening disease.

We also applied for US and European authorisation of *Nucala* for patients suffering from chronic rhinosinusitis with nasal polyps (CRSwNP). This is a common but debilitating condition, characterised by high eosinophils levels, which can cause difficulty breathing, sleeping and maintaining a sense of smell and taste. The application followed positive results from the pivotal SYNAPSE study of *Nucala*, which marked the first time that an anti-IL5 biologic had reported positive phase III data in CRSwNP. We also submitted regulatory applications in Europe for the use of *Nucala* in patients with EGPA and HES. We believe *Nucala* may also have the potential to benefit patients with COPD who have elevated eosinophil counts. A phase III COPD trial is ongoing.

Recognising that patients with respiratory diseases continue to require novel therapeutic options, our investigational long-acting interleukin-5 (IL-5) antagonist for SEA moved to phase III in February 2021.

Human rhinovirus (HRV) is the most common respiratory pathogen associated with flare-ups of COPD and asthma. To replicate itself, HRV takes over the PI4Kß kinase in the lung. Therefore, inhibiting P14Kß could prevent HRV-driven exacerbations and the associated patient burden. GSK's first-in-class PI4Kß inhibitor, GSK3923868, has started a phase I study to determine its safety and pharmacokinetic profile.

To ensure we focus on the medicines with the greatest potential, we terminated progression of our anti-IL33 receptor for severe asthma.

During the year, initial data from the proof-of-concept study on our COPD candidate vaccine showed it did not meet the primary endpoint.

Other priority assets

Immuno-inflammation

Our focus on the science of the immune system supports the development of medicines for immune-mediated diseases, such as lupus and rheumatoid arthritis (RA), that are the source of significant morbidity for patients and a considerable public health burden for society. This emphasis reflects our aim to develop immunological-based medicines that alter the course of inflammatory disease.

We remain the only company with a biologic treatment, *Benlysta*, specifically developed and approved for adult and paediatric systemic lupus erythematosus (SLE), a chronic, incurable, autoimmune disease. In 2020 we applied for regulatory approval across several geographies including the US, Europe and China for *Benlysta* in lupus nephritis, an inflammation of the kidneys caused by SLE which can lead to end-stage kidney disease. This followed positive data from the pivotal BLISS-LN study, which supported the FDA granting breakthrough therapy designation and a priority review for *Benlysta* in lupus nephritis. *Benlysta* is the first treatment approved in the US for lupus nephritis, and the only treatment approved for SLE and lupus nephritis.

We progressed our otilimab phase III study in patients with RA, a chronic, systemic inflammatory condition characterised by pain, joint swelling and stiffness, and disability. The study followed earlier encouraging results from the anti GM-CSF antibody's phase II BAROQUE trial. We also started a phase II proof of concept study with otilimab for treating severe pulmonary COVID-19-related disease (see page 24).

Anaemia

Consistent with our intent to bring new therapeutic options to patients with significant unmet medical need, we are developing daprodustat for the treatment of anaemia due to chronic kidney disease (CKD). In 2020, we received our first regulatory approval for daprodustat, marketed as *Duvroq* in Japan for patients with anaemia due to CKD. The approval followed positive results from the phase III programme in Japan. *Duvroq* is an oral hypoxia-inducible factor prolyl hydroxylase inhibitor, a new class of drug that encourages the body to make more red blood cells, thereby treating the anaemia associated with CKD. Being an oral daily medicine, *Duvroq* offers greater convenience than the current injection-based standard of care for the nearly 3.5 million people in Japan with CKD-related anaemia.

GSK is committed to helping patients with CKD-linked anaemia around the world. We have a robust programme evaluating the efficacy and safety of daprodustat, with daily or three times a week dosing regimens. The trials are evaluating the wide spectrum of patients with CKD, including patients not on dialysis and those receiving hemodialysis or peritoneal dialysis. The programme is on track, with data expected in 2021.

COVID-19 solutions

Successfully fighting the COVID-19 pandemic will require more than one solution and we are working on many fronts to minimise its impact.

We are contributing our unique adjuvant technology to help develop multiple protein-based COVID-19 vaccines, while simultaneously developing preventative and therapeutic medicines and co-developing novel mRNA vaccine candidates. Partnering with other leading healthcare companies and research institutions is central to this approach.

We have several partnerships to develop COVID-19 vaccines where we are contributing our pandemic adjuvant technology. The use of an adjuvant can be of particular importance in a pandemic as it may reduce the amount of vaccine protein required per dose, allowing additional doses to be produced and therefore protecting more people. It can also enable an enhanced immune response.

We have pledged to supply our COVID-19 pandemic adjuvant to governments and institutions at a responsible price, either as standalone adjuvants or as part of an adjuvanted vaccine. We will reinvest profits made on sales of our adjuvant during the COVID-19 pandemic phase to support coronavirus-related research and long-term global pandemic preparedness.

In April 2020 we announced a collaboration with Sanofi which combines their S-protein COVID-19 antigen with our pandemic adjuvant technology. Together with Sanofi we have secured supply agreements with the US, UK, EU and Canada and a statement of intent with COVAX, a global initiative that aims to ensure equitable international distribution of effective COVID-19 vaccines, as part of our commitment to make this vaccine, if approved, available globally. In December, we announced a delay to the development programme due to the antigen concentration – now addressed by our partner – and started a new phase II study in February 2021.

In July we announced a collaboration with Medicago to develop another COVID-19 candidate vaccine. Phase I clinical testing began that month on a vaccine combining an innovative plant-based antigen and GSK's adjuvant. The trials moved into phase II/III clinical development in November, with the phase III portion due to start in March 2021. We announced another adjuvanted COVID-19 vaccine collaboration in February 2021, with SK Bioscience, which has entered phase I testing.

Our collaboration to develop an adjuvanted COVID-19 vaccine with China-based Clover Pharmaceuticals was stopped in early 2021.

Also, in February 2021, we announced a new collaboration with the German biotechnology company CureVac to jointly develop next generation mRNA vaccines for COVID-19. With their potential for a multivalent approach to address multiple emerging variants in one vaccine, we believe these could be important in the next phase of the pandemic.

We are also doing what we can to support the manufacture of other COVID-19 vaccines; in February we announced that we will support the production of CureVac's current first generation COVID-19 vaccine candidate, by manufacturing up to 100 million doses in 2021. We are also in ongoing dialogue with other manufacturers to see if we can support their COVID-19 vaccine production.

Therapeutic treatments will be essential while patients wait for COVID-19 vaccination, for people who cannot be vaccinated, in the event of further variations of the virus, or if vaccines have partial efficacy. In April 2020 we announced a COVID-19 partnership, with clinical-stage immunology company Vir Biotechnology, to identify and accelerate therapeutic and preventative antibody therapies against the virus.

Within six months of our agreement with Vir, the VIR-7831 (GSK4182136) antibody, for the early treatment of COVID-19 patients at high risk of hospitalisation, moved to a global phase III trial. The treatment was identified from antibodies isolated from a patient that had the severe acute respiratory syndrome (SARS) virus. The resulting antibodies had activity against coronaviruses, including SARS-CoV-2. These dual-action antibodies were found to have the potential to block and clear the virus, provide a high barrier to resistance and achieve high concentrations in the lungs, ideal properties to treat and potentially prevent COVID-19 infection. Results from the early treatment study of VIR-7831 are expected in early 2021. If approved, our antibody treatment could be available as early as the first half of 2021. In February 2021, the COMET-PEAK phase II study evaluating an intramuscular formulation of VIR-7831 in low-risk adults with mild to moderate COVID-19 was initiated.

The clinical development programme for VIR-7831 includes evaluation in a sub-trial of the US National Institutes of Health's Accelerating COVID-19 Therapeutic Interventions and Vaccines (ACTIV) program's clinical trial in hospitalised adults with COVID-19. It is also being studied in combination with Eli Lilly's CoV555 antibody in low-risk patients with mild to moderate COVID-19, which we expect data from in the first half of 2021.

The second monoclonal antibody from the Vir and GSK collaboration, VIR-7832, along with VIR-7831, is to be investigated as a potential COVID-19 treatment with the UK-based AGILE initiative in patients with mild to moderate COVID-19 in a phase Ib/IIa clinical trial, which began in early 2021.

In 2020, following a review of our marketed medicines and pipeline products to identify agents that might be able to treat the COVID-19 virus or secondary complications, we started a phase II proof of concept OSCAR study with otilimab for treating severe pulmonary COVID-19-related disease. In February 2021, we announced results from the study, which showed the primary endpoint did not reach statistical significance across all ages, but an efficacy analysis by age showed a potentially important clinical benefit in patients 70 years and older. Based on the public health need, we have decided to expand the OSCAR study to confirm these potentially important findings.

Innovation continued

Advanced technologies and partnerships

The application of advanced technologies is central to our R&D approach. We have made significant investments in transformational technologies that are changing the way that medicines and vaccines are discovered, including in human genetics, genomics and artificial intelligence/machine learning (AI/ML). These build on our core capabilities and our broad portfolio of platform technologies, such as cell therapy, adjuvants and, most recently, mRNA-based vaccines, which are altering the way that medicines and vaccines are developed. We are making these investments to help us accelerate the pace at which we design and develop novel medicines and vaccines.

Advanced technologies

COVID-19 has demonstrated how advanced technology is accelerating and enabling innovation for our entire industry, with unprecedented collaborations between companies and research institutes. GSK has a long history of leveraging and accelerating our own technological expertise, and achieving innovative combinations, by partnering with other leading companies, institutions and experts. GSK's adjuvant technology platforms play a central role in our vaccine innovation. Our AS01 adjuvant is a key component in many of our vaccine pipeline assets, including our RSV older adult candidate vaccine. It also drives the success of our licensed *Shingrix* vaccine. We have made our pandemic adjuvant technology available in collaborations, a potentially significant contribution to strengthen the global response to COVID-19. In 2020 we also progressed other novel vaccines technologies such as bioconjugation, which is central to our *Staphylococcus aureus* candidate vaccine, and adenovirus-vector ChAd, which is core to our paediatric RSV asset.

During the year we agreed a strategic mRNA technology collaboration with clinical stage biotechnology company CureVac. We built on this relationship in February 2021 with a further agreement with CureVac, to jointly develop next generation mRNA vaccines for COVID-19. mRNA technology is a cutting-edge platform for the development of new vaccines and medicines and has shown proof of concept with very high efficacy levels for two COVID-19 vaccines. The mRNA technology has the potential to transform vaccine development and the vaccines industry for a number, although not all, diseases. It enables specific proteins, or antigens, to be produced by the body's own cells, enabling the human immune system to prevent or fight disease. The technology could allow us to discover vaccines faster and to produce them more efficiently at scale.

Our original agreement with CureVac covers the research, development, manufacturing and commercialisation of up to five mRNA-based vaccines and monoclonal antibodies (mAbs) targeting infectious disease pathogens. CureVac's integrated mRNA platform complements GSK's own self-amplifying mRNA (SAM) vaccine capabilities and builds on our growing strengths in mAbs innovation, aligned to our overall R&D focus on the science of immunology. Our phase I study to test SAM with a rabies antigen is advancing, we started a phase I study to test SAM with a COVID-19 model vaccine at the start of March 2021 and an additional early-stage clinical study using SAM is expected to start later in March.

In January 2021, we announced our collaboration with Eligo, a French biotech company, to investigate a potential therapeutic solution for acne through a precise modulation of the skin microbiome composition, using a combination of the CRISPR technology and bacteriophages.

Partnerships

In 2020 we achieved substantial milestones by establishing a London AI hub and two new collaborations in human genetics and genomics. Our AI hub team will use biomedical information, AI methods and advanced computing platforms to unlock new meaning from our sizeable genetic and clinical data. They will use the dedicated hub to work and partner with leading companies and AI institutions, including NVIDIA and Silicon Valley start-up Cerebras. We are also supporting PhD studentships at the University of Cambridge's new Centre for AI and Medicine, which will provide GSK with a talent pipeline for the coming five years and will shape the next generation of practitioners. Our role in establishing such an ecosystem of partners is unique in the industry. Together we can discover and design medicines and vaccines with a higher probability of success.

During the year we also formed a new five-year research collaboration with one of the world's leading genetics and functional genomic centres, the Broad Institute, in Cambridge, Massachusetts. Additionally, in December 2020, we announced with Ahren Innovation Capital that we will co-lead a Series A investment in Adrestia Therapeutics, a UK-based biotechnology company using cutting-edge molecular biology to develop precision medicines. Adrestia's Disease Rebalancing Platform uses synthetic viability to identify phenotypic and molecular imbalances of disease as the basis of novel drug discovery. GSK is also entering into a multi-year agreement with Adrestia on up to five projects. We will develop a portfolio of joint projects with both partners to investigate the human genetic links to disease, to help identify more high-quality and genetically validated medicines.

Our new AI and genomics collaborations complement and extend important existing GSK partnerships. These include our 2019 agreement with the University of California to establish the Laboratory for Genomics Research (LGR). This state-of-the-art laboratory is evolving and advancing CRISPR and other genomics technologies to improve drug discovery, enabling us to identify more potential treatments and enhance R&D productivity. In 2020 it initiated three projects on the genetics of disease, two in oncology, the third in neurodegeneration. The LGR is building a state-of-the-art CRISPR library, which will enable the continued evolution and sophistication of this technology to transform drug discovery. At the same time, we are strengthening our in-house resources in automated biology and our ability to interrogate cell biology at our Heidelberg R&D site, Cellzome.

Our collaboration with 23andMe, established in 2018, is helping us to identify a new generation of disease targets validated by human genetics. We have now identified over 30 novel targets across a number of therapy areas through this collaboration. During the year we also started our first GSK-23andMe clinical trial of a potential new immuno-oncology treatment, GSK6097608. Other GSK collaborations that continue to explore the potential of genetics and genomics include Open Targets, FinnGen, Altius and the UK Biobank.

Pipeline overview

We have 59 assets in development, of which over 20 are late-stage.

Pivotal (phase II/III/registration)	
Benlysta + rituximab SLE	letetresgene-autoleucel[1] (3377794, NY-ES0-1 TCR) SS[2]
cabotegravir LA HIV PrEP	4182136[1] (VIR-7831) COVID-19
daprodustat (HIF-PHI) anaemia	3511294[1] (LA anti-IL5 antagonist) asthma
Nucala COPD/nasal polyps	*Shingrix* immuno-compromised vaccine[1]
Blenrep[1] (BCMA ADC) multiple myeloma[7]	*Bexsero* infants vaccine (US)
Zejula[1] (PARP inhibitor) ovarian and lung cancer[2]	MMR vaccine (US)
dostarlimab[1] (PD-1 antagonist) dMMR/MSI-H EC	*Rotarix* liquid vaccine (US)
bintrafusp alfa[1] (TGFβ trap/anti-PDL1) BTC[2]	MenABCWY vaccine
otilimab[1] (3196165, aGM-CSF inhibitor) RA[2,6]	RSV maternal vaccine[1]
gepotidacin[1] (2140944) uUTI and GC	COVID-19 (Medicago) vaccine[1,3]
feladilimab[1] (3359609 ICOS receptor agonist) HNSCC[2,4]	RSV older adults vaccine[1]
Proof of concept (phase Ib/II)	
3640254 (maturation inhibitor) HIV	*Menveo* liquid vaccine
3228836[1] (HBV ASO) HBV	RSV paediatric vaccine
linerixibat (IBATi) cholestatic pruritus in PBC	Therapeutic HBV vaccine[1,5]
3326595[1] (PRMT5 inhibitor) cancer	Malaria[1] (fractional dose) vaccine
cobolimab[1] (TSR-022, TIM-3 antagonist) NSCLC	Shigella vaccine[1]
3036656[1] (leucyl t-RNA inhibitor) TB	COVID-19 (Sanofi) vaccine[1,3]
4074386[1] (TSR-033, LAG3 antagonist) cancer	
First time in human/POM (phase I/Ib)	
3858279[1] (CCL 17 inhibitor) OA pain	3901961[1] (CD8/NYESO TCR) cancer
3745417 (STING agonist) cancer	3845097[1] (TGFbR2/NYESO TCR) cancer
3439171[1] (hPGD2 synthase inhibitor) DMD	3494245[1] (proteosome inhibitor) visceral leishmaniasis
3186899[1] (CRK-12 inhibitor) visceral leishmaniasis	3915393[1] (TG2 inhibitor) celiac disease
3810109[1] (broadly neutralising antibody) HIV	2556286[1] (Mtb inhibitor) TB
3368715[1] (Type 1 PRMT inhibitor) cancer	3729098[1] (ethionamide booster) TB
2798745[1] (TRPV4 blocker) DME	41821371 (VIR-7832) COVID-19
6097608[1] (CD96) cancer	C. difficile vaccine[1]
2982772 (RIP1-k) psoriasis	SAM (rabies model) vaccine
3882347[1] (FimH antagonist) uUTI	S. aureus vaccine[1]
3739937 (maturation inhibitor) HIV	COVID-19 (SK Bioscience) vaccine[1,3,5]
3923868 (PI4kβ inhibitor) viral COPD exacerbations	SAM (COVID-19 model) vaccine

Only the most advanced indications are shown for each asset.

1 In-licence or other alliance relationship with third party

2 Additional indications also under investigation

3 GSK is contributing pandemic adjuvant to COVID-19 vaccines collaborations

4 ICOS HNSCC is a phase II/III study with registrational potential

5 In phase I/II study

6 Otilimab for COVID-19 therapy in phase II

7 *Blenrep* is in phase I/II/III in earlier lines of therapy for multiple myeloma (approved agent in 4L+)

BTC: biliary tract cancer; COPD: chronic obstructive pulmonary disease; DMD: duchennemuscular dystrophy; DME: diabetic macular edema; dMMR: deficient mismatch repair; EC: endometrial cancer; GC: gonorrhoea; HBV: hepatitis B; HNSCC: head and neck squamous cell carcinoma; NSCLC: non small cell lung cancer; OA: osteoarthritis; PBC: primary biliary cholangitis; POM: proof of mechanism; PrEP: pre-exposure prophylaxis.; RA: rheumatoid arthritis; SLE: systemic lupus erythematosus; SS: synovial sarcoma; TB: tuberculosis; uUTI: uncomplicated urinary tract infection.

Consumer Healthcare

Our 2019 joint venture with Pfizer brought together two complementary brand portfolios, making us number one globally, in terms of market share, in over-the-counter (OTC) medicines, therapeutic oral health, and vitamins, minerals and supplements.[1] The joint venture also established R&D centres of excellence in Richmond, in the US, focused on OTC and wellness, Weybridge, in the UK, for oral health and Suzhou in China, a dedicated hub for locally relevant innovation.

In 2020 we delivered 28 first-market launches for new innovations across our categories. In total we rolled out more than 200 recent innovations into new markets. These included *Sensodyne Sensitivity & Gum* and *Polident Cushion and Comfort*. In 2020 we filed 17 new invention patent applications and were granted 22 European and US patents across our categories.

Delivering best-in-class innovation

We combine deep human understanding and trusted science to deliver innovations that meet the needs of our consumers. In June we successfully launched *Voltaren Arthritis Pain*, the first OTC prescription-strength, non-steroidal anti-inflammatory (NSAID) topical gel for arthritis pain, to help the nearly 30 million people in the US who have osteoarthritis. Since launch, *Voltaren Arthritis Pain* accounted for 79% of category growth in 2020 in the adult topical pain relief segment in the US.

Our research shows that consumers want to take as few medicines as possible, yet many use both ibuprofen and paracetamol/acetaminophen – which work in different ways – when treating their headaches, muscle aches, arthritis and other joint pain. So we launched *Advil Dual Action* in the US, the first formulation to combine ibuprofen and paracetamol/acetaminophen in a single product that is scientifically backed to provide greater efficacy than the individual components.

In oral health, we continued to roll out *Pronamel Intensive Enamel Repair*, launching in an additional 11 markets. Since launching in 2019, 6% of US households have tried the product, with 39% going on to buy it again. In two years, the innovation has generated annual global retail value sales of £49 million. We also launched *Sensodyne Sensitivity & Gum* into new markets following its first introduction in 2019. This innovation, which is now available in more than 50 markets, has generated more than £75 million in retail value sales since first launch.

A consumer trend, particularly in the respiratory health category, is the increasing preference for natural remedies. Reflecting this trend, and increasing consumer concerns on the impact of air pollution to everyday health, we launched *Otrivin Breathe Clean* in Europe, a naturals-based saline spray that enables cleaner breathing by washing out impurities like airborne pollutants, pollen and viruses trapped in the nose to help restore the nose's natural filtering function. In cough and cold, we introduced a natural ingredient-based cough relief extension of *Theraflu* in Spain and Portugal, in both liquid and lozenge formats. We also launched *Robitussin Naturals*, which incorporates herbal extracts to aid cough relief, in the US.

Consumers are increasingly taking control of their wellbeing and see multivitamins as important in meeting their nutritional needs, but insight has told us that there is a challenge with swallowing big pills, representing a usage barrier. To address this, we launched a 'Minis' version of our power brand *Centrum* in the US, which is 50% of the size of the regular pill. The minis platform will be used for future innovations.

We launched a number of major, locally relevant innovations outside the US/Europe. In China, consumer research has boosted our understanding of the health needs of different genders. In 2020 we built on these insights with the introduction of gender-specific formulations of *Caltrate*, the leading calcium supplement in China and a key 'local star' brand within our vitamins, minerals and supplements category. The innovation is aimed at the increasingly health and wellbeing conscious 25 to 35-year-old demographic, who are at risk from bone-related injuries but are not typical consumers of calcium supplements. In India, where there was a gap in the topical gels pain relief market for a fast-acting product that provides long-lasting relief, we launched *Iodex Ultragel*. This product harnesses the brand's trusted, strong local heritage with the *Voltaren* formulation that is clinically proven to provide deeper penetration in affected areas for long-lasting relief. This innovation has been the most successful launch across the Indian topical gels or cream category over the past five years.

External partnerships

We look beyond our own business to fuel our innovation pipeline and build knowledge and capability. In 2020, we assessed more than 60 opportunities for partnership across our categories. Many of these projects are in the due diligence phase and range from sustainable products and packaging to device technology.

1 Based on Nicholas Hall's DB6 Global OTC database 2019 (on the basis of consumption at manufacturers' price)

Performance

We delivered our guidance for the year, offsetting the significant impact of COVID-19 on adult vaccinations, with strong sales performance from key growth drivers in HIV, Respiratory, Oncology and Consumer Healthcare, and effective cost control.

Pharmaceuticals

- Total 2020 turnover £17 billion, -3% AER, -1% CER
- Sales of new and specialty pharmaceuticals £9.7 billion +11% AER, +12% CER
- Strong commercial execution of key growth products, including launches in HIV, Oncology and Respiratory
- Accelerated digital capabilities, supporting enhanced HCP engagement and strong supply performance despite disruption from COVID-19 pandemic

Read more below

Vaccines

- Total 2020 turnover £7 billion, -2% AER, -1% CER. COVID-19 adversely impacted adult vaccination in particular
- *Shingrix* launched to new, self-pay markets China, Belgium, the Netherlands, Japan and Sweden. Strong performance in Europe, reflecting robust demand in Germany
- Further strengthened *Bexsero's* profile with compelling real-world evidence in multiple settings
- Strong flu sales across all regions
- Overall strong supply performance

Read more on page 30

Consumer Healthcare

- Total 2020 turnover £10 billion +12% AER, +14% CER (pro-forma -2% CER, +4% CER excluding brands divested/ under review)
- Strong progress on joint venture integration
- Exceeded target of raising £1 billion through non-core brand divestments
- On track to deliver synergies of £500 million annual cost savings by 2022

Read more on pages 31 to 32

Pharmaceuticals

Performance

Pharmaceuticals turnover in the year was £17,056 million, down 3% AER, 1% CER. Respiratory sales were up 22% AER, 23% CER, to £3,749 million, on growth of *Trelegy*, *Nucala* and *Relvar/Breo*. HIV sales were flat at AER, up 1% CER, to £4,876 million, with growth in *Juluca* and *Dovato* partly offset by declines in *Tivicay* and *Triumeq*. New and specialty product[1] sales were £9.7 billion, up 11% AER, 12% CER. Sales of Established Pharmaceuticals declined 16% AER, 15% CER to £7,332 million.

Oncology sales were £372 million, up 62% AER and CER, with strong launches of *Zejula* and *Blenrep* and strengthened commercial capabilities. *Zejula*, our PARP inhibitor, continued to grow market share and sales increased 48% AER and CER, to £339 million. *Blenrep*, our first-in-class anti-BCMA treatment for multiple myeloma, which was approved in August, had sales of £33 million.

We remain industry leaders in respiratory where rapid indication expansion, including hypereosinophilic syndrome approval for *Nucala* in the US, and increased uptake of the therapy's home administration options, with launches in France, Spain and Japan, reinforced our leadership in eosinophil-driven diseases. *Nucala* delivered almost £1 billion in sales, a growth of 29% AER, 30% CER. *Trelegy Ellipta*, now in 43 markets, further increased its market share in chronic obstructive pulmonary disease with positive early signals from its launches in asthma in the US and Japan. In HIV, our two-drug regimen therapies, *Dovato* and *Juluca* more than doubled sales in 2020 to £869 million and our HIV portfolio grew with 2020 launches for *Cabenuva*, *Rukobia* and paediatric *Tivicay PD*. In immuno-inflammation *Benlysta*, which has grown consistently in an expanding market, again saw double-digit growth. At the end of the year *Benlysta*'s indication in the US was expanded to include lupus nephritis.

See Group financial review on page 56 for more detail.

1 New and Specialty products comprises Pharmaceuticals excluding Established Pharmaceuticals

Performance continued

Building specialty capability

Reflecting the shift in our portfolio to innovative specialty care products, including oncology, we continued to invest in our capabilities in these areas, particularly in the quality and experience of our medical and commercial teams. In 2020, over 500 of our new hires were in oncology.

In 2020 we rolled out our revised incentive programme for sales representatives to more countries. The evolved approach, which aims to drive personal accountability and competitiveness, is allowing us to attract and retain the best salespeople and build engagement and performance in our sales teams. We have implemented this programme while upholding responsible sales and marketing standards.

Transforming interactions with HCPs and patients

Customer and patient focus is central to successful performance. In 2020 we continued to strengthen GSK's connection, and heighten our profile, with healthcare professionals (HCPs), to help meet their and their patients' needs. While restrictions on in-person meetings were in place throughout much of the year, our sales teams continued to engage customers, adapting their interactions to reflect HCP preference and local guidance, and using online and digital tools to enhance engagement. Alongside regular customer dialogue, digital solutions were core to successful commercial launches, with virtual meetings and educational activities continuing despite the pandemic. To ensure we deliver what HCPs want, we are leveraging data and analytics to shape our interactions. For example, we launched an app for our sales representatives that combines insights from multiple data sources to inform their next actions in line with HCPs' priorities.

In China, in response to patient insights, we developed a one-stop shop patient support app that allows medication to be ordered directly from GSK through online retail giant Alibaba, rather than pharmacies. The app is integrated into WeChat, the messaging, social media and mobile payment app, and connects to GSK China's patient support programmes and disease education content.

Collectively these measures enabled us to maintain or grow our share of voice in key markets.

Investing in a specialty-ready, competitive supply chain

Our supply chain transformation is progressing in line with the shift in our portfolio to innovative specialty care products. Despite the disruption caused by COVID-19, we introduced several new products in 2020, including first-market launches for *Cabenuva*, *Rukobia*, *Blenrep* and *Duvroq*. Ongoing investments in facilities, people and manufacturing partnerships will continue to support the rapid launch of specialty medicines, while accelerating delivery across our portfolio.

We committed £88 million to expand our next generation biopharma manufacturing facility in Upper Merion, Pennsylvania, in parallel with our accelerated development of the technological and scientific capability of our people. Following the expansion of our Rockville, Maryland biopharma manufacturing facility in 2019, preparations are on track to start commercial operations in 2022.

We entered into a long-term partnership with Samsung Biologics to access additional large-scale manufacturing capacity and supply of our innovative assets. This capacity will supplement our existing biopharma manufacturing network and will vary in extent, depending on our needs. The partnership will initially involve production of *Benlysta*, with first commercial supply expected in 2022, and further GSK specialty care products coming online thereafter.

Strong business performance requires an efficient, reliable supply chain. We are improving the competitiveness of our supply chain, creating one logistics route-to-market for pharmaceutical and vaccines products, and further simplifying our manufacturing footprint and central functions. In 2020 we completed the divestment of our sites in Verona, Italy and Mississauga, Canada. We also announced the divestment of the Poznan manufacturing site, Poland, the closure of the Boronia facility, Australia, and our intention to sell the Vemgal, India site. These network changes are expected to be complete by 2022.

Robust supply performance

Our productivity levels increased by 5% in 2020, contributing to a 3% average rise per annum over the past three years. This reflects the progress made in driving operational efficiency through digital and automation technologies while performing strongly against safety, quality and compliance measures. Our service levels, measured as on-time, in-full, improved again in 2020, remaining in the top quartile of our industry. We maintained supply continuity and service levels despite the impact of COVID-19, with thousands of manufacturing and supply employees continuing to work at GSK locations during lockdown. All 40 regulatory inspections of Pharmaceuticals sites were satisfactory.

Digital transformation

The resilience and flexibility of our supply chain reflects our continuing investment in becoming a digital and data-driven organisation. In 2020, we made significant progress in accelerating digital competency and capability and developing new ways of working. This contributed to business continuity and maintained productivity as many people across our organisation worked from home during COVID-19 restrictions, drove operational efficiency and unlocked opportunities to improve our performance. Measures included applying advanced analytics to drive efficiencies across the business, from supply chain management and manufacturing to our commercial operations. A digital value stream map, for example, has enabled end-to-end visibility of our supply chain, enabling users to track specific brands and sites of interest, and fuelling faster decision making. We continue to harness data to learn more about the impact our commercial activities have on appropriate prescribing and to unlock smarter, faster interactions with our customers.

Vaccines

Performance

Vaccines turnover declined 2% AER, 1% CER to £6,982 million, primarily driven by the adverse impact of the COVID-19 pandemic on Hepatitis vaccines, DTPa-containing vaccines, *Synflorix* and *Bexsero*, together with the divestment of Rabipur and Encepur. This decline was partly offset by higher sales of Influenza vaccines across all regions and by growth in *Shingrix* sales to £2 billion, up 10% AER, 11% CER, together with a strong performance from *Cervarix* in China.

Vaccines performance across all regions was affected by lower demand due to limited visits to healthcare practitioners and points of vaccination during the pandemic and government stay-at-home directives. In areas where lockdowns were lifted, wellness visits and vaccination rates recovered, with paediatric vaccination near pre-COVID levels by the end of Q2 2020, while adolescent and adult immunisations improved at a slower pace. US back-to-school vaccinations were disrupted because schools and universities delayed or reversed in-person tuition, which elongated the back-to-school vaccination season into Q4 2020. Adult wellness visits returned to prior year levels at the end of Q3 2020 supported by seasonal flu vaccination and declined late in Q4 2020 as pandemic conditions worsened. Despite this short-term impact on vaccination rates we remain very confident in demand, particularly for *Shingrix* which remains a key growth driver.

As a global company, we are committed to supplying vaccines worldwide. Our growth strategy is focused on improving our geographic presence in the two largest vaccines markets – the US, which represents 51% of the sector, and China.[1]

See Group financial review on page 58 for more detail.

Supply performance

Our Vaccines business has 12 manufacturing sites, across nine countries. This global network gives us a strategic supply capability, which enabled us to produce and deliver over 580 million doses and achieve our best ever on-time, in-full delivery supply metric, ensuring critical vaccines were available to patients during the pandemic.

Our increased *Shingrix* and *Bexsero* output followed additional investment in our supply network, including bringing new production capacity onstream for *Bexsero*. Our continued efforts to improve yield, productivity and throughput have expanded our supply capacity, and we remain on track to begin manufacturing *Shingrix* from a new facility by 2024. Our improved supply performance on *Shingrix* allowed us to announce further launch countries earlier than anticipated.

We continue to adjust our manufacturing network to meet our future needs, including investments to support growth of our existing products as well as our pipeline assets. We are prioritising investments in both manufacturing technologies and digital capabilities. These investments allow us to transform data into insights across manufacturing, supply and quality, resulting in improved productivity and more effective use of working capital.

In the first quarter of the year, both our sites in Gödöllö, Hungary, and Marburg, Germany, passed US Food and Drug Administration (FDA) inspections. In May 2020, FDA approval of our Singapore site meant that all our strategic Vaccines sites are now FDA-approved.

Digital performance

As we advance towards our goal of becoming a digital and data-driven organisation, we continue to harness new technologies to develop better, more efficient ways of working business-wide. We are, for example, deploying robotic automation 'bots' across the Vaccines organisation, including in manufacturing, quality and R&D. We had deployed 76 bots by the end of 2020, increasing efficiency and cost savings.

During the year we delivered several data and analytics products to help improve scientific productivity, optimise manufacturing processes and boost our commercial performance.

In the second half of 2020, we started a digital manufacturing execution system for more than 50 production lines in 10 sites that currently use paper batch recording. The system will be deployed over the next three to four years, with benefits including operational efficiency, lead-time reduction, and improvements in compliance, yield and robustness. The system will feed into making data-driven decisions in manufacturing and supply.

We are improving our commercial teams' performance, with data-rich technology platforms optimising numerous processes, from tender allocation to targeted marketing. We have also extended our award-winning digital tool MyVaccinationHub, which helps parents track their children's vaccination records, to more national markets. In addition, GSK is working with health technology company Philips on its Pregnancy+ and Baby+ apps to educate parents on the importance of vaccination. With the potential to reach almost 2 million parents a day across the globe, this is a huge step forward in giving our target audience access to factual, medically approved information. The partnership is already live in Brazil, Canada, Switzerland, Poland, Spain, Germany, Italy, Australia, Russia and Mexico.

1 Internal data

Consumer Healthcare

Performance

On a reported basis, sales grew 12% AER and 14% CER to £10,033 million for the full year, largely driven by the inclusion of the Pfizer portfolio, partly offset by brands divested/under review.

On a pro-forma basis, sales declined 2% CER, but grew 4% CER excluding brands divested/under review, reflecting the underlying strength of brands across the portfolio and categories, strong growth in e-commerce, and successful execution meeting evolving consumer demand as a result of the pandemic.

Our portfolio of everyday health products gives us industry-leading positions across a number of categories, including pain relief, respiratory, therapeutic oral health and vitamins, minerals and supplements.[1] Our growth strategy is based on prioritised investment in our nine global power brands and 15 local stars, brands which are concentrated in key geographies.

Our operating model is critical to the successful implementation of the strategy and growth for our joint venture. In 2020, we continued our progress by rolling out our new marketing operating model which allows us to develop best-in-class brand programmes in our strategic brand and market choices that are relevant globally and locally. Building and executing a differentiated pipeline and accelerating speed-to-market are at the heart of our innovation strategy and our innovation operating model, also launched in 2020, sets out, practically, how this will be achieved.

See Group financial review on page 59 for more detail.

Strong progress on joint venture integration

We have made significant progress in integrating the two businesses that make up our Consumer Healthcare joint venture. More than 87% of our markets have completed legal closes, enabling over 95% of the legacy Pfizer employee population to formally move into GSK, with most leadership roles confirmed. 83% of markets have completed their systems cutovers, operating under one order and one invoice for customers. Markets which have completed their cutovers account for 97% of global sales.

We remain on track to deliver synergies of £500 million annual cost savings by 2022. This will be drawn from areas such as network rationalisation, logistics, infrastructure, advertising and marketing. We met our target of realising £1 billion from divestments of non-core brands, and this process is still ongoing. ThermaCare, which included our manufacturing site in Albany, Georgia, was a key divestment as it lifted integration restrictions for the two businesses in Europe.

Despite operating during a complex joint venture integration where the majority of office-based teams have worked remotely, we have seen faster decision-making, more effective meetings and greater collaboration focused on doing what's needed for consumers. This was reflected in a 16% increase in our survey results around clarity of single point accountabilities and effective decision-making, and a 17% rise in favourability on 'straight talk' conversations.

In 2020 we also completed the sale of Horlicks and other consumer health food drink brands to Hindustan Unilever Limited, after receiving the required regulatory approvals. As part of the agreement, Hindustan Unilever Limited will sell and distribute our OTC and oral health brands in India through a distribution arrangement, although we retain brand ownership. During the year, we sold our stake in Hindustan Unilever Limited, which was part of the transaction. We had always intended to sell our stake at the appropriate time, with the timing of the sale enabling us to generate a greater financial return than originally anticipated.

Meeting consumer needs amid behaviour shifts

Among its many far-reaching impacts, COVID-19 has accelerated certain consumer trends that were already underway. One such trend has been the increasing convergence of digital and health, including the rapid expansion of digital commerce. Overall, in 2020 our global digital commerce business grew by 67% on the previous year. Throughout 2020 we outperformed our peers, gaining market share on our key brands in our focus markets.[2] In the US, we grew ahead of our categories, for example gaining a market leading position in toothpaste on Amazon and in topical pain with *Voltaren*. We have also made great strides towards improving our customer experiences, including launching our first direct-to-consumer online store for *ChapStick* in the US. Since launch, the store has acquired more than 2,000 new customers and sold 116,000 sticks, and we are ahead of our plans on data capture and conversion. We have continued to improve our consumer experience and grow our first party data ahead of expected in the US, and we are leveraging our new insights back into the business.

More broadly, we have increased our investment in digital capability across our business to improve our overall speed and efficiency. This has included accelerating the digital transformation of our marketing functions, while advancing capability in new areas such as R&D and supply chain. Data, a key enabler for growth, is a particular area of focus as it allows us to better understand our consumers and customers and make smarter decisions. In 2020 we created a dedicated data team made up of data scientists, innovation specialists, user experience designers and data apprentices to build the data strategy and governance processes in readiness for a future standalone company. The team is also focused on building data literacy across our business to enable us to extract the most value from our data, which will accelerate our digital transformation.

We are also investing in data-related technology, including artificial intelligence and machine learning across our R&D, supply chain and marketing teams. This will allow us to operate more efficiently and accelerate speed-to-market.

1 Based on Nicholas Hall's DB6 Global OTC database 2019 (on the basis of consumption at manufacturers' price)

2 Internal data

We continue to enhance the digital capability and literacy of all our people. In 2020 we launched our Digital Commerce Academy, an online learning platform with training modules, playbooks, planning frameworks and other resources to help embed core digital commerce learnings and behaviours. Since launch in August, more than 1,800 employees across over 60 countries have completed training through the platform. The academy complements our digital accelerator programme, which we rolled out in 2020 in our Europe, Middle East and Africa region, following a successful launch in Asia-Pacific in 2019. The programme is designed to drive sales through digital commerce and promote a digital first culture by integrating external digital experts into our teams.

Another trend accelerated by the pandemic has been the fact that consumers are more proactive in managing their own health and wellness, with vitamins, minerals and supplements category being the biggest beneficiary. In 2020 sales of our vitamins, minerals and supplements brands grew in the high teens per cent, with particularly strong performances from power brand *Centrum* and local stars *Emergen-C* in the US and *Caltrate* in China. All three grew in double digits for the year.

HCPs significantly influence the health behaviours of our consumers and this has heightened as a result of COVID-19. Consumers are increasingly relying upon doctors, dentists and pharmacists to be a trustworthy source of self-care guidance. Our expert, field-based representatives have continued to strengthen relationships with HCPs. Within weeks of the COVID-19 outbreak, we accelerated our adoption of remote detailing, virtual conferences and roundtables and saw more than 1,000 expert field-based representatives across the world fully operational in the new ways of working. On World Pharmacist Day, in September, we partnered with the International Pharmaceutical Federation to raise awareness on an area of common interest, minimising the impact of air pollution on people's health and wellbeing. We developed a targeted digital campaign for pharmacists in 10 key countries, with the creation of social media assets to drive awareness and engagement around the topic. The campaign reached more than one million pharmacists, and engagement with the content was more than seven times the industry average. The partnership also allowed us to reach pharmacists we had not previously been able to and has laid the foundations for us to build longer-term relationships with them.

Leadership and engagement

Our focus on the quality of leadership, driven by appointments, formal development programmes and increased efforts to support employees' physical and mental wellbeing, has contributed to a 91% positive survey score from employees feeling actively encouraged to support their health and wellbeing.

Through the joint venture integration process we have created a new and diverse Consumer Healthcare leadership team with broad industry experience from both legacy GSK and Pfizer businesses alongside talent from the wider FMCG sector. We have also improved the depth of our talent – selected from both legacy businesses into our key roles.

Recognising the critical importance of purpose-driven leadership, we have created a new virtual nine-month development programme for our 140 most senior leaders in GSK Consumer Healthcare to help them identify a sense of personal and collective purpose to accelerate our growth ambitions. We also plan to further invest in the development of our people and will use our First Line Leader programmes to build capability for around 500 colleagues new to leadership roles.

Prioritising safety and supply through unprecedented challenges

We continued to drive decision-making closer to the consumer with more regional accountability across our supply chain. We accelerated this approach at the start of the COVID-19 pandemic, responding with agility and speed to changing consumer demand while upholding our commitment to safety.

Our first priority through the pandemic was to ensure the wellbeing of our employees while continuing to operate our manufacturing sites. We increased safety measures and support for our critical production employees including adjusting shift patterns to minimise employees overlap, contact tracing protocols, and regionally driven support packages, for example groceries, site lunches and safe transport.

Despite operating in unprecedented circumstances, we continued to deliver products that really matter to consumers. We built additional capacity for the most in-demand products, which fell into two broad categories: products like *Panadol*, which provide symptomatic relief, and those with immunity-boosting properties, like *Emergen-C*.

From a regional perspective, we continued to deliver with a high level of service to customers in the APAC and EMEA. In the USA we had challenges to continue to meet the high level of service our customers expect. This was caused not only by significant growth in our immunity brands but also some supply disruptions and precautionary product recalls.

We have addressed the increase in demand by putting in place significant extra capacity both internally and at our contract manufacturing organisations. We also continue to improve supply chain resilience through our network by continuing to drive a culture of quality improvement and building additional sources of supply continuity for both finished products and critical raw materials.

In 2020 we announced plans to build capacity at our manufacturing sites in Civac, in Mexico; Guayama, in Puerto Rico; Pulogadung, in Indonesia; and Cape Town, in South Africa. As part of the streamlining of our network, we closed our site in Sligo, Ireland, and announced the closure of our site in Carlisle in the US. We have also ceased production at our San Jose site in Costa Rica, with a sale of the site expected to be completed in 2021. Following the divestments of the ThermaCare business outside North America and Vesterålens Naturprodukter dietary supplements, we also announced the closure of our site in Cluj, Romania. The divestment of our Nutrition business to Hindustan Unilever included our sites in Nabha, Rajahmundry and Sonepat in India.

Trust

Trust is one of our three long-term priorities and is crucial to our purpose, enabling us to add value for our shareholders and society.

Progress

- Committed to ambitious new environmental sustainability goals: net zero impact on climate and net positive impact on nature by 2030
- Strong performance against our ESG benchmarks
- Licensed our TB candidate vaccine to the Bill and Melinda Gates Medical Research Institute for continued development
- Partnered to launch the $1 billion AMR Action Fund aiming to bring two to four novel antibiotics to patients by 2030
- FDA and EMA approved an age-appropriate formulation of *Tivicay*, for children living with HIV weighing at least 3kg and from four weeks of age
- Set new aspirational targets for gender and for race and ethnicity, to improve representation at VP level and above, and introduced mandatory inclusion and diversity training for all employees
- Formed partnerships to better prepare for future pandemics and ensure access to future COVID-19 treatments and vaccines. Including through the Trinity Challenge, our industry commitment with the Bill and Melinda Gates Foundation and our engagement with the COVAX facility
- Record response (85%) to our employee survey, with engagement score of 84% (up 6%)

Our Trust priority focuses on a broad range of ESG aspects and supports our ability to create value for society and shareholders. Stakeholders, particularly investors, are increasingly focused on how companies manage ESG factors from both a value creation and a risk management perspective (see Risk Management from page 43). Strong Trust and ESG performance ensures we remain attractive to investors, helps recruit and retain talent, mitigates risk and builds trust with those stakeholders who influence our operating environment (see Stakeholder engagement on page 16).

We have 13 Trust commitments in the ESG areas where GSK can make the biggest difference. In 2018, when we set these commitments, we worked with an independent third party to conduct a materiality assessment to identify the ESG issues most relevant to our stakeholders and to our business. The commitments help us respond to challenges and opportunities within our industry and broader society (see pages 12 to 15) and contribute to many of the UN Sustainable Development Goals (SDGs), especially Goal 3: to ensure healthy lives and promote wellbeing for all, at all ages.

Our Corporate Responsibility (CR) Committee oversees our progress against our commitments and how the company is addressing the evolving views and expectations of our broad range of stakeholders. GSK's Corporate Executive Team and senior management also oversee implementation of our Trust commitments and report regularly to the CR Committee (see pages 90 and 102).

⊕ GSK.com: GSK Materiality assessment

External benchmarking

- **DJSI:** Ranked 2nd in the pharmaceuticals industry group for the 2020 Dow Jones Sustainability Index
- **ATMI:** Ranked 1st in the 2021 Access to Medicine Index
- **FTSE4Good:** Member of the FTSE4Good Index since 2004
- **CDP:** Scored A in CDP Water and B in CDP Carbon, and named CDP Supplier Engagement Leader
- **Sustainalytics:** Leading position in Sustainalytics
- **MSCI:** AA rating
- **Vigeo Eiris:** Ranked 1st in the pharmaceuticals sector

Our approach to reporting

In this Trust section, we report progress against our 13 commitments. Online, we publish more detailed information on our contribution to the SDGs, an ESG performance summary and our UN Global Compact Communication on Progress, Global Reporting Initiative index, Sustainability Accounting Standards Board index and assurance statements.

⊕ GSK.com: ESG performance summary ▪ Our contribution to the SDGs

Science and technology

The 2020 COVID-19 pandemic showed the vital importance of using our science and technology to innovate, tackle the global impact of disease and prepare for future pandemics.

New medical innovations

Our commitment is to develop differentiated, high-quality and needed medicines, vaccines and consumer healthcare products to improve health

We use cutting-edge science and technology to discover and develop innovative medicines, vaccines and consumer healthcare products. See more about our R&D on pages 18 to 27, including how we are developing innovations to combat COVID-19.

Global health R&D

Our commitment is to improve global health impact through R&D for infectious diseases that affect children and young people in developing countries, focusing on HIV, malaria and tuberculosis

We are working to translate scientific discoveries into impactful solutions for the world's most vulnerable patients. Where appropriate, we transfer our innovation and technology to other organisations with the right capability and geographic reach. We partner with others to optimise development of our candidate medicines, vaccines and technologies and drive access for those who need them.

We also pursue early discovery global health research, particularly in neglected tropical diseases. We have two established scientific research centres focused on developing new vaccines and medicines for global health research: the Vaccines Global Health Institute (GVGH) and our Pharma R&D unit in Tres Cantos respectively.

⊕ GSK.com: Using our science for global health

Tuberculosis

In 2020, GSK joined the Project to Accelerate New Treatments for Tuberculosis (PAN-TB), a collaboration aiming to develop a pan-TB regimen (one that's effective in all forms of TB, including drug-resistant strains). We will work to identify the best possible combination of medicines to make TB treatments shorter, better and safer than the current standard of care multi-drug regimen.

We have developed a TB candidate vaccine which, in a phase IIb trial, has demonstrated the potential to reduce active pulmonary TB by half in adults with latent TB infection. In January 2020, we licensed the vaccine to the Bill & Melinda Gates Medical Research Institute for continued development.

Malaria

Our RTS,S vaccine is the first vaccine to help protect children against the deadliest form of malaria, *P. falciparum*. The WHO-coordinated pilot implementation programme led by national ministries of health, and in partnership with PATH and GSK, has been ongoing in Ghana, Kenya and Malawi since April 2019. GSK has dispatched more than 2.5 million vaccine doses, with more than 500,000 children having been reached with at least one dose of RTS,S so far.

In early 2021, GSK, PATH and Bharat announced a product transfer agreement for the malaria vaccine. This is a significant step in ensuring the long-term sustainable supply of the vaccine.

Tafenoquine (*Krintafel/Kozenis*) is our single dose radical cure treatment for *P. vivax* malaria, developed in partnership with Medicines for Malaria Venture. The prevalence of *P. vivax* peaks in children aged two to six years old. We presented data in 2020 showing tafenoquine was 95% effective at preventing relapse after four months, in children and adolescents to age 16.

HIV

In June, the US FDA approved the first-ever dispersible tablet formulation of dolutegravir, *Tivicay PD*. Before FDA approval, we began producing the dispersible tablets at our own financial risk to support rapid rollout. *Tivicay PD* is the first integrase inhibitor available as a once-daily tablet for oral suspension for children with HIV weighing at least 3kg and from four weeks of age. The FDA also passed updated dosing recommendations for the already approved *Tivicay* 50mg film-coated tablet in paediatric HIV patients weighing 20kg and above. This will help to close the gap between HIV treatment options available for adults and children. Further to this approval, in January 2021, the EMA also granted marketing authorisation for *Tivicay* 5mg dispersible tablets and included updated dosing recommendations for *Tivicay* 50mg film-coated tablets for children with HIV.

Through our public-private partnership with the Clinton Health Access Initiative, Unitaid and two generic manufacturers (Mylan and Macleods), we continue to expedite the development, registration and market entry of generic formulations of paediatric dolutegravir in resource-limited settings. A key milestone was recently achieved when Mylan and Macleods submitted new drug applications for a scored dolutegravir 10mg dispersible tablet for tentative approval under the FDA President's Emergency Plan for AIDS Relief (PEPFAR) scheme. Mylan received tentative FDA approval in November 2020. This is the fastest generic manufacturers have filed and the shortest gap between originator approval and generic medicine approval.

Health security

Our commitment is to help the world to better prepare for future disease outbreaks with pandemic potential, and tackle antimicrobial resistance

Pandemic preparedness

We have taken a broad approach to developing COVID-19 solutions, see page 24 for further details on how we are applying our science to find COVID-19 innovations. We also believe that there are many areas that could help improve future pandemic preparedness.

In 2020, we joined the industry commitment to expand global access for COVID-19 diagnostics, therapeutics and vaccines, facilitated by the Bill & Melinda Gates Foundation. Collaborating and aligning resources across industry and government should enable a faster path out of the current COVID-19 crisis, and also lay the foundation for a strong pandemic preparedness ecosystem for the future.

In 2020, we became a founding member of the Trinity Challenge collaboration, alongside Google, Microsoft, Facebook and others. Our collective vision is to safeguard the lives and livelihoods of one billion more people by using data and analytics to better predict and prevent outbreaks, epidemics and pandemics.

GSK.com: Industry COVID-19 joint communique

Addressing antimicrobial resistance (AMR)

AMR represents one of the gravest threats to global public health. GSK is playing a leading role in the industry's response, ranking first among the large pharmaceutical companies in the Access to Medicine Foundation's AMR Benchmark.

We have 28 R&D projects targeting priority pathogens, including pathogens deemed 'critical' and 'urgent' by WHO and the US Centers for Disease Control and Prevention (CDC). Fifteen relate to vaccines and we continue to see vaccination as a major pathway to fight AMR. See page 21 for further details on our pipeline.

In 2020, we partnered with more than 20 major biopharmaceutical companies and WHO, the European Investment Bank and the Wellcome Trust to launch the $1 billion AMR Action Fund. The fund aims to bring two to four novel antibiotics to patients by 2030.

In 2020, we trained over 70,000 healthcare professionals across 30 countries on the appropriate use of antibiotics.

We have been working with the AMR Industry Alliance, which is setting new global limits for antibiotic discharges. We have also audited, and improved where needed, our antibiotic supply chain, which includes 20 GSK factories and 45 supplier factories in 19 countries. We are on track to ensure that factory discharges are negligible and conform to the alliance's standards by the end of 2021. Currently, 100% of GSK's factories and 71% of our suppliers' factories are fully compliant.

GSK.com: Preparing for future disease threats

Affordability and availability

We are making our products affordable and available to more people around the world through responsible pricing, strategic access programmes and partnerships.

Pricing

Our commitment is to improve the health of millions of people each year by making our products available at responsible prices that are sustainable for our business

In the US, the pricing of all our new products reflects the value delivered to patients, healthcare systems and wider society compared to other available alternatives, and supports innovation to meet future healthcare needs.

The average net price (after discounts, rebates or other allowances) for our products in the US decreased by about 3.2%[1,2] annually over the past five years while the average list price rose by 5.7%[1,2]. In 2020, our combined average net price for our pharmaceutical and vaccines portfolio in the US fell by about 0.7%[1] while the average list price rose by 3.2%[1].

We offer various types of patient support, including patient assistance programmes, coupon and co-pay programmes and reimbursement support to help ensure appropriate access to our medicines. In 2020, we provided prescribed medicines and vaccines to more than 95,000 low-income uninsured, underinsured, and Medicare Part D patients through GSK and ViiV Healthcare's Patient Assistance Programs Foundation.

In Europe, we engage with many stakeholders to develop approaches that ensure sustainable healthcare systems and continued access to our innovative medicines. For example, the pricing of *Zejula*, our medicine for ovarian cancer, reflects the value it delivers (to patients, caregivers, payers and society) by demonstrating cost-effectiveness and a predictable budget.

In developing countries, we use innovative pricing structures to extend product reach (see pages below). Our tiered pricing model for vaccines is based on four widely-recognised World Bank gross national income country classifications of high, upper-middle, lower-middle and low-income countries. Each tier has price ceilings and floors which progressively decrease through the tiers from high to low-income countries. For medicines in low-income countries, we do not file patents for our medicines nor enforce historic patents. This allows generic companies to manufacture and supply generic versions of GSK medicines in those countries.

GSK.com: Pricing and access strategies

Product reach

Our commitment is to use access strategies to reach 800 million underserved people in developing countries with our products by 2025

Since we set our product reach target in 2018, our products have reached over 267 million people.[3]

Our commitment to Gavi

Our tiered pricing principles mean that we reserve our lowest vaccines prices for organisations such as Gavi. GSK is one of the largest suppliers of vaccines to Gavi: since 2010 we have supplied more than 856 million doses of vaccines. Our partnership has allowed us to introduce and rapidly scale up access to new vaccines, that might otherwise have taken years to reach children in low-income countries. In 2020, we confirmed our ongoing supply of *Cervarix* to Gavi to support its continued efforts to protect girls from human papillomavirus.

We provided our pneumococcal vaccine, *Synflorix*, to eight Gavi-eligible countries and one former Gavi country at a discounted price, reaching an estimated 17 million children in 2020. Our *Rotarix* vaccine against rotavirus reached 25 million children across 32 Gavi-eligible countries and four former Gavi countries. In addition, our oral polio vaccine, supplied to Unicef for polio eradication, reached almost 22 million people.

1 Calculated across GSK and ViiV Healthcare products.

2 5-year CAGR calculated Jan 2016-Dec 2020.

3 Total excludes reach through albendazole donations which will be assessed in 2025.

Voluntary licensing

ViiV Healthcare's voluntary licensing agreements allow 18 generic manufacturers to produce and sell low-cost single or fixed dose combination products containing dolutegravir for adults and 15 generic manufacturers for children. This covers 95 countries for adults and 121 for children.

Agreements with the large majority of manufacturers are via the Medicines Patent Pool. By the end of 2020, at least 16.3 million people living with HIV, across 113 countries in the developing world, had access to a generic dolutegravir-containing product, because of these licensing agreements. This corresponds to at least 80% of people living with HIV on antiretrovirals in low- and middle-income countries.

Product donations

Since 1999, we have donated over 10 billion albendazole tablets to WHO – including 416 million in 2020. This investment supports efforts to eliminate lymphatic filariasis (LF) and control intestinal worms (soil-transmitted helminths) in school-age children. So far, this has benefited patients in 92 countries around the world and 17 countries have eliminated LF as a public health problem.

To support the global response to COVID-19, we donated over 1.7 million GSK products – such as our antibiotics, oral health products and multivitamins – to 32 countries.

In partnership with Americares, Direct Relief, IHP UK and MAP International, over 200,000 units of medicines were donated for humanitarian and emergency response.

⊕ GSK.com: Pricing and access strategies

Healthcare access

Our commitment is to partner to improve disease prevention, awareness and access to healthcare services for 12 million people by 2025

In 2020, we exceeded this target, reaching 13.9 million people through our partnerships.

In 2020, ViiV Healthcare Positive Action launched a new 2020-30 strategy and vision. This continues to explore innovative ways of supporting people-centric and community-led interventions to help meet the UN fast track targets of ending AIDS by 2030. ViiV Healthcare's Positive Action for Children's Fund reached over 484,000 people in 2020.

Over 3.2 million people have benefited from our partnership with Comic Relief, which is focused on combatting malaria. We have contributed more than £14 million to 28 projects in Africa and South East Asia, improving malaria awareness and prevention efforts, and getting treatment to patients.

Since 2011, in partnership with Save the Children, Amref Health Africa and CARE International, GSK has invested in training frontline health workers who work with communities in low- and middle-income countries. In 2020 alone, we trained approximately 15,000 health workers, reaching over three million people[1]. We have partnered with Save the Children since 2013 and, in 2020, directly reached over 400,000 people with health services, health messaging and other programme activities.

In 2020, GSK supported the Gates CEO Roundtable, a public-private collaboration to train community health workers across six countries in sub-Saharan Africa through tech-enabled community health programmes. In its first year the programme reached over 537,600 people and trained over 1,150 community health workers.

Our partnership with Smile Train helps children with cleft lip or palate to lead full and healthy lives, benefitting over 2,250 young people in 2020 with free surgeries, and over 5,000 with pre and post-surgery cleft care and other forms of support.

In 2020, we contributed £250 million to community initiatives. This includes cash, product donations and the volunteering time of our employees to help improve healthcare access. We also provided support to healthcare workers during the pandemic, more detail can be found on GSK.com.

⊕ GSK.com: Prevention, awareness and infrastructure ▪ COVID-19 community giving response ▪ ViiVHealthcare.com: Positive Action programmes

Modern employer

A positive employee experience is critical to attract, retain and motivate the best people. We want our employees to be empowered to be themselves, feel good, and keep growing.

Engaged people

Our commitment is to achieve and maintain a competitive employee engagement score by 2022

We survey our employees annually to get feedback about how we are doing on our Innovation, Performance, Trust and Culture long-term priorities. In May 2020, a record 85% of people took time to feedback. Our overall engagement score jumped to 84%, a 6% rise since the 2019 survey, and 89% feel proud to work at GSK (up 5% from 2019).

Inclusion and diversity (I&D)

Our commitment is to accelerate our progress on I&D, including aspirational targets for female and ethnically-diverse representation in senior roles by end 2025, and recognition as a disability confident employer and in LGBT+ indices

We believe that inclusion and diversity (I&D) leads to business success by unleashing the enormous potential of all our people and strengthening our ability to respond to the differing needs of our patients and consumers. At the heart of our I&D agenda lies our fundamental commitment to equity in our employment practices. To support this, and create an inclusive workplace, all employees participate in an annual training programme, we facilitate inclusion dialogues, and we invest in our leadership programmes to ensure all leaders understand their responsibilities.

1 Health worker data is estimated based on 2019 reach through the same partner programmes and level of funding. Final 2020 data is expected to be available in April 2021.

Trust continued

Our Corporate Executive Team (CET) members lead our four diversity councils (covering race and ethnicity, gender, disability, and LGBT+), working with senior leaders and members from our employee resource groups.

To measure our progress, we monitor two questions in our employee survey: in 2020 81% of participants said they can be their authentic self at GSK (up 5% on 2019) and 87% feel respected at work (up 6% from 2019). We also added a new question to our manager feedback tool, One80. This asks employees to rate whether "through their actions, my manager demonstrates a commitment to inclusion and diversity in our team": leaders scored an average of 4.4 out of 5.

Race and ethnicity

We are committed to equality of representation, which means that we constantly strive to ensure our workforce reflects the communities in which we work and hire. Specifically, we aspire to increase the percentage of our leaders who identify as ethnically diverse. In countries that meet a threshold that ensures confidentiality and anonymity of data, we will disclose employee race and ethnicity by level and communicate a country-wide aspiration to increase the representation of ethnically diverse leaders. In 2020, the US and the UK satisfied this threshold and we provide disclosures of current representation and have set aspirations.

The disclosures below reflect GSK's representation, as of 31 December 2020, for employees who actively and voluntarily disclosed their race or ethnicity.

Race and ethnicity: US (%)[1]

	SVP/VP	Director	Manager	All employees
Ethnically diverse	**23.2**	**25.3**	**29.3**	**30.0**
American Indian or Alaska Native	*	0.4	0.3	0.4
Asian	10.8	13.8	15.9	12.9
Black or African American	5.8	5.5	6.3	9.9
Hispanic or Latinx	5.0	4.5	5.1	5.1
Native Hawaiian or Other Pacific Islander	*	0.3	0.1	0.2
Two or more races	1.2	0.9	1.6	1.5
White	**76.8**	**74.7**	**70.8**	**70.0**

* Insufficient data to report (fewer than three employees).

In the US, 6.3% of employees did not actively respond to identify a race or ethnicity category, and a further 1.2% indicated 'I prefer not to say'.

1 Due to rounding, the sum of the data may be marginally different from the totals.

We aspire to increase the representation of ethnically diverse VP and above leaders to at least 30% in the US by the end of 2025. We are specifically focused on increasing the percentage of Black or African American and Hispanic or Latinx VP and above leaders; we expect – and will monitor – year-on-year growth. By our target date of 2025 we expect to see growth across all identified groups.

Race and ethnicity: UK (%)[1]

	SVP/VP	Director	Manager	All employees
Black, Asian and minority ethnic	**11.1**	**16.7**	**21.8**	**18.7**
Asian	5.7	11.8	16.0	13.1
Black	1.6	1.8	2.3	2.5
Mixed	1.2	1.5	1.8	1.8
Other	2.5	1.6	1.6	1.3
White	**88.9**	**83.4**	**78.2**	**81.3**

In the UK, 11.5% did not actively respond and a further 3.9% indicated 'I prefer not to say'.

1 Due to rounding, the sum of the data may be marginally different from the totals.

For the UK, we aspire to increase ethnically diverse VP and above leaders to at least 18%, by the end of the 2025. We are specifically focused on increasing the percentage of Black VP and above leaders; we expect – and will monitor – year-on-year growth. By our target date of 2025, we expect to see growth across all identified groups.

To support our aspirations and our commitment to equality of representation we are focused on recruiting and developing diverse talent. This includes: setting appropriate and ambitious targets for ethnically diverse candidates for our early talent programmes in the US and UK; launching a new global development programme, Accelerating Difference, for ethnically diverse employees; and, for our most senior roles, we are also introducing a policy that requires a diverse shortlist of qualified candidates, including ethnically diverse representation (as defined appropriately by country).

Gender

The percentage of women in management continues to rise at GSK. We are proud to report that in 2020 we achieved an important landmark, with the global percentage of female managers, presently 48% (47% in 2019), being equal to or greater than the percentage of non-managers, currently 47%, and 38% of senior management roles at VP and above – up from 36% in 2019.

The latest Hampton-Alexander Review found that GSK ranked in the top quartile of FTSE 100 companies based on proportion of women on the Board, with 42% female representation. Within the FTSE 350 sector analysis, GSK ranked 2nd in the Pharmaceuticals sector (up from 3rd in 2019).

Women in management (%)

	2020	2019	2018	2017
SVP/VP	**38**	36	33	31
Director	**46**	44	43	43
Manager	**50**	49	48	47
All management	**48**	47	45	44

Employees by gender (number)

	Male	Female	Total
Board	7	5	**12**
Management*	10,117	9,303	**19,420**
All employees	50,005	44,061	**94,066**

* Senior managers as defined in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

We have increased our global gender aspiration for VP and above roles to 45%, or higher, by the end of 2025. Importantly, we are pursuing steps within the countries in which we operate to enable and encourage our employees to voluntarily self-disclose their gender identity.

We published our fourth annual UK gender pay gap report in 2020. Our gender pay gap for all permanent UK-based GSK employees is 1.41% (mean), outperforming the national average of 14.6%. We have a long-standing commitment to fair and equal pay. We conduct country-based reviews and ensure all markets have clear guidance, tools and support to ensure pay equity. If unexplainable differences are detected, we address them through our compensation processes.

Disability

We are signatories to the UK Department for International Development's Charter for Change, joining other organisations with a common aim to ensure rights, freedoms, dignity and inclusion for people with disabilities. In 2020 GSK also signed up to the Valuable 500 pledge. This involves continuing to invest in workplace accessibility, building the inclusivity skills of our people, improving our products' packaging accessibility, and developing a measurable three-year strategic Disability Confidence plan.

LGBT+

Our goal is to be recognised in global LGBT+ indices. For two consecutive years (2019/2020), LGBT+ rights group Stonewall has recognised GSK in its Top Global Employers list. We also ranked in the top 10 in the UK Stonewall Index, with our employee resource group for LGBT+ employees and allies named as the best in the UK. In the US, GSK was named Best Place to Work for LGBTQ equality for the fourth year running in Human Rights Campaign's Corporate Equality Index. We are a founding member of the Proud Science Alliance, a collective of LGBTQ+ networks that work together to raise the bar on LGBTQ+ inclusion across the health and life sciences sector.

Health, wellbeing and development

Our commitment is to be a leading company in how we support employee health, wellbeing and personal development

Health and wellbeing

GSK's Executive Team has overseen our COVID-19 response, including the health, wellbeing and engagement of our employees as a primary focus. In support of this, we have developed a strong health and safety framework aligned to site needs, specific role types or certain activities, for which we have provided training.

During 2020, we monitored confirmed COVID-19 cases and recoveries in our workforce on a daily basis. We developed minimum standards for returning to the workplace, and provided clear expectations on the wearing of personal protective equipment, employee testing and temperature-screening to make the workplace as safe as possible, enabling more employees to return to sites.

We supported employees working from home with ergonomic advice and equipment, provided online training on remote working and continued to ensure sufficient employee assistance support for all employees as well as their dependants.

Mental health training is available for all employees and 10,897 managers completed it in 2020. We encourage everyone to be open, to ask for help and access support when they need it.

In 2020, more than 22,000 employees completed energy and resilience programmes via our online training and development platform, 12,060 participated in COVID-19-focused resilience webinars and 18,688 in virtual mindfulness sessions. We also introduced a personalised, digital health platform in 25 countries which includes a subscription to a mental health app for individual self-support. We measure organisational stress via the platform to focus mental health support where required.

Employee safety

Overall, our reportable injury and illness rate fell from 0.22 per 100,000 hours worked in 2019, to 0.17 in 2020. The reduced numbers of employees driving and based at GSK sites, due to the pandemic, will have contributed to this decrease.

Despite our extensive safety programmes, tragically we experienced two employee fatalities: one at a manufacturing site in Canada and another in a road traffic accident in India. There was an additional work-related fatality in Belgium, involving a construction worker not under GSK's direct supervision. We conducted extensive investigations into the causes of each fatality, to ensure we could take actions to reduce the risk of similar tragic incidents occurring. We have developed a safety improvement plan to further strengthen our existing safety practices.

Approximately 20,000 employees drive on company business. To help those employees drive safely we run a driver safety programme which combines online learning with practical road safety activities. We have over 15,000 drivers from more than 60 countries enrolled in this programme.

People development

We want our people to keep developing throughout their career. Every employee has the opportunity to discuss and agree a development plan with their manager. In 2020, 93,718 employees accessed training resources through our internal development portal. During the year, we redesigned and rolled out a new virtual First Line Leader training programme.

We provide targeted development for leaders at all stages of their careers. In 2020, we established four leadership accountabilities; motivate, focus, care and develop, in support of our purpose and performance driven culture.

We also updated our One80 manager feedback tool to help managers see what they do well and where they need to focus their development. Every manager is expected to complete the process, which involves a self-assessment and survey for their team to answer the same questions. In 2020, 9,892 managers participated in One80 and 60,386 employees provided feedback to their managers. On a rating scale of 1-5, on average our managers were scored 4.3 by their team.

We are committed to recruiting and developing people at the start of their careers and currently have 677 people on our graduate and MBA programmes globally and 448 on apprenticeships in 11 countries.

⊕ GSK.com: Employee engagement • Learning and development

Responsible business

Operating as a responsible business means being transparent with our science and our data, delivering a reliable supply of high-quality products, protecting a values-driven culture where issues are responded to swiftly and transparently and reducing our environmental impact.

Reliable supply

We commit to quality, safety and reliable supply of our products for patients and consumers

Ensuring a high-quality and reliable supply of our products for patients and consumers is a priority for us. See pages 29, 30 and 32 for more on how we manage continuity of supply. This has been especially important during the pandemic.

Our robust quality management systems support continuous improvement, helping us to maintain high standards for product quality and safety and complying with relevant regulations, including those on Good Manufacturing Practice, Good Laboratory Practice, Good Pharmacovigilance Practice and Good Clinical Practice. There were 142 external regulatory inspections (many carried out 'virtually' due to the pandemic) at our manufacturing sites and local operating companies in 2020. GSK addresses all inspection findings, however minor, and has robust processes to ensure corrective and preventive action plans are implemented in a timely manner.

In 2020, we carried out 1,839 quality audits of suppliers and 223 audits of clinical studies run by, or on behalf of GSK. Where we identify areas that require improvement, we engage with the relevant third parties to develop improvement plans and track their progress. If significant issues are identified and remain unresolved, we may choose to suspend or terminate work with a third party.

Pharmacovigilance

Detecting, assessing, understanding and preventing adverse effects or any other drug-related problem is important in evaluating the safety of pharmaceutical products. We continue to work with partners to maintain high standards with respect to safety and medical governance. We apply the same rigour and safety standards to our potential COVID-19 related solutions.

To prevent the manufacture and distribution of counterfeit GSK products, we continue to work with international law enforcement agencies. In 2020, we played a key role in anti-counterfeiting actions in China which resulted in the closure of eight locations that manufactured millions of counterfeit goods, including some of our toothpaste brands.

⊕ GSK.com: Patient safety and reliable supply

Ethics and values

Our commitment is to operate an ethical, values-driven culture, in which any issues are responded to swiftly and transparently

We have high expectations for our employees to live up to our values and to act when they have concerns, and we extend this expectation to our third parties.

Living our values and expectations

Our 2020 employee survey showed that we are making good progress in living up to our values and expectations with 89% of employees agreeing that their work environment encouraged ethical behaviour in the face of pressures to meet business objectives (up from 86% in 2019).

We also conducted a joint review with our commercial practices and anti-bribery and corruption audit team on sales force incentives. The review findings highlighted a strong patient focus, and pride in working for GSK. The review also identified opportunities to better embed our values and expectations in daily work to reach all employees.

Every GSK employee and complementary worker is required to complete the Living Our Values and Expectations mandatory training annually. In 2020, 99.9% of our employees and 97% of our complementary workers completed this training, which focused on 'Protecting GSK'. Content included topics such as anti-bribery and corruption (ABAC), our Code of Conduct, information security, privacy, our independent third-party Speak Up integrity lines (for reporting of concerns), human safety information and adverse event reporting. This training helps to identify and manage risks that appear in day-to-day roles.

Our mandatory ABAC training continued and 100% of employees and 99.5% of contract workers completed this training in 2020, which focuses on principles to assist employees to identify and mitigate ABAC risk and to recognise, report and mitigate conflicts of interest.

Reporting and investigating concerns

Anyone inside or outside GSK can raise concerns or speak to an independent third party through our integrity lines, confidentially or anonymously, without fear of retaliation. We take every concern very seriously and review every report to understand whether a formal investigation is needed. If our investigations show that an employee has breached our policies, we take appropriate disciplinary action.

In 2020, 2,146 employees were accused of misconduct and we initiated 1,529 formal investigations, with most policy violations relating to behaviour in the workplace. As a result, 788 employees were disciplined, of whom 171 were dismissed or voluntarily left and 617 received a documented warning. In other instances, action short of a documented warning was taken. At the end of 2020, we had 448 cases awaiting investigation or a disciplinary decision.

Employees disciplined in 2020: breakdown of types of policy violation (%)[1]

Behaviour in the workplace	35%
Good manufacturing and distribution practices	24%
Mandatory training completion	8%
Marketing and promotional activities	7%
Expenses	6%
Other[2]	20%

1 An employee can be subject to multiple allegations and disciplinary actions.
2 Policy violation types that do not fit into the categories specified.

Human rights

We are committed to respecting human rights throughout our global operations and continue to deepen our understanding of the human rights impacts associated with our activities.

In 2020, we further improved our visibility of labour rights risks in the supply chain. With the support of external experts, we identified the raw materials and commodities that are sometimes linked to modern slavery and are now prioritising them for due diligence activities. A similar risk assessment for our indirect suppliers is in progress.

Through our membership of the Pharmaceutical Supply Chain Initiative's Human Rights and Labour Sub-Committee, we supported the delivery of human rights and modern slavery training sessions for suppliers in India and China. We also engaged with stakeholders in Brazil to better understand the forced labour risks and certification schemes associated with carnauba wax – used for tablet coatings – and presented our findings to suppliers.

Progress in each of our other priority human rights areas (access to healthcare, research practices, patient safety, environment, health and safety, and privacy) can be found in the relevant sections of this report and on our website.

⊕ GSK.com: Human rights ▪ Modern Slavery Act statement

Working with third parties

We want to ensure that the third parties we work with share our values and ethical and business standards. Our Third Party Oversight (TPO) programme has been embedded globally and we continue to refine it. During 2020, over 14,000 risk assessments were completed through the TPO programme, and more than 400 third parties identified as high risk have undergone detailed independent assessments by EcoVadis.

To help ensure continuity with our suppliers in 2020, throughout the COVID-19 pandemic we conducted supplier financial checks, offering support if suppliers' financial health deteriorated, for example by relaxing our payment terms.

We continued to work with our third-party suppliers to reduce EHS risks, and conducted 36 audits on EHS and ethics. In countries where physical visits were not possible, these were virtual. In 2020, we expanded our priority suppliers from 30 to 78. Priority suppliers are those with whom we have significant spend, that support significant revenue and/or are medically or R&D critical to the business.

We provide proactive support to help our suppliers build safety improvement plans and build their overall capability. We use a range of tools to assess suppliers' management of EHS risks including use of EcoVadis desktop assessments, and on site or virtual audits. We set clear EHS requirements for all suppliers, discontinue work with those suppliers who consistently fail to meet these requirements and continually review EHS performance at suppliers as part of our internal EHS governance and oversight processes.

⊕ GSK.com: Ethics and values

Data and engagement

Our commitment is to use data responsibly and transparently and improve patient and scientific engagement

Responsible data use

We are committed to using data responsibly and transparently. This includes managing data carefully, sharing the results of our clinical studies, integrating patient insights into our product development, and providing healthcare professionals with relevant and accurate information when they need it.

In 2020, we evolved our privacy approach to better align with external expectations and the 'privacy by design' framework. We ensure data-owners consider privacy right at the start of activities, and established a specialised privacy review panel to assess appropriateness of secondary use personal information in R&D, to ensure we protect individuals' rights and freedoms.

Our annual Code of Conduct training, mandatory for all our employees globally, includes a module on privacy. This reinforces an understanding that everyone at GSK is personally responsible for the correct handling of personal information. We also provide training for all new hires, and everyone filling a key privacy role undergoes certification from the International Association of Privacy Professionals, which requires ongoing privacy education to maintain.

We are also a critical partner in the TransCelerate consortium's effort to create a harmonised approach for the pharmaceutical industry to support the exchange of data internationally.

Clinical trial transparency

As part of our long-standing commitment to data transparency for our clinical studies, we have published 2,708 clinical study reports and 6,168 summaries of results – both positive and negative – from our studies on our clinical study register. We also share anonymised patient-level data from our studies with external researchers.

We have listed 2,480 studies for data sharing via www.vivli.org and www.clinicalstudydatarequest.com.

⊕ GSK.com and online: GSK Privacy Notice ▪ GSK Clinical Study Register

Patient and scientific engagement

In 2020, we conducted a number of patient panels across a wide variety of different disease areas. We have also established a process to seek patient feedback on the design of our clinical trials.

We have continued to increase our focus on improving the diverse representation in clinical trials so they represent the real world population in terms of age, race, ethnicity and gender. Our approach characterises the populations with the burden of disease and barriers to access and engages with communities and advocacy groups. We also provide training and support to our staff and increasingly to our research collaborators on enrolling diverse populations in clinical trials.

To read about our approach to engaging with HCPs, see our code on HCP engagement.

⊕ GSK.com: Clinical trial diversity, Patient Engagement, Engaging with HCPs

Trust continued

Environment

Our commitment is to have a net zero impact on climate and a net positive impact on nature by 2030

We set these two ambitious new climate and nature goals in November 2020, and will start reporting against them in our 2021 Annual Report.

Our new climate goal means that we aim to have net zero scope 1, 2 and 3 carbon emissions by 2030. As part of our climate goal, we have been accredited for 1.5°C-aligned emissions reduction targets (covering Scopes 1, 2 and 3[1]) by the Science Based Targets initiative. We have also joined RE100, reinforcing our commitment to renewable electricity and EV100, reducing the impact of our sales fleet.

Our nature goal is underpinned by ambitious targets and focuses on water reduction and water stewardship compliance, waste reduction and circularity (including eliminating plastics), API emissions reduction, adoption of biodiversity action plans and measurement of carbon and/or land use improved from nature-based solution programmes. As part of these, we will invest in projects to protect and restore land-use. We will align with the Science Based Targets for Nature approach to measure our impact on nature and will seek to accredit the target when this methodology is finalised.

We seek to deliver these goals by taking action on priority impact areas and working with key external partners including our suppliers and customers. See GSK.com for the full set of targets. This is the last year we will report against our previous targets, which were set in 2018.

⊕ GSK.com: Our new environmental approach

Carbon

Our overall value chain carbon footprint is made up of Scope 1 and 2 emissions from our own operations (8%), and Scope 3 emissions from our supplier base (45%), logistics (6%), and the use of our products (40%), mostly metered dose inhalers.

We will report progress against our new carbon targets in 2021, but for a final year we are reporting progress against the targets we set in 2018. These are 2030 targets, set against a 2016 baseline, to: reduce operational carbon emissions (Scope 1 and 2) by 20%; reduce value chain carbon emissions (Scope 3) by 25% per £ billion revenue; and source 60% of electricity from renewable sources.

In 2020, we reduced our Scope 1 and 2 emissions by approximately 24% compared to 2019 (34% since 2016), largely because we transformed our use of renewable electricity through the purchase of green certificates. This means 52% of the electricity we used was sourced renewably, exceeding our interim target of achieving 30% by 2020. We also saw a reduction in Scope 1 emissions as national lockdowns reduced the need for driving from our salesforce.

We continued installing and improving our use of existing renewable energy on site and our energy efficiency programme continues to identify further opportunities to reduce energy consumption. For example, we installed a new heat exchanger at our Mayenne site in France, which transfers heat previously lost in chilling water and uses it to provide 70% of hot water demand for the site.

In 2019, (our latest available data for all categories)[2], absolute Scope 3 emissions decreased by 10% vs 2018, and by 19% per £ billion revenue. This represents a reduction of 32% per £ billion revenue since our 2016 baseline year. This was mainly because of a reduction in the carbon intensity of products purchased, updated data on the emissions from milk for Horlicks and reduced emissions from metered dose inhalers.

Our *Ellipta* dry powder inhalers (DPI) have a lifecycle carbon footprint around 24 times lower than a propellant-based inhaler[3]. In 2020, we certified the carbon footprint of *Trelegy Ellipta* working with the Carbon Trust, and recertified the carbon footprints of our other *Ellipta* products. We support efforts to promote low carbon inhalers wherever possible.

We recognise our suppliers' efforts to reduce their environmental impacts through our annual Supplier Environmental Sustainability Awards. See the winners on GSK.com.

We also expanded our climate resilience analyses, see page 46 for the Task Force on Climate-Related Financial Disclosures framework guidelines. In 2020, we introduced new targets related to carbon, which are published on GSK.com. With our new net zero targets, we have joined the Race to Zero: a global UN campaign, which aims to build momentum around the shift to a decarbonised economy ahead of the next climate summit, COP 26.

⊕ GSK.com: Our new environmental approach, Supplier awards

Carbon emissions[4] plus intensity ratios (as per regulations)[5]

'000 tonnes CO_2e	2020	2019	2018
Scope 1 emissions	**773**	795	825
Scope 2 emissions	**228**	522	535
Scope 3 emissions	**Available in 2021 report**	14,260	16,335
UK Scope 1 & 2 emissions	**142**	195	203
Energy used	**2020**	2019	2018
Scope 1 and 2 emissions/ sales revenue (tonnes CO_2e/£m)	**29.4**	39.0	44.2
Scope 1 and 2 emissions/ FTE (tonnes CO_2e/FTE)[4]	**10.6**	13.3	14.3
Scope 3 emissions/£bn revenue (million tonnes CO_2e/£bn revenue)	**Available in 2021 report**	0.6	0.53
Total energy used (GWh)	**3,884**	4,079	4,187
UK energy used (GWh)	**940**	975	1,081

1 Our Scope 1 and 2 SBTI-accredited target aims for a 34% by 2025 from a 2017 baseline, and our Scope 3 target commits us to reducing absolute Scope 3 emissions 16% by 2030 from a 2017 baseline.

2 2020 figures are expected to be available later in 2021.

3 For one year's treatment, use of propellant-based inhalers results in a carbon footprint of 228kg CO_2e compared with 9.6kg CO_2e from using *Ellipta* dry powder inhalers.

4 Carbon emissions are calculated according to the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (revised edition). GSK uses market-based Scope 2 emissions for reporting purposes and reports Scope 3 emissions across all 15 categories. See our ESG performance summary.

5 GSK asks DNV to provide limited assurance to ISAE 3000 for energy, Scope 1, 2 and selected Scope 3 carbon emissions, water, waste and wastewater data. Methodologies for reporting and measurements are provided in our ESG Performance Summary, on the KPI definitions pages.

Water

We aim to reduce our total water use at each high-risk site by 30% by 2030 (set against a 2016 baseline). We now have seven high-risk water sites following network changes, which saw our last high-risk water vaccine sites and the Consumer Healthcare Horlicks sites leave the network. As a result, large volumes of water used in water stress areas have been removed from our operations. The seven remaining high-risk water sites are on track to achieve our reduction target.

Water challenges are not simply about volumetric reduction. Good water stewardship means reducing the amount of water we use, improving water quality through minimising discharges and working with community stakeholders to address local water challenges.

In 2020, 85% of our sites were compliant with our water stewardship standard, meeting our 2020 target of 80% , and continue to work towards reaching 100% by 2025.

In 2020, we introduced new targets related to water, which are published on GSK.com and having joined the UN CEO Water Mandate, in 2020 we also joined the UN Water Resilience Coalition.

⊕ GSK.com: Our new environmental approach

Waste

By the end of 2020, all of our sites had stopped sending hazardous and non-hazardous waste to landfill.[1] Company-wide validation of this 10-year ambition will be completed during the first half of 2021. This achievement excludes waste, such as asbestos, that must be sent to landfill.

We also have a commitment to ensure all waste is repurposed for beneficial use by 2030. At our site in Parma, Italy, for example, we have implemented initiatives to increase the amount of solid waste sent to incineration with energy recovery, and to concentrate a hazardous waste stream preventing the incineration of around 2,900 tonnes of contaminated water. These programmes have increased the amount of waste repurposed for beneficial use at the site to 59% in 2020 (up from 18% in 2019) and reduced overall waste by 34%.

See GSK.com for our new waste reduction and circularity targets.

⊕ GSK.com: Our new environmental approach

Responsible sourcing

In 2020, we carried out a risk assessment, which helped us to identify the 15 highest-risk materials in our supply chain. As a result of this assessment, we are developing responsible sourcing plans for each of these high-risk materials.

We are committed to moving towards deforestation-free sourcing for all key commodities purchased directly by GSK, or indirectly on our behalf, by 2030. In early 2021 we expanded the scope of our deforestation-free sourcing policy to cover soy, cattle-derived products and rubber, as well as palm oil and paper packaging.

We made our first submission to CDP Forests, covering the sourcing of palm oil and paper packaging. For our paper packaging, the majority (80%) of our carton supply chains are Forest Stewardship Council or Programme for the Endorsement of Forest Certification (PEFC) certified.

In 2020, we joined the Action on Sustainable Derivatives, which enabled us to trace 74% of palm oil by volume back to mill level.

Around 100 of the materials we use to manufacture our products are derived from bio-based sources. Of these, very few are animal-derived. Our ambition is to move to non-animal derived and/or sustainable alternatives for these materials, but this will take time to ensure the efficacy and safety of our products are not compromised.

See GSK.com for our new responsible sourcing and biodiversity targets.

⊕ GSK.com: Our new environmental approach

Plastic

We have set a target for our consumer healthcare business to eliminate all problematic and unnecessary plastics, reduce our plastic footprint by 8,000 tonnes and ensure all of our packaging is recyclable where quality and safety permits, by 2025.

Our consumer healthcare business developed a Design for Sustainability tool, which will enable us to design new products in a sustainable way, minimising plastic use. For example, through this tool, we have launched our first sustainable plastic-free toothbrush in Germany.

We have also continued efforts to reduce our single use plastic footprint. We have removed 17 million single use plastic items – equivalent to 185 tonnes of plastic – since our reduction programme began at the end of 2019.

See GSK.com for our new target relating to pharmaceuticals in the environment.

⊕ GSK.com: Our new environmental approach

Pharmaceuticals in the environment

We are committed to ensuring that active pharmaceutical ingredients (APIs) do not adversely affect people or the environment. We are a key partner in a new project with the Innovative Medicines Initiative (IMI), focused on the Prioritisation and Risk Evaluation of Medicines in the EnviRonment (PREMIER). This multi-stakeholder project will make environmental data on APIs more accessible to stakeholders.

We are committed to ensuring that any API emissions from manufacturing, including those that might contribute to anti-microbial resistance (AMR), are kept below levels that negatively impact human health or the environment. We carry out environmental testing on all our pharmaceuticals and use this data in risk assessments to evaluate potential for harm. We use this data to set safe discharge targets for our manufacturing supply chain. For more on reducing AMR risk, see page 35.

See GSK.com for our new target relating to pharmaceuticals in the environment.

⊕ GSK.com: Our new environmental approach

1 See KPI definitions in our ESG Performance Summary for exceptions.

Risk management

GSK has a well-embedded risk management framework, which is reviewed continually. Board committees provide oversight of the framework, assisted by the Risk Oversight and Compliance Council.

Our risk management framework enables GSK's Board to identify, evaluate and manage principal risks in line with our long-term priorities. It sets out an effective hierarchy of risk management and compliance boards within each of our businesses which promotes the 'tone from the top', establishes our risk culture and oversees the effective cascade and escalation of information about internal controls. Each principal risk is overseen by a CET risk owner to ensure proportionate controls are in place, with clear plans assigned to address any gaps. Businesses and risk owners provide reporting of risk and mitigation to the Risk Oversight and Compliance Council and Board committees.

GSK considers both current and emerging risks as part of its risk management framework, with emerging risks defined as those on the three-year horizon. We may not yet have adequate information about the impact or likelihood of such emerging risks, thus may undertake further investigation before including them in our list of principal risks. Emerging risk assessments are performed as part of the remit of our risk management and compliance boards at all levels of the organisation.

Our CET conducts a formal annual risk review to consider current and emerging risks and whether they are significant and should be included in our principal risks list. This review is supported by extensive analysis of external trends and insights, senior level interviews and recommendations from risk management and compliance boards.

The risk management framework complements our values, expectations and Speak Up processes in ensuring that the risks associated with our business activities are actively and effectively identified and mitigated. It also provides reasonable assurance against material misstatement or loss. We conduct an annual confirmation exercise across our businesses to validate that key risks are well managed or actions are in place to address gaps, which reinforces the accountability of our leaders.

In 2020, Board oversight was extended beyond the Audit & Risk Committee to include more involvement from the Corporate Responsibility Committee and Science Committee. These committees considered GSK's risks and the strategies used to address them. In doing so they drew on annual business unit risk and assurance update reports, strategy papers for our most significant risks, and the CET's annual risk review.

⊕ Viability statement, see page 48
⊕ ARC Report, see page 97
⊕ Principal risks and uncertainties, see page 261
⊕ Internal Control Framework, see page 99

During the year, we further developed our risk management framework, moving from annual to quarterly upwards reporting of our principal risks, emerging risks and external insights. This has enabled the Risk Oversight and Compliance Council to oversee risk in a more dynamic way. We also made reporting more data driven, with key risk indicators enabling more agile risk management strategies. In addition, risks and mitigations relating to COVID-19 were incorporated within our most significant risks, to further complement the pandemic risks identified and managed by the CET.

In 2020 three new risks were escalated to standalone principal risks – Environmental sustainability, Non-promotional engagement and Transformation. Third-party oversight ceased to be a principal risk as its implementation had matured and the residual risk is more effectively managed within the business or the relevant principal risk. The CET agreed to maintain the current principal risks for 2021.

We list the current principal risks on the following pages – they are not in order of significance. For full risk definitions and mitigating activities please see pages 261 to 275.

Risks associated with the proposed separation of GSK's Consumer Healthcare business

Separation of our Consumer Healthcare business is dependent on a number of factors that are outside GSK's control, including any required shareholder and regulatory approvals, favourable conditions in public equity markets and public or private debt markets and changes in applicable law and regulation. Therefore, there can be no certainty that separation will be completed as proposed (or at all).

In addition, if separation is completed, there can be no assurance that either GSK or Consumer Healthcare will realise the expected benefits of separation or that separation will not adversely affect GSK or Consumer Healthcare or the value or liquidity of their respective shares.

Risks associated with COVID-19

The potential impact of the COVID-19 pandemic on GSK's trading performance and all our principal risks has been assessed with mitigation plans put in place. Up to the date of this report, the pandemic has, as anticipated, impacted the Group performance during the year primarily in demand for Vaccines as a result of ongoing containment measures impacting customers' ability and willingness to access vaccination services across all regions. We anticipate that governments' prioritisation of COVID-19 vaccination programmes will continue to impact our Vaccines business. We continue to monitor the situation closely, as this continues to be a dynamic and uncertain situation, with the ultimate severity, duration and impact unknown at this point including potential impacts on trading results, clinical trials, supply continuity and our employees. The situation could change at any time and there can be no assurance that the COVID-19 pandemic will not have a material adverse impact on the future results of the Group.

Risk		Assessment and mitigation activities
Patient safety	→	The macro risk level is unchanged and remains challenging as politicisation of drug and vaccine safety and efficacy in the context of COVID-19 could provoke distrust and alter public reporting. Restrictive privacy regulations, that impact how we manage safety data, create further complications.
	→	GSK's exposure is also unchanged. While operational risk has stabilised through embedding of pharmacovigilance organisational efficiencies, this is offset by challenges accompanying fast-paced development of medicines and vaccines for COVID-19. To mitigate these and other risks, we apply our well-established safety governance and risk management framework to ensure we are safeguarding patients throughout the lifecycle of all GSK products.
Product quality	→	The macro risk remains the same despite concerns of potential drug shortages associated with COVID-19, the ongoing evaluation of products for the presence of nitrosamines and the increased focus on data integrity requirements.
	→	GSK's exposure remains unchanged with quality oversight processes in place to monitor and maintain a strong compliance profile throughout the pandemic. Governance and control strategies have been developed and deployed for the timely completion of our nitrosamine assessments. We have continued to invest in technology and digital platforms to further strengthen our controls around good data management practices.
Financial controls and reporting	↑	The macro risk level has increased, with the external environment remaining challenging due to political uncertainty and increasing societal expectations of the role of the auditor. There are increased fraud attempts and challenging financial markets, informed mainly by the COVID-19 pandemic and evolving political responses.
	→	GSK's risk exposure has remained stable due to the resilience and focus of personnel. We continue to implement transformational programmes, leverage technology, centralise processes, strengthen controls and maintain effective tax and treasury strategies.
Anti-bribery and corruption (ABAC)	↑	The macro risk level for bribery and corruption increased as we continued to see legal frameworks similar to those in the UK and US develop elsewhere; more rigorous standards aided by improved technology; increased enforcement with focus on third-party intermediaries; and the impact of COVID-19 on businesses.
	→	GSK's ABAC risk exposure has maintained as we continue to improve our ABAC programme to ensure appropriate controls, training, capability building, awareness raising, strong monitoring and use of data analytics. We continue to understand and assess our risk exposure to money laundering and wider corruption to mitigate any existing risk.
Commercial practices and pricing	↑	COVID-19 has increased the macro-level risk on the industry go-to-market model, boosting the importance of different channel activities (e.g. internet based) for consumers, promoting, connecting and commercialising. There is also an increased risk of downward price pressure due to international reference pricing, aggressive healthcare budget controls and tighter reimbursement.
	→	GSK's risk exposure level remains stable due to our mature and robust control environment. We continue to evolve our commercial practices. We have invested in new technologies that support virtual customer engagement. We maintain proportionate controls, training and monitoring for employees that engage with healthcare organisations and professionals. In Consumer Healthcare, improvements in our digital sales and marketing control framework are mitigating emerging risks.
Non-promotional engagement	→	The macro environment for non-promotional activities and scientific engagement with HCPs and patients is stable. This is despite being impacted by the complexity and dynamic nature of disease areas and treatments, the increasing diversity of engagement platforms, and a significant increase in virtual engagements since the pandemic.
	→	GSK's exposure has not increased. We further modernised and adapted our practices and applied our internal principles and policies, designed to mitigate risk, to this rapidly evolving environment. We evolved employee training so that our people understand the risk associated with non-promotional activities and conduct them in compliance with GSK's values and policies, local laws and regulations.

Risk management continued

Risk		Assessment and mitigation activities
Privacy	↑	The macro risk continues to increase, with priority GSK markets such as the US, China and India instituting new – or enforcing existing – privacy laws, and court rulings invalidating privacy mechanisms that international companies had relied on, including the EU-US Privacy Shield. COVID-19 has further highlighted the fragmented nature of the regulatory environment.
	→	GSK's exposure remains unchanged, due to our continued efforts to embed our privacy framework in our markets, the evolution of risk mitigation in the business, and the advancing of our privacy strategy from a centrally-driven, mitigation approach to one where the business proactively embeds privacy by design standards.
Research practices	↑	The macro risk level has increased due to COVID-19. The pandemic has created continuity challenges for R&D, particularly human subject research, where disruption to global clinical trial programmes has introduced additional risks.
	→	GSK's exposure remains unchanged. We are offsetting external impacts of the pandemic by risk mitigation actions to embed and monitor additional business continuity measures and controls. Ongoing and planned work to further enhance and monitor our culture of quality is continuing.
Environment, health and safety (EHS)	↑	The macro risk level has increased. Although regulators and stakeholders' expectations are broadly the same, new regulations to control the spread of COVID-19 in the workplace have added significant complexity to how we comply with existing EHS regulations.
	↑	GSK's risk exposure has increased, due both to our adjustment of work practices to enable COVID-19 control measures and because of our transition to a period of significant organisational change. Both factors require us to refocus on applying EHS fundamentals.
Environmental sustainability	↑	The macro risk level increased as investors, regulators and other stakeholders increasingly expect companies to understand and reduce the environmental impacts across their value chain and mitigate the impacts climate change could have on their operations and supply chains.
	→	GSK's risk exposure is unchanged. We set ambitious new environmental sustainability targets in 2020 and have implemented detailed water resilience assessments, increased our Task Force on Climate-related Financial Disclosures (TCFD) analysis and continued to monitor trends in physical, reputational and regulatory risks from climate change impacts.
Information security	↑	The macro risk level continues to rise, as large multinationals increase their digital footprints and threats from hackers become ever more sophisticated. During the year COVID-19 also added to a measurable increase in threats targeting the healthcare industry.
	↑	GSK's risk exposure has increased. GSK's cybersecurity programme continues a rapid improvement of controls to increase cyber threat intelligence capabilities and protect critical information and systems including operational technology and networks. While GSK continues to strengthen cybersecurity and information protection capabilities, the targeting of pharmaceutical and vaccine intellectual property leveraging cybersecurity, as well as third party service availability as a means of disruption, has intensified.
Supply continuity	↑	The macro risk level remains high due to the ongoing impact of the COVID-19 pandemic on product supply. The potential for increasing protectionism between countries and Brexit uncertainties also continues.
	↑	GSK's risk exposure has increased. There is an elevated risk of supply issues of bioscience materials such as glass vials and filters. This is an industry-wide concern arising from the rapid ramp up of COVID-19 vaccines and therapeutics driving increased demand for components.
Transformation	↑	The macro risk level is increasing due to COVID-19 having introduced uncertainty into the external global environment and necessitating temporary measures in certain countries to protect employment.
	→	GSK's risk exposure level remains unchanged. Our transformation and separation projects have progressed as planned throughout 2020, with workforce engagement being a priority.

Climate-related financial disclosure

Here we provide an update to GSK's voluntary disclosure in accordance with the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD), an initiative of the Financial Stability Board, which promotes the disclosure of climate change risk.

In November 2020 we committed to ambitious new environmental sustainability goals for both climate and nature. We aim to have a net zero climate impact and a net positive impact on nature by 2030. These goals build on our long-term ambition, since 2010, to reduce our impact on the environment (see page 41).

Governance

The Board has overall accountability for the management of GSK's principal risks, which includes Environmental sustainability, with support from the CET. The Board's Corporate Responsibility Committee (CRC) oversees GSK's Environmental sustainability principal risk, and progress against our environmental targets. The CRC is supported in its work by members of the CET including the CEO, President of Global Affairs and President Pharmaceuticals Supply Chain who attend the Committee's meetings.

During the year, the CRC reviewed and approved recommendations for the company's new sustainability goals. The CRC reviewed the contribution of both the biopharma and consumer part of the business to these goals. The CRC discussed the impact of climate change and nature loss on human health, recognising that these new goals are consistent with the company purpose and strategy.

Regis Simard, President, Pharmaceuticals Supply Chain and member of the CET has management responsibility for environmental sustainability. He is responsible for governance and risk oversight and ensures there is an effective framework in place and in use to manage the risks across each of our businesses as well as delivering on the commitments made.

Strategy

Trust is one of our three long-term priorities and reducing our environmental impact is an important part of the Trust priority.

To gain a better understanding of how climate change might impact our business, we built on the data reported in 2019 by undertaking further scenario analyses to consider the long-term risks from climate change for four additional products from across our Vaccines, Pharmaceuticals and Consumer Healthcare businesses. This means, taken in combination with the work completed in 2019, we have developed climate scenario analyses for supply chains that cover approximately 40% of our revenue stream.

Risks from extreme weather events – flooding, wildfires, storms that may impact our supply chains and manufacturing operations on a short-term basis (one to three years) are reviewed annually and addressed in our Business Continuity Plans. The scenario analyses continue to inform our focus to consider and address potential longer-term impacts (over seven years) from climate change.

The two scenarios considered were:

- business-as-usual: we assumed little to no mitigation leading to 3-5°C of warming by 2100;
- low-carbon: we assumed that the global temperature increase by 2100 is limited to well below 2°C by rapid changes in legislation and technology.

The scenarios were based on internationally recognised data sets[1] and consider the potential physical risks of a changing climate such as flooding and water stress, as well as the risks associated with a transition to a low-carbon economy such as international climate policy and the impacts of carbon pricing. The analysis evaluated the implications for GSK's manufacturing facilities, suppliers, and raw materials providers as well as the impacts of patient and consumer use for each product. The assessment did not consider any actions that GSK might take to mitigate or adapt to the findings.

The analysis of both physical and transition risks showed that in both scenarios there is likely to be some financial risks which would need to be managed, but none that would materially impact our business model. The key impacts for both scenarios were:

- Flood-related disruptions at our own manufacturing sites and in our supply chain;
- Water stress leading to increased expenditure and disruption at both our own manufacturing sites and in our supply chain;
- Higher temperatures affecting the quality and availability of some raw materials; and
- Increased costs of fossil fuels and the impact of carbon pricing on energy emissions.

These findings build on our initial assessment and we are using them to develop an approach to performing climate risk scenario analysis as well as action plans to help mitigate these longer-term risks and embed sustainability into strategy.

To support more environmentally sustainable decisions, internal carbon pricing for capital investments is being piloted using a shadow price of $100 per tonne reflecting current best practice to evaluate impact and the governance required with a view to implementation across the Group in 2021 with an aim to ensure that the organisation's assets become more carbon efficient over time.

1 Scenarios are based on IPPC Representative Concentration Pathways 2.6, 4.5 and 8.5, the IEA World Energy Outlook 2018 New Policy Scenario, Current Policy Scenario and Sustainable Development Scenario; and data sets from WWF and WRI for water stress and flood risk modelling

Risk management continued

Risk management

Environmental sustainability, which includes climate change risks, became a standalone principal risk to the business for 2020. A specific and dedicated environmental sustainability enterprise risk plan has been put in place (for more details see Risk management on page 43). The risk plan covers expectations that GSK is addressing its impact on the environment, and that the environment has increasing impacts on operational resilience such as access to energy, water and the natural resources used in products, along with any anticipated cost increases from regulatory changes or environmental taxes.

An internal control framework has been established for environmental sustainability, including the appointment of dedicated senior leaders for environmental sustainability to ensure that governance processes are in place and effective.

Our performance in reducing carbon emissions, energy, water and waste will continue to be delivered and managed by our mature programmes and will be enhanced by including eco-design considerations into products and packaging.

Metrics and targets

Our new target is to have a net zero impact on climate by 2030, and a net positive impact on nature by 2030. We aim to deliver these goals by taking action on priority impact areas and working with key external partners including our suppliers and customers. The full set of targets that contribute to these goals are available on GSK.com.

We have been accredited by the Science Based Targets Initiative for a set of Scope 1, 2 and 3 targets in line with the decarbonisation required to keep global temperature increases to 1.5°C. We have joined the 'race to zero' to demonstrate our commitment to the transition to a low carbon economy ahead of COP26 to be held in the UK in 2021. We have joined RE100, which aligns with our commitment to source 100% of the electricity we use from renewable resources by 2025. We have joined EV100, which aligns with our commitment to decarbonise our fleet of sales vehicles.

We are also committed to moving towards deforestation-free sourcing for all key commodities and are working with partners such as the Roundtable for Sustainable Palm Oil and the Rainforest Alliance.

We have established a transformation office that will review, assess and monitor progress towards our new goals and commitments including key performance indicators such as scope 1, 2 and 3 carbon emissions, the percentage of renewable electricity across our operations and the proportion of our sales force vehicles that are electric vehicles.

More detail on the progress we are making towards achieving our targets can be found in the Environment section on page 41, and in our public response to the CDP Climate and Water questionnaires.

Next steps

We are committed to continuing to embed climate risk assessments and mitigation activities into our business. In 2021, we plan to review and aggregate our analysis to identify any hotspots and opportunities to continue reducing our value chain carbon emissions. We will bring further transparency of the impact scenarios and financial assessments in future Annual Reports.

Viability statement

In accordance with provision 31 of the 2018 revision of the Code, GSK has assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Directors confirm that they have a reasonable expectation that GSK will continue to operate and meet its liabilities, as they fall due, over the next three years. The Directors' assessment has been made with reference to GSK's current position and prospects, our strategy, the Board's risk appetite and GSK's principal risks and how these are managed, as detailed on pages 43 to 45 in the Strategic report.

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

The Board reviews GSK's strategy and makes significant capital investment decisions over a long-term time horizon, based on a multi-year assessment of return on capital, the performance of the company and three business units, and the market opportunity in the pharmaceutical, vaccines and consumer sectors. This approach is aligned to GSK's model of achieving balanced growth by investing in high quality, innovative products for patients, consumers and healthcare providers. However, since many internal and external parameters become increasingly unpredictable over longer time horizons, GSK focuses its detailed, bottom-up Plan on a three-year cycle.

The Plan is reviewed at least annually by the Directors, who approve business forecasts showing expected financial impact. The Directors believe that a three-year assessment period for the Viability statement is most appropriate as it aligns with the company's well established business planning processes that balance the long-term nature of investments in the pharmaceutical, vaccines and consumer sectors with an assessment of the period over which analysis of near-term business performance is realistically visible.

The Plan has been stress tested in a series of robust operational and principal risk downside scenarios as part of the Board's review on risk. These include potential risks associated with the ongoing coronavirus pandemic, which have been considered within both the Plan and stress test downside scenarios. The Plan assumes healthcare systems and consumer trends will approach normality in the second half of 2021. For our vaccines business, the Plan assumes further disruption during the first half of 2021, given governments' prioritisation of coronavirus vaccination programmes and the resurgence in late 2020 of the pandemic. This is expected to impact adult and adolescent immunisations, including *Shingrix*, notably in the US. A strong recovery and contribution to growth from *Shingrix* is assumed in the second half of 2021. This has been stress tested with potential risks, principally from delays in business recovery.

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

The following hypothetical downside scenarios have been evaluated:

Scenario 1: Business performance risks. These include key performance risks, including lower sales from new products; greater adverse impact from generic competition and other competitive launches to other GSK products; as well as possible supply and manufacturing challenges.

Scenario 2: External and macroeconomic risks. This scenario reflects incremental risks to the business driven by outside factors, such as more intense competition, increased pricing pressure in both the US and Europe as well as the potential impact of material negative changes in the macro-economic and healthcare environment.

Scenario 3: Principal risks. This scenario includes a severe assessment of the potential loss impact from the principal risks related to patient safety, product quality, supply chain continuity and environmental sustainability as well as anti-bribery and corruption and any consequent regulatory actions or fines, all of which could fundamentally threaten our operations. This would include any potential severe impact of coronavirus if this were to materialise from supply chain disruptions. These risks are managed through mitigating activities described on pages 261 to 275.

Scenario 4: Put option exercise. This scenario evaluates the additional funding requirements assuming the earliest potential exercise of the outstanding put option held by our partner in the HIV business.

The future separation of the Consumer Healthcare Joint Venture with Pfizer, if approved by the Board, is likely to occur within the period covered by the viability assessment. We have considered this scenario and have concluded that there is no material impact to viability for the Group or resultant separate companies over the three-year period of this assessment.

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

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

Impact of Brexit

The UK left the EU on 31 January 2020 and the Brexit transition period ended on 31 December 2020 with a Trade and Cooperation Agreement (TCA) in place between the UK and EU. Our overriding priority in preparing for the UK's exit from the EU has been to maintain continuity of supply of our medicines, vaccines and consumer healthcare products to people in the UK and EU. Our post-Brexit operating model has been implemented, and we continue to work closely with Governments in both the UK and EU, as well as our third parties, on the effective implementation of the TCA and to ensure that the life sciences sector continues to thrive and deliver innovation for patients in both the UK and EU.

GSK welcomes the Medicinal Products Annex in the TCA and in particular the inclusion of mutual recognition on Good Manufacturing Practice (GMP) inspections. However, due to the lack of agreed mutual recognition on batch testing, as part of our new model, we conduct retesting and certification of our medicines and consumer products in Europe, where required, and are preparing to meet the phased-in requirements on retesting and certification in the UK. We have completed relevant marketing authorisation transfers, updated packaging and secured additional warehousing for our products. We continue to support our employees in obtaining settled status or equivalent in both the UK and Europe. We are complying with new tax and customs requirements introduced at the new borders and under the trade terms in place between the UK, EU and Northern Ireland.

Our expenditure to date on Brexit preparations has been in line with projections and is mainly attributed to setting up retesting of our medicines and consumer products in the EU. We continue to anticipate subsequent and ongoing costs arising from Brexit could be up to approximately £50 million per year. Ongoing costs are due to the impact of customs duties, increased logistics costs to traverse the new borders and the cost of duplicate testing and release of our products. As we continue to understand the technical implications of the TCA, its implementation and corresponding guidance, the assumptions underlying these forecasts could change, with consequent adjustments up or down.

Non-financial information statement

The following aligns to the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006.

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Our policies

All of our public policies, codes and standards are available on GSK.com

Group financial review

In this section

Group financial review

Reporting framework

Total and Adjusted results

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

Total results

Total reported results represent the Group's overall performance.

GSK also uses a number of adjusted, non-IFRS, measures to report the performance of its business. Adjusted results and other non-IFRS measures may be considered in addition to, but not as a substitute for or superior to, information presented in accordance with IFRS. Adjusted results are defined below and other non-IFRS measures are defined on page 53.

GSK believes that Adjusted results, when considered together with Total results, provide investors, analysts and other stakeholders with helpful complementary information to understand better the financial performance and position of the Group from period to period, and allow the Group's performance to be more easily compared against the majority of its peer companies. These measures are also used by management for planning and reporting purposes. They may not be directly comparable with similarly described measures used by other companies.

GSK encourages investors and analysts not to rely on any single financial measure but to review GSK's Annual Reports, including the financial statements and notes, in their entirety.

Adjusted results

Adjusted results exclude the following items from Total results, together with the tax effects of all of these items:

- amortisation of intangible assets (excluding computer software and capitalised development costs)
- impairment of intangible assets (excluding computer software) and goodwill
- Major restructuring costs, which include impairments of tangible assets and computer software, (under specific Board-approved programmes that are structural, of a significant scale and where the costs of individual or related projects exceed £25 million) including integration costs following material acquisitions
- transaction-related accounting or other adjustments related to significant acquisitions
- proceeds and costs of disposals of associates, products and businesses; significant legal charges (net of insurance recoveries) and expenses on the settlement of litigation and government investigations; other operating income other than royalty income, and other items
- separation costs to prepare for the separation of GSK into two companies
- the impact of the enactment of the US Tax Cuts and Jobs Act in 2017.

Costs for all other ordinary course smaller scale restructuring and legal charges and expenses are retained within both Total and Adjusted results.

As Adjusted results include the benefits of Major restructuring programmes but exclude significant costs (such as significant legal, major restructuring and transaction items), they should not be regarded as a complete picture of the Group's financial performance, which is presented in its Total results. The exclusion of other Adjusting items may result in Adjusted earnings being materially higher or lower than Total earnings. In particular, when significant impairments, restructuring charges and legal costs are excluded, Adjusted earnings will be higher than Total earnings.

GSK is undertaking a number of Major restructuring programmes in response to significant changes in the Group's trading environment or overall strategy, or following material acquisitions. Costs, both cash and non-cash, of these programmes are provided for as individual elements are approved and meet the accounting recognition criteria. As a result, charges may be incurred over a number of years following the initiation of a Major restructuring programme.

The Group has also initiated a two-year Separation Preparation programme to prepare GSK for separation into two new leading companies in biopharma and consumer healthcare.

From time to time, the Group divests non-core investments, products and businesses and records the profit or loss on disposal as an Adjusting item. The most notable divestment in the year was the disposal of Horlicks and other Consumer Healthcare brands.

Significant legal charges and expenses are those arising from the settlement of litigation or government investigations that are not in the normal course and are materially larger than more regularly occurring individual matters. They also include certain major legacy matters.

Reconciliations between Total and Adjusted results, providing further information on the key Adjusting items for 2019 and 2020 are set out on page 64 and for the five years to 2020 are set out on pages 252 to 254.

GSK provides earnings guidance to the investor community on the basis of Adjusted results. This is in line with peer companies and expectations of the investor community, supporting easier comparison of the Group's performance with its peers. GSK is not able to give guidance for Total results as it cannot reliably forecast certain material elements of the Total results, particularly the future fair value movements on contingent consideration and put options that can and have given rise to significant adjustments driven by external factors such as currency and other movements in capital markets.

Reporting framework continued

Historical record of Adjusting items

The reconciliations between Total and Adjusted operating profit over the last five years can be summarised as follows:

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Total operating profit	**7,783**	6,961	5,483	4,087	2,598
Intangible asset amortisation	**775**	777	580	591	588
Intangible asset impairment	**263**	83	116	688	20
Major restructuring	**1,532**	1,105	809	1,056	970
Transaction-related items	**1,308**	345	1,977	1,599	3,919
Divestments, significant legal and other items	**(2,823)**	(299)	(220)	(119)	(424)
Separation costs	**68**	–	–	–	–
US tax reform	**–**	–	–	666	–
Adjusted operating profit	**8,906**	8,972	8,745	8,568	7,671

The analysis of the impact of transaction-related items on operating profit for each of the last five years is as follows:

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Novartis Consumer Healthcare Joint Venture put option	**–**	–	658	986	1,133
Contingent consideration on former Shionogi-ViiV Healthcare JV (including Shionogi preferential dividends)	**1,114**	31	1,188	556	2,162
ViiV Healthcare put options and Pfizer preferential dividends	**(52)**	(234)	(58)	(126)	577
Contingent consideration on former Novartis Vaccines business	**172**	76	58	101	69
Release of fair value uplift on acquired Pfizer inventory	**91**	366	–	–	–
Other adjustments	**(17)**	106	131	82	(22)
Transaction-related items	**1,308**	345	1,977	1,599	3,919

Full reconciliations between Total and Adjusted results for 2016–2020 are set out on pages 252 to 254. Further explanations on the Adjusting items for 2020 are reported on page 64.

Non-controlling interests in ViiV Healthcare

Trading profit allocations

Because ViiV Healthcare is a subsidiary of the Group, 100% of its operating results (turnover, operating profit, profit after tax) are included within the Group income statement and then a portion of the earnings is allocated to the non-controlling interests owned by the other shareholders, in line with their respective equity shareholdings (Pfizer 11.7% and Shionogi 10%). Each of the shareholders, including GSK, is also entitled to preferential dividends determined by the performance of certain products that each shareholder contributed. As the relative performance of these products changes over time, the proportion of the overall earnings of ViiV Healthcare allocated to each shareholder will change. In particular, the increasing proportion of sales of dolutegravir-containing products has a favourable impact on the proportion of the preferential dividends that is allocated to GSK. Adjusting items are allocated to shareholders based on their equity interests. GSK was entitled to approximately 86% of the Total earnings and 83% of the Adjusted earnings of ViiV Healthcare for 2020. Remeasurements of the liabilities for the preferential dividends allocated to Pfizer and Shionogi are included within other operating income/(expense).

Acquisition-related arrangements

As consideration for the acquisition of Shionogi's interest in the former Shionogi-ViiV Healthcare joint venture in 2012, Shionogi received the 10% equity stake in ViiV Healthcare.

ViiV Healthcare also agreed to pay additional future cash consideration to Shionogi, contingent on the future sales performance of the products being developed by that joint venture, principally dolutegravir. Under IFRS 3 'Business combinations', GSK was required to provide for the estimated fair value of this contingent consideration at the time of acquisition and is required to update the liability to the latest estimate of fair value at each subsequent period end. The liability for the contingent consideration recognised in the balance sheet at the date of acquisition was £659 million. Subsequent remeasurements are reflected within other operating income/expense and within Adjusting items in the income statement in each period, and at 31 December 2020, the liability, which is discounted at 8.5%, stood at £5,359 million, on a post-tax basis.

Cash payments to settle the contingent consideration are made to Shionogi by ViiV Healthcare each quarter, based on the actual sales performance of the relevant products in the previous quarter. These payments reduce the balance sheet liability and hence are not recorded in the income statement. The cash payments made to Shionogi by ViiV Healthcare in 2020 were £858 million.

Because the liability is required to be recorded at the fair value of estimated future payments, there is a significant timing difference between the charges that are recorded in the Total income statement to reflect movements in the fair value of the liability and the actual cash payments made to settle the liability.

Group financial review continued

Reporting framework continued

The cash payments are reflected in the cash flow statement partly in operating cash flows and partly within investing activities. The tax relief on these payments is reflected in the Group's Adjusting items as part of the tax charge. The part of each payment relating to the original estimate of the fair value of the contingent consideration on the acquisition of the Shionogi-ViiV Healthcare joint venture in 2012 of £659 million is reported within investing activities in the cash flow statement and the part of each payment relating to the increase in the liability since the acquisition is reported within operating cash flows.

Movements in contingent consideration payable to Shionogi were as follows:

	2020 £m	2019 £m
Contingent consideration at beginning of the year	**5,103**	5,937
Remeasurement through income statement	**1,114**	31
Cash payments: operating cash flows	**(751)**	(767)
Cash payments: investing activities	**(107)**	(98)
Contingent consideration at end of the year	**5,359**	5,103

Of the contingent consideration payable (on a post-tax basis) to Shionogi at 31 December 2020, £745 million (31 December 2019 – £730 million) is expected to be paid within one year.

Exit rights

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

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

	2020 £m	2019 £m
Pfizer put option	**960**	1,011
Pfizer preferential dividend	**1**	4

Under the original agreements, Shionogi could also have requested GSK to acquire its shareholding in ViiV Healthcare in six-month windows commencing in 2017, 2020 and 2022. GSK had the unconditional right, so long as it made no subsequent distribution to its shareholders, to withhold its consent to the exercise of the Shionogi put option and, as a result, GSK did not recognise a liability for the put option on its balance sheet.

However, during Q1 2016, GSK notified Shionogi that it had irrevocably given up this right and accordingly recognised the liability for the put option on the Group's balance sheet during Q1 2016 at an initial value of £926 million. In Q4 2016, Shionogi irrevocably agreed to waive its put option and as a result GSK de-recognised the liability for this put option on the Group's balance sheet directly to equity. The value of the liability was £1,244 million when it was de-recognised.

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

Free cash flow

Free cash flow is defined as the net cash inflow from operating activities less capital expenditure on property, plant and equipment and intangible assets, contingent consideration payments, net finance costs, and dividends paid to non-controlling interests plus proceeds from the sale of property, plant and equipment and intangible assets, and dividends received from joint ventures and associates. It is used by management for planning and reporting purposes and in discussions with and presentations to investment analysts and rating agencies. Free cash flow growth is calculated on a reported basis. A reconciliation of net cash inflow from operations to free cash flow is set out on page 68.

CER and AER growth

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

Pro-forma growth

The acquisition of the Pfizer consumer healthcare business completed on 31 July 2019.

The Group has presented pro-forma growth rates at CER for turnover, Adjusted operating profit and operating profit by business taking account of this transaction. Pro-forma growth rates at CER for 2020 are calculated comparing reported results for 2020, calculated applying the exchange rates used in the comparative period, with the results for 2019, adjusted to include the equivalent seven months of results to 31 July 2019 of the former Pfizer consumer healthcare business, as consolidated (in US$) and included in Pfizer's US GAAP results.

Return on capital employed

Return on capital employed is calculated as total profit before taxation as a percentage of average net assets over the year.

Net debt

Please see Note 29 'Net Debt' for the calculation of net debt.

Our approach to tax

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

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

Tax risk in all countries in which we operate is managed through robust internal policies, processes, training and compliance programmes. Our Board of Directors and the Audit & Risk Committee are responsible for approving our tax policies and risk management arrangements as part of our wider internal control framework. We seek to develop cooperative relationships with tax authorities, based on mutual respect, transparency and trust. Where appropriate, we also provide constructive business input on tax policy matters, advocating for reform that supports economic growth, job creation and the needs of our patients.

In 2020, the Group corporate tax charge was £580 million (2019 – £953 million) on profits before tax of £6,968 million (2019 – £6,221 million) representing an effective tax rate of 8.3% (2019 – 15.3%). We made cash tax payments of £1,655 million in the year (2019 – £1,512 million). In addition to the taxes we pay on our profits, we pay duties, levies, transactional and employment taxes.

Our Adjusted tax rate for 2020 was 16.0% (2019 – 16.0%). The rate has benefitted from the cancellation by the UK Government of a reduction in the UK corporation tax rate from 19% to 17% resulting in an increase in the value of balance sheet tax assets. Subject to any material changes in our product mix, or other material changes in tax regulations or laws in the countries in which we operate, the Group's average effective Adjusted tax rate in the medium term is expected to be around 19%.

The Group's Total tax rate for 2020 of 8.3% (2019 – 15.3%) was lower than the Adjusted tax rate mainly due to the tax effect of the disposal of Horlicks and other Consumer Healthcare brands to Unilever and the subsequent disposal of shares received in Hindustan Unilever.

In 2020, an ongoing public focus on the tax affairs of multinational companies has included a major project of the Organisation for Economic Cooperation and Development (OECD) on 'Addressing the Tax Challenges of the Digitalisation of the Economy'. GSK welcomes the OECD's efforts to identify a long-term, sustainable and consensus-driven solution to the tax challenges resulting from digitalisation and has been active in providing relevant business input to assist in the successful delivery of the aims of the project. In order to create a long lasting, stable and certain business environment for both taxpayers and governments, a multilateral consensus-based approach, grounded in clearly defined and accepted principles, is critical and the incentive to innovate must not be diluted.

A continued focus on tax reform during 2020 was driven by the OECD's Base Erosion and Profit Shifting (BEPS) project and EC initiatives, such as fiscal state aid investigations and the introduction of 'Mandatory Disclosure' rules. The outputs from the OECD BEPS project clarified the important principle that tax should be paid on profits throughout the supply chain, where the profit-making activity takes place. GSK is subject to taxation throughout its supply chain.

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

The UK left the EU on 31 January 2020 and the Brexit transition period ended on 31 December 2020 with a Trade and Cooperation Agreement (TCA) in place between the UK and EU. We are complying with new tax and customs requirements introduced at the new borders and under the trade terms in place between the UK and the EU. With the UK/EU TCA agreed in December 2020 and due to the complexity of its interaction with the UK continuity Free Trade Agreements, the full impact on taxes will only be fully quantifiable later in 2021. The direct tax implications are expected to be limited but the indirect tax implications may be more significant, including for example additional customs duty on those products not covered by the UK/EU TCA and other irrecoverable indirect tax costs. GSK was well prepared for the additional administrative complexity on tax arrangements for the new borders around the UK and Great Britain to ensure continuity of supply. Our wider approach to Brexit is set out on page 49.

Our Tax Strategy is set out in detail within the Public policies section of our website. Further details about our corporate tax charges for the year are set out on page 14.

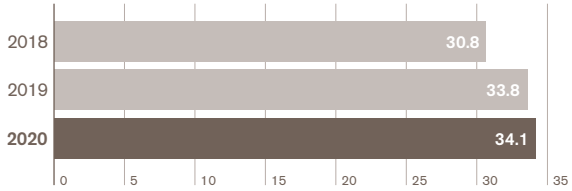
Group financial review continued

Financial performance

Group turnover (£bn)

£34.1bn

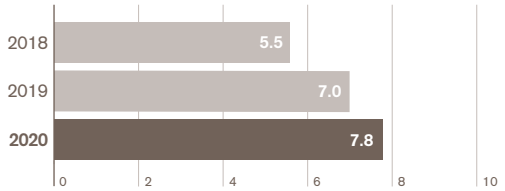
AER growth	CER growth	Pro-forma CER growth
1%	3%	(2)%



Total operating profit (£bn)

£7.8bn

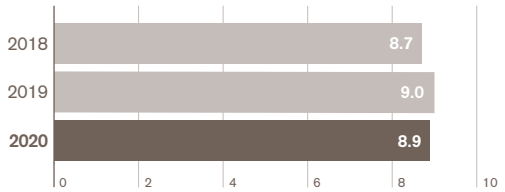
AER growth	CER growth
12%	15%



Adjusted operating profit (£bn)

£8.9bn

AER growth	CER growth	Pro-forma CER growth
(1)%	2%	(3)%



GSK uses a number of adjusted, non-IFRS, measures to report the performance of its business. Adjusted results and other non-IFRS measures may be considered in addition to, but not as a substitute for or superior to, information presented in accordance with IFRS. Adjusted results and other non-IFRS measures are defined on pages 51 and 53.

The Total results of the Group are set out below.

	2020		2019		Growth	
	£m	% of turnover	£m	% of turnover	£%	CER%
Turnover	**34,099**	**100**	33,754	100	1	3
Cost of sales	**(11,704)**	**(34.3)**	(11,863)	(35.1)	(1)	–
Selling, general and administration	**(11,456)**	**(33.6)**	(11,402)	(33.8)	–	2
Research and development	**(5,098)**	**(15.0)**	(4,568)	(13.5)	12	12
Royalty income	**318**	**0.9**	351	1.1	(9)	(9)
Other operating income/(expense)	**1,624**	**4.8**	689	1.9		
Operating profit	**7,783**	**22.8**	6,961	20.6	12	15
Net finance costs	**(848)**		(814)			
Share of after-tax profits of associates and joint ventures	**33**		74			
Profit before taxation	**6,968**		6,221		12	16
Taxation	**(580)**		(953)			
Profit after taxation for the year	**6,388**		5,268		21	25
Profit attributable to shareholders	**5,749**		4,645			
Earnings per share (p)	**115.5**		93.9		23	26
Earnings per ADS (US$)	**2.98**		2.40			

The Adjusted results for the Group are set out below. Reconciliations between Total results and Adjusted results for 2020 and 2019 are set out on page 64.

	2020		2019		Growth		
	£m	% of turnover	£m	% of turnover	£%	CER%	Pro-forma growth CER%
Turnover	**34,099**	**100**	33,754	100	1	3	(2)
Cost of sales	**(10,191)**	**(29.9)**	(10,079)	(29.9)	1	2	(3)
Selling, general and administration	**(10,717)**	**(31.4)**	(10,715)	(31.7)	–	2	(3)
Research and development	**(4,603)**	**(13.5)**	(4,339)	(12.9)	6	7	6
Royalty income	**318**	**0.9**	351	1.1	(9)	(9)	(9)
Adjusted operating profit	**8,906**	**26.1**	8,972	26.6	(1)	2	(3)
Adjusted profit attributable to shareholders	**5,769**		6,131		(6)	(3)	
Adjusted earnings per share (p)	**115.9**		123.9		(6)	(4)	

Financial performance continued

Group turnover

Group turnover by business

	2020 £m	2019 £m	Growth £%	Growth CER%
Pharmaceuticals	**17,056**	17,554	(3)	(1)
Vaccines	**6,982**	7,157	(2)	(1)
Consumer Healthcare	**10,033**	8,995	12	14
	34,071	33,706	1	3
Corporate and other unallocated turnover	**28**	48		
	34,099	33,754	1	3
Pro-forma growth				(2)

Group turnover by geographic region

	2020 £m	2019 £m	Growth £%	Growth CER%
US	**14,556**	13,890	5	6
Europe	**8,164**	8,069	1	1
International	**11,379**	11,795	(4)	–
	34,099	33,754	1	3

Group turnover was £34,099 million in the year, up 1% AER, 3% CER. On a pro-forma basis, Group turnover was down 2% CER, but up 1% at CER excluding the impact of divestments in Vaccines and brands divested or under review in Consumer Healthcare.

Pharmaceuticals turnover in the year was £17,056 million, down 3% AER, 1% CER. Respiratory sales were up 22% AER, 23% CER, to £3,749 million. HIV sales were flat at AER, up 1% CER, to £4,876 million. Sales of Established Pharmaceuticals declined 16% AER, 15% CER to £7,332 million.

Vaccines turnover declined 2% AER, 1% CER to £6,982 million, primarily driven by the adverse impact of the COVID-19 pandemic on Hepatitis vaccines, DTPa-containing vaccines, *Synflorix* and *Bexsero*, together with the divestment of Rabipur and Encepur. This decline was partly offset by higher sales of Influenza vaccines across all regions and by *Shingrix* growth in Europe, China and the US, together with a strong performance from *Cervarix* in China.

Reported Consumer Healthcare sales grew 12% AER and 14% CER to £10,033 million for the full year, largely driven by the inclusion of the Pfizer portfolio, partly offset by brands divested/under review. On a pro-forma basis, sales declined 2% CER, but grew 4% CER excluding brands divested/under review, reflecting the underlying strength of brands across the portfolio, strong growth in e-commerce, and successful execution meeting evolving consumer demand as a result of the pandemic.

Pharmaceuticals

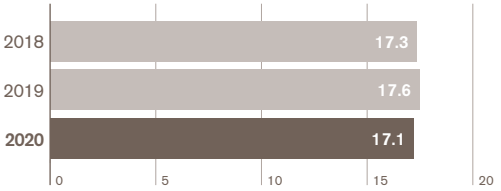
Turnover (£bn)

£17.1bn

50% of Group turnover

AER growth (3)%

CER growth (1)%



Pharmaceuticals turnover

	2020 £m	2019 £m	Growth £%	Growth CER%
Respiratory	**3,749**	3,081	22	23
HIV	**4,876**	4,854	–	1
Immuno-inflammation	**727**	613	19	20
Oncology	**372**	230	62	62
Established Pharmaceuticals	**7,332**	8,776	(16)	(15)
	17,056	17,554	(3)	(1)

Pharmaceuticals turnover in the year was £17,056 million, down 3% AER, 1% CER. Respiratory sales were up 22% AER, 23% CER, to £3,749 million, on growth of *Trelegy*, *Nucala* and *Relvar/Breo*. HIV sales were flat at AER, up 1% CER, to £4,876 million, with growth in *Juluca* and *Dovato* partly offset by *Tivicay* and *Triumeq*. Sales of Established Pharmaceuticals declined 16% AER, 15% CER to £7,332 million.

Towards the end of the first quarter, additional demand related to the COVID-19 pandemic had a positive impact on growth of HIV and Respiratory products. This effect broadly reversed in the second quarter, which saw lower levels of new patient prescriptions in the US and Europe and reduced market demand for allergy and antibiotic products in International and Europe. These effects continued to be seen in the second half of the year.

In the US, sales grew 1% AER, 2% CER. Continued growth of *Nucala*, *Trelegy*, *Benlysta*, *Zejula* and the HIV two-drug regimens was partly offset by the decline in *Tivicay*, *Triumeq* and Established Products, including the impact of generic albuterol substitutes.

In Europe, sales declined 1% AER, 1% CER, with growth from Respiratory, HIV and Oncology offset by the decline of Established Pharmaceuticals sales, impacted by generic competition and lower demand for antibiotics during the COVID-19 pandemic period. Approximately one percentage point of decline was due to the impact of a one-off UK *Relenza* contract in the comparator.

Group financial review continued

Financial performance continued

International declined 9% AER, 5% CER, with Respiratory and *Benlysta* growth partly offset by lower Established Pharmaceuticals sales. This included the impact of a weaker allergy season and generic competition for *Avolve* in Japan, slower market growth during the COVID-19 pandemic period and government mandated changes increasing the use of generics in China.

Respiratory

Total Respiratory sales were up 22% AER, 23% CER, with strong growth in all regions. International Respiratory sales grew 24% AER, 27% CER including *Nucala*, up 45% AER, 46% CER and *Relvar/Breo*, up 6% AER, 9% CER to £328 million. In Europe, Respiratory sales grew to £944 million up 21% AER, 20% CER. In the US, Respiratory grew 21% AER, 23% CER including *Trelegy* and *Nucala*. US *Relvar/Breo* sales grew 24% AER, 25% CER, mainly due to the effect of a prior period RAR adjustment.

Sales of *Nucala* were £994 million in the year and grew 29% AER, 30% CER, with US sales up 32% AER, 33% CER to £598 million. Europe sales of £238 million grew 16% AER, 15% CER and International sales of £158 million grew 45% AER, 46% CER.

Trelegy sales were up 58% AER, 59% CER to £819 million driven by growth in all regions. In the US, the new asthma indication was approved and launched in Q3 2020, with sales up 47% AER, 48% CER to £561 million. In Europe, sales grew 65% AER, 65% CER and in International, where *Trelegy* asthma was approved in Japan in the quarter, sales grew to £90 million in the year.

Relvar/Breo sales were up 16% AER, 17% CER to £1,124 million in the year. In the US, *Relvar/Breo* grew 24% AER, 25% CER, mainly due to the effect of a prior period RAR adjustment. In Europe and International, *Relvar/Breo* continued to grow, up 14% AER, 13% CER and 6% AER, 9% CER respectively.

HIV

HIV sales were £4,876 million, flat at AER, up 1% CER in the year. The dolutegravir franchise grew 1% AER, 2% CER, delivering sales of £4,702 million. The remaining portfolio, with sales of £174 million and 4% of total HIV sales, declined 21% AER, 20% CER and reduced the overall growth of total HIV by one percentage point.

Sales of dolutegravir products were £4,702 million in the twelve months. *Tivicay* delivered sales of £1,527 million, down 8% AER, 7% CER and *Triumeq* sales were £2,306 million, down 10% AER, 9% CER. The two-drug regimens, *Juluca* and *Dovato* delivered sales of £869 million in the twelve months, with combined growth more than offsetting decline in the three-drug regimen, *Triumeq*.

In the US, dolutegravir sales were flat at AER, up 1% CER, and in Europe dolutegravir sales grew 7% AER, 6% CER. Following recent launches of *Dovato*, combined sales of the two-drug regimens were £616 million in the US and £227 million in Europe, with growth offsetting the decline in *Triumeq*. International dolutegravir sales declined 2% AER but grew 3% CER driven by *Tivicay* tender business.

Oncology

Sales of *Zejula*, the PARP inhibitor asset acquired from Tesaro in Q1 2019, were £339 million in the year, up 48% AER, 48% CER, driven by volume growth compared with the prior year.

Blenrep for the treatment of patients with relapsed or refractory multiple myeloma was approved and launched in the US and Europe in Q3 2020 and reported sales of £33 million.

Immuno-inflammation

Sales of *Benlysta* in the year were up 17% AER, 19% CER to £719 million, including sales of the sub-cutaneous formulation of £354 million up 32% AER, 33% CER.

Duvroq for patients with anaemia due to chronic kidney disease was launched in Japan in Q3 2020 and reported sales in the International region of £8 million.

Established Pharmaceuticals

Sales of Established Pharmaceuticals in the year were £7,332 million, down 16% AER, 15% CER.

Established Respiratory products declined 17% AER, 15% CER to £3,251 million. *Advair/Seretide* and *Ventolin* were impacted by generic substitutes in the US and Europe, and *Flovent* experienced price pressure in the US. In the International region, allergy sales were impacted by market contraction and a generic launch in Japan.

The remainder of the Established Pharmaceuticals portfolio declined 16% AER, 14% CER to £4,081 million on lower demand for antibiotics during the COVID-19 pandemic period, the impact of government mandated changes increasing the use of generics in markets including Japan, France and China, and a strong comparator, including a European contract.

Financial performance continued

Vaccines

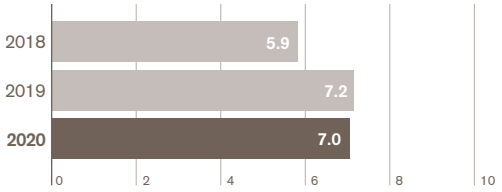
Turnover (£bn)

£7.0bn

21% of Group turnover

AER growth (2)%

CER growth (1)%



Vaccines turnover

	2020 £m	2019 £m	Growth £%	Growth CER%
Meningitis	**1,029**	1,018	1	3
Influenza	**733**	541	35	37
Shingles	**1,989**	1,810	10	11
Established Vaccines	**3,231**	3,788	(15)	(14)
	6,982	7,157	(2)	(1)

Vaccines turnover declined 2% AER, 1% CER to £6,982 million, primarily driven by the adverse impact of the COVID-19 pandemic on Hepatitis vaccines, DTPa-containing vaccines, *Synflorix* and *Bexsero*, together with the divestment of Rabipur and Encepur. This decline was partly offset by higher sales of Influenza vaccines across all regions and by *Shingrix* growth in Europe, China and the US, together with a strong performance from *Cervarix* in China.

Vaccines performance across all regions was affected by lower demand due to limited visits to healthcare practitioners and points of vaccination during the pandemic and government stay-at-home directives. In areas where lockdowns were lifted, wellness visits and vaccination rates recovered, with paediatric vaccination near pre-COVID levels by the end of Q2 2020, while adolescent and adult immunisations improved at a slower pace. US back-to-school vaccinations were disrupted because schools and universities delayed or reversed in-person tuition, which elongated the back-to-school vaccination season into Q4 2020. Adult wellness visits returned to prior year levels at the end of Q3 2020 supported by seasonal flu vaccination and declined late in Q4 2020 as pandemic conditions worsened.

In the following categories declines are related to pandemic impacts unless stated otherwise.

Meningitis

Meningitis sales grew 1% AER, 3% CER to £1,029 million. *Bexsero* sales declined 4% AER, 2% CER to £650 million, reflecting lower demand in the US and International, partly offset by lower US returns and rebates.

Menveo sales declined 1% AER but grew 1% CER to £265 million, primarily driven by higher demand in Europe and lower US returns and rebates, partly offset by lower demand in the US and competitive pressure in International.

In the US, *Bexsero* and *Menveo* both grew market share.

Influenza

Fluarix/FluLaval sales were £733 million, up 35% AER, 37% CER, primarily reflecting robust demand across all regions resulting from strong government recommendations that prioritised flu vaccination during COVID-19 pandemic conditions, together with the reversal of a prior year returns provision in the US.

Shingles

Shingrix grew 10% AER, 11% CER to £1,989 million, primarily driven by a strong performance in Europe reflecting robust underlying demand in Germany. The launch of *Shingrix* in China also contributed to sales growth. In the US, a decline in demand in Q2 and Q3 2020 due to lower adult wellness visits and vaccination rates was partially offset by strong uptake in Q1 2020 and return to growth, as expected, in Q4 2020 supported by co-administration with seasonal flu vaccination programmes.

Established Vaccines

Sales of DTPa-containing vaccines (*Infanrix*, *Pediarix* and *Boostrix*) declined by 16% AER, 15% CER. *Infanrix/Pediarix* sales declined 14% AER, 13% CER to £629 million, reflecting lower demand in the US and unfavourable year-on-year US CDC stockpile movements, together with supply constraints and competitive pressures in Europe.

Boostrix sales were down 18% AER, 18% CER to £476 million primarily due to lower vaccination rates across all regions.

Hepatitis vaccines declined 34% AER, 33% CER to £576 million, adversely impacted in the US and Europe by lower demand and travel restrictions, together with competition returning to the market in the US.

Synflorix sales declined by 14% AER, 14% CER to £402 million, primarily due to lower demand in International and supply constraints in Emerging Markets.

Rotarix sales were flat at AER but grew 1% at CER to £559 million, reflecting improved supply in Emerging Markets and higher demand in Europe, partly offset by lower channel inventory in the US.

MMRV vaccines sales grew 13% AER, 14% CER to £261 million, largely driven by improved supply and increased market shares in Europe.

Group financial review continued

Financial performance continued

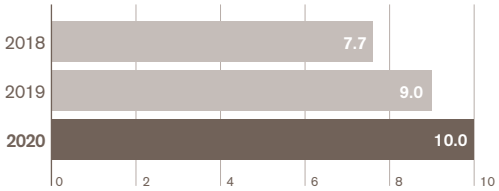
Consumer Healthcare

Turnover (£bn)

£10.0bn

29% of Group turnover

AER growth	CER growth	Pro-forma CER growth
12%	14%	(2)%



Consumer Healthcare turnover

	2020 £m	2019 £m	Growth £%	Growth CER%
Oral health	**2,753**	2,673	3	6
Pain relief	**2,219**	1,781	25	27
Vitamins, minerals and supplements	**1,506**	611	>100	>100
Respiratory health	**1,209**	1,186	2	4
Digestive health and other	**1,824**	1,646	11	14
	9,511	7,897	20	23
Brands divested/under review	**522**	1,098	(52)	(51)
	10,033	8,995	12	14

	2020 £m	2019 £m	Growth £%	Growth CER%
US	**3,408**	2,583	32	33
Europe	**2,619**	2,456	7	6
International	**4,006**	3,956	1	7
	10,033	8,995	12	14
Pro-forma growth				(2)

On a reported basis, sales grew 12% AER and 14% CER to £10,033 million for the full year, largely driven by the inclusion of the Pfizer portfolio, partly offset by brands divested/under review.

On a pro-forma basis, sales declined 2% CER, but grew 4% CER excluding brands divested/under review, reflecting the underlying strength of brands across the portfolio and categories, strong growth in e-commerce, and successful execution meeting evolving consumer demand as a result of the pandemic.

Overall results benefited from very strong growth in Vitamins, minerals and supplements as well as continued growth in Oral health, Pain relief and Digestive health and other. Although Respiratory health sales were up 4% CER for the full year this benefited from increased consumption in the first quarter, with sales declines throughout the rest of the year which were particularly pronounced in the fourth quarter as a result of the historically weak cold and flu season.

Quarterly performance was volatile during the year as a direct result of the COVID-19 pandemic, with sales pro-forma CER excluding brands divested/under review up 14% in the first quarter given accelerated purchases, flat in the second quarter as most of this reversed, up 3% in the third quarter, and up 1% in the final quarter of the year.

Oral health

Oral health sales grew 3% AER, 6% CER to £2,753 million. *Sensodyne* continued to outperform with low-double digit growth, reflecting underlying brand strength, successful innovation including *Sensodyne Sensitivity & Gum* and strong consumer uptake in traditional retail and e-commerce channels in the US. Gum health continued to deliver double digit growth, consistent with trends throughout the year, whilst Denture care declined in low-single digits given challenging market conditions consistent with prior quarters.

Pain relief

Pain relief grew 25% AER, 27% CER to £2,219 million. On a pro-forma basis, sales grew in mid-single digits, driven by the successful Rx to OTC switch with *Voltaren* in the US. *Panadol* increased in mid-single digits with increased consumption earlier in the year offsetting brand decline in the final quarter. *Advil* delivered improved performance in the US in the second half of the year and ended the year up in low-single digits.

Vitamins, minerals and supplements

Vitamins, minerals and supplements more than doubled at AER and CER to £1,506 million. On a pro-forma basis, sales continued to grow in the high-teens per cent, consistent with prior quarters, due to strong performance by *Centrum*, *Caltrate* and *Emergen-C*. The particularly strong category growth reflected the continued consumer focus on health and wellness, consistent with previous quarters and as a result of the COVID-19 pandemic, combined with the business's ability to successfully and quickly adapt, execute and deliver to meet consumer needs.

Respiratory health

Respiratory health sales grew 2% AER, 4% CER to £1,209 million. On a pro-forma basis, sales declined in mid-single digits, driven by a lower cold and flu season in the final quarter which more than offset the benefit from increased consumption in the first quarter due to the COVID-19 pandemic, as a result *Robitussin*, *Contac* and *Theraflu* all declined for the full year. Allergy and nasal product performance was more mixed with *Flonase* growth in low-single digits and *Otrivin* declining in mid-single digits.

Digestive health and other

Digestive health and other brands grew 11% AER, 14% CER to £1,824 million. On a pro-forma basis, sales declined in low-single digits with growth in Digestive health products offset by a decline in Skin health products and other non-strategic brands. Smokers' health products were flat for the year.

Financial performance continued

Cost of sales

	2020 £m	2019 £m	Growth £%	Growth CER%
Total cost of sales	**(11,704)**	(11,863)	(1)	–
Adjusted cost of sales	**(10,191)**	(10,079)	1	2

Total cost of sales as a percentage of turnover was 34.3%, 0.8 percentage points lower at AER and 1.0 percentage points lower in CER terms compared with 2019. This primarily reflected lower unwinding of the fair market value uplift on inventory arising on completion of the Consumer Healthcare Joint Venture with Pfizer in Q3 2019.

Excluding these and other Adjusting items, Adjusted cost of sales as a percentage of turnover was 29.9%, flat at AER, but 0.1 percentage points lower at CER compared with 2019. On a pro-forma basis, Adjusted cost of sales as a percentage of turnover was 29.9%, 0.3 percentage points lower at CER, compared with 2019. This reflected a more favourable product mix in Pharmaceuticals and a further contribution from restructuring savings in Pharmaceuticals and Vaccines and integration savings in Consumer Healthcare, partly offset by adverse product mix in Vaccines and continued adverse pricing pressure in Pharmaceuticals, principally in Established Respiratory.

Selling, general and administration

	2020 £m	2019 £m	Growth £%	Growth CER%
Total selling, general and administration	**(11,456)**	(11,402)	–	2
Adjusted selling, general and administration	**(10,717)**	(10,715)	–	2

Total selling, general and administration (SG&A) costs as a percentage of turnover were 33.6%, 0.2 percentage points lower at AER and 0.2 percentage points lower at CER compared with 2019. This reflected lower significant legal and transaction costs offset by increased Major restructuring costs and separation costs.

Excluding these and other Adjusting items, Adjusted SG&A costs as a percentage of turnover were 31.4%, 0.3 percentage points lower at AER than in 2019 and 0.3 percentage points lower on a CER basis. On a pro-forma basis, Adjusted SG&A costs as a percentage of turnover were 31.4%, 0.4 percentage points lower at CER, compared with 2019.

The growth in Adjusted SG&A costs, although flat at AER, grew 2% CER. On a pro-forma basis costs reduced 3% CER and reflected the benefits from restructuring including one-off benefits from restructuring of post-retirement benefits and the continuing benefit of restructuring in Pharmaceuticals, Consumer Healthcare and support functions, reduced variable spending across all three businesses as a result of the COVID-19 lockdowns and tight control of ongoing costs, particularly in non-promotional spending across all three businesses. This was partly offset by increased investment in promotional product support, particularly for new launches in Vaccines, Respiratory and HIV.

Research and development

	2020 £m	2019 £m	Growth £%	Growth CER%
Total research and development	**(5,098)**	(4,568)	12	12
Adjusted research and development	**(4,603)**	(4,339)	6	7

Total R&D expenditure was £5,098 million (15.0% of turnover), up 12% AER, 12% CER, including an increase in Major restructuring costs and intangible impairments. Adjusted R&D expenditure was £4,603 million (13.5% of turnover), 6% higher at AER, 7% higher at CER than in 2019. On a pro-forma basis, Adjusted R&D expenditure grew 6% CER compared with 2019.

Pharmaceuticals Adjusted R&D expenditure was £3,636 million, up 9% AER, 9% CER, primarily driven by the significant increase in investment in Oncology, reflecting the progression of a number of key programmes including *Blenrep*, feladilimab and bintrafusp alfa, as well as progression of COVID-19 treatment programmes (VIR-7831, otilimab). This was partly offset by a reduction in investment in research and several Specialty and Primary Care programmes (daprodustat, *Trelegy*, HIV) as well as efficiency savings from the implementation of the One Development programme for Pharmaceuticals and Vaccines as part of the Separation Preparation restructuring programme and reductions in variable spending as a result of COVID-19 lockdowns.

Adjusted R&D expenditure in Vaccines was £686 million, down 4% AER, 4% CER reflecting efficiency savings from the implementation of the One Development programme and reductions in variable spending as a result of COVID-19 lockdowns. Adjusted R&D expenditure in Consumer Healthcare was £281 million.

Royalty income

Royalty income was £318 million (2019 – £351 million), down 9% AER, 9% CER, primarily reflecting genericisation of Transderm Scop in Consumer Healthcare and lower sales of Gardasil.

Group financial review continued

Financial performance continued

Other operating income/(expense)

Net other operating income of £1,624 million (2019 – £689 million) primarily reflected the net profit on disposal of the Horlicks and other Consumer Healthcare brands of £2,815 million in Q2 2020, which was after reversal of £240 million of embedded derivative gains on the value of the shares taken in prior years. This was partly offset by the related loss on sale of the shares in Hindustan Unilever in Q2 2020 of £476 million. Other operating income also included an increase in profit and milestone income from a number of asset disposals.

This was partly offset by accounting charges of £1,234 million (2019 – £127 million credits) arising from the re-measurement of the contingent consideration liabilities related to the acquisitions of the former Shionogi-ViiV Healthcare joint venture and the former Novartis Vaccines business and the liabilities for the Pfizer put option and Pfizer and Shionogi preferential dividends in ViiV Healthcare. This included a re-measurement charge of £1,114 million (2019 – £31 million) for the contingent consideration liability due to Shionogi, primarily arising from changes in sales forecasts, exchange rate assumptions and the unwind of discounting.

Operating profit

Total operating profit was £7,783 million in 2020 compared with £6,961 million in 2019. This reflected the profit on disposal of the Horlicks and other Consumer Healthcare brands and resultant sale of shares in Hindustan Unilever as well as increased income from asset disposals. This was partly offset by higher re-measurement charges on the contingent consideration liabilities.

Excluding these and other Adjusting items, Adjusted operating profit was £8,906 million, 1% lower than 2019 at AER and 2% higher at CER on a turnover increase of 3% CER. The Adjusted operating margin of 26.1% was 0.5 percentage points lower at AER, and 0.2 percentage points lower on a CER basis than in 2019. On a pro-forma basis, Adjusted operating profit was 3% lower at CER on a turnover decrease of 2% at CER. The Adjusted pro-forma operating margin of 26.1% was 0.4 percentage points lower on a CER basis than in 2019.

The reduction in pro-forma Adjusted operating profit reflects the adverse impact from the reduction in sales in Vaccines as a result of the COVID-19 pandemic, investment in R&D including a significant increase in Oncology, partly on the assets from the Tesaro acquisition and initiation of several COVID-19 programmes, continuing price pressure, principally in Established Respiratory, including the impact of the launch of a generic version of *Advair* in the US in February 2019 and investments in promotional product support, particularly for new launches in Vaccines, HIV and Respiratory. This was offset by reduced promotional and variable spending across all three businesses as a result of the COVID-19 lockdowns, a one-off benefit in Q3 2020 from restructuring of post-retirement benefits and the continuing benefit of restructuring in Pharmaceuticals, Consumer Healthcare and support functions and tight control of ongoing costs, particularly in non-promotional spending across all three businesses.

Contingent consideration cash payments which are made to Shionogi and other companies reduce the balance sheet liability and hence are not recorded in the income statement. Total contingent consideration cash payments in 2020 amounted to £885 million (2019 – £893 million). This included cash payments made to Shionogi of £858 million (2019 – £865 million).

Adjusted operating profit by business

Pharmaceuticals operating profit was £4,185 million, down 9% AER, 7% CER on a turnover decrease of 1% CER. The operating margin of 24.5% was 1.6 percentage points lower at AER than in 2019 and 1.5 percentage points lower on a CER basis. This primarily reflected a significant increase in Oncology R&D as well as the continued impact of lower prices, including the impact of the launch of a generic version of *Advair* in the US in February 2019, and investment in new product support and targeted priority markets. This was partly offset by the reduced promotional and variable spending as a result of the COVID-19 lockdowns and the continued benefit of restructuring and tight control of ongoing costs.

Vaccines operating profit was £2,713 million, down 9% AER, 6% CER on a turnover decrease of 1% CER. The operating margin of 38.9% was 2.6 percentage points lower at AER than in 2019 and 1.9 percentage points lower on a CER basis. This was primarily driven by the negative operating leverage from the COVID-19 related sales decline and investment behind key brands.

Financial performance continued

Consumer Healthcare operating profit was £2,213 million, up 18% AER, 22% CER on a turnover increase of 14% CER. On a pro-forma basis, operating profit was £2,213 million, 1% CER lower on a turnover decrease of 2% CER. The operating margin of 22.1% was 1.2 percentage points higher at AER and 1.5 percentage points higher on a CER basis than in 2019. The pro-forma operating margin of 22.1% was 0.3 percentage points higher on a CER basis. The higher margin was driven by higher than normal sales growth in Q1 2020 due to COVID-19 and synergy delivery from the Pfizer integration. This was partially offset by the impact of divestments and increased targeted promotional investment.

Net finance costs

Finance income	2020 £m	2019 £m
Interest and other income	**39**	79
Fair value movements	**5**	19
	44	98
Finance expense		
Interest expense	**(822)**	(840)
Unwinding of discounts on provisions	**(3)**	(8)
Remeasurements and fair value movements	**(4)**	(1)
Finance expense on lease liabilities	**(40)**	(39)
Other finance expense	**(23)**	(24)
	(892)	(912)

Total net finance costs were £848 million compared with £814 million in 2019. Adjusted net finance costs were £844 million compared with £810 million in 2019. The increase reflects lower interest income on overseas cash post-closing of the divestment of Horlicks and other Consumer Healthcare nutrition products in India and a number of other countries, a premium paid on early repayment and refinancing of bond debt in Q4 2020 and a fair value gain on interest rate swaps in the 2019 comparator, partly offset by reduced interest expense from lower debt levels and refinancing at lower rates.

Share of after-tax profits of associates and joint ventures

The share of after-tax profits of associates was £33 million (2019 – £74 million). 2019 included a one-off adjustment of £51 million to reflect GSK's share of increased after tax profits of Innoviva, primarily as a result of a non-recurring income tax benefit.

Profit before tax

Taking account of net finance costs and the share of profits of associates, profit before taxation was £6,968 million compared with £6,221 million in 2019.

Taxation

	2020 £m	2019 £m
UK current year charge	**30**	149
Rest of world current year charge	**1,177**	1,407
Charge/(credit) in respect of prior periods	**66**	(420)
Total current taxation	**1,273**	1,136
Total deferred taxation	**(693)**	(183)
Taxation on total profits	**580**	953

The charge of £580 million represented an effective tax rate on Total results of 8.3% (2019 – 15.3%) and reflected the different tax effects of the various Adjusting items, including the disposal of Horlicks and other Consumer Healthcare brands to Unilever and subsequent disposal of shares received in Hindustan Unilever. Tax on Adjusted profit amounted to £1,295 million and represented an effective Adjusted tax rate of 16.0% (2019 – 16.0%).

Issues related to taxation are described in Note 14 to the financial statements, 'Taxation'. The Group continues to believe it has made adequate provision for the liabilities likely to arise from periods which are open and not yet agreed by tax authorities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of agreements with relevant tax authorities.

Non-controlling interests

The allocation of Total earnings to non-controlling interests amounted to £639 million (2019 – £623 million). The increase was primarily due to an increased allocation of Consumer Healthcare profits of £374 million (2019 – £70 million) following the completion of the new Consumer Healthcare Joint Venture with Pfizer on 31 July 2019, and which included the unwind of the fair value uplift on acquired inventory and major restructuring costs. This was partly offset by a reduced allocation of ViiV Healthcare profits of £223 million (2019 – £482 million), including increased charges for re-measurement of contingent consideration liabilities.

The allocation of Adjusted earnings to non-controlling interests amounted to £1,031 million (2019 – £787 million). The increase in allocation primarily reflected an increased allocation of Consumer Healthcare profits of £515 million (2019 – £204 million) following the completion of the new Consumer Healthcare Joint Venture with Pfizer on 31 July 2019 partly offset by a reduced allocation of ViiV Healthcare profits of £474 million (2019 – £512 million), and lower net profits in some of the Group's other entities with non-controlling interests, primarily Consumer Healthcare India following the Horlicks and other Consumer brands disposal.

Group financial review continued

Financial performance continued

Earnings per share

Total earnings per share (EPS) was 115.5p, compared with 93.9p in 2019. The increase in EPS primarily reflected the net profit on disposal of Horlicks and other Consumer Healthcare brands as well as increased income from asset disposals, partly offset by higher re-measurement charges on the contingent consideration liabilities, higher major restructuring charges and a one-off benefit in 2019 from increased share of after-tax profits of the associate Innoviva.

Adjusted EPS was 115.9p compared with 123.9p in 2019, down 6% AER, 4% CER, on a 2% CER increase in Adjusted operating profit.

The reduction primarily resulted from a higher non-controlling interest allocation of Consumer Healthcare profits and reduced share of after-tax profits of associates resulting from a non-recurring income tax benefit in Innoviva.

Dividends

The Board declared four interim dividends resulting in a total dividend for the year of 80 pence, in line with the dividend declared for 2019. See Note 16 to the financial statements, 'Dividends'.

Dividend policy

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

The Board currently intends to maintain the dividend for 2021 at the current level of 80p per share, subject to any material change in the external environment or performance expectations.

At our Biopharma Investor Update in June we plan to set out in detail the growth prospects and financial outlook for the new Biopharma company over the medium term, including a detailed review of the pipeline we have been building over recent years. Alongside these we will provide details of a new distribution policy which reflects the optimised capital structure and investment priorities focused on delivering sustainable long-term shareholder value. We anticipate that this new policy will deliver competitive and attractive returns informed by appropriate earnings pay-out ratios through the investment cycle well covered by Free Cash Flow and, importantly, expected growth potential. We expect that aggregate distributions for GSK will be lower than at present. This new policy will be implemented for dividends paid in respect of 2022.

Outlook

We delivered on our strategic priorities in 2020. In 2021, as planned we will continue to increase investment in our pipeline, build on our top-line momentum for key growth drivers and largely complete readiness for separation. Assuming healthcare systems and consumer trends approach normality in the second half of the year, we expect Pharmaceuticals revenue to grow flat to low-single digits and Consumer Healthcare revenue to grow low to mid-single digits excluding brands divested/under review with above market growth. For our Vaccines business, we now anticipate further disruption during the first half of the year, given governments' prioritisation of COVID-19 vaccination programmes and the resurgence in late 2020 of the pandemic. This is expected to impact adult and adolescent immunisations, including *Shingrix*, notably in the US. Despite this short-term impact we remain very confident in demand for these products, and expect strong recovery and contribution to growth from *Shingrix* in the second half of the year. We expect Vaccines revenue for 2021 to grow flat to low-single digits. Reflecting these factors, our guidance range for 2021 is a decline of mid to high-single digit per cent Adjusted EPS at CER.

Our guidance does not include the impact of the intended change in the UK corporation tax rate from 19% to 25% effective from 1 April 2023 which was announced on 3 March 2021. Please see Note 47, 'Post balance sheet events' on page 237.

All expectations, guidance and targets regarding future performance and dividend payments should be read together with the 'Cautionary statement regarding forward-looking statements' and 'Assumptions related to 2021 guidance' on the inside back cover.

Adjusting items

Adjusted results reconciliation 31 December 2020	Total results £m	Intangible asset amortisation £m	Intangible asset impairment £m	Major restructuring £m	Transaction-related £m	Divestments, significant legal and other items £m	Separation costs £m	Adjusted results £m
Turnover	34,099							34,099
Cost of sales	(11,704)	699	31	667	116			(10,191)
Gross profit	22,395	699	31	667	116			23,908
Selling, general and administration	(11,456)	1	18	659	(23)	16	68	(10,717)
Research and development	(5,098)	75	214	206				(4,603)
Royalty income	318							318
Other operating (expense)/income	1,624				1,215	(2,839)		–
Operating profit	7,783	775	263	1,532	1,308	(2,823)	68	8,906
Net finance costs	(848)			2		2		(844)
Share of after-tax profits of associates and joint ventures	33							33
Profit before taxation	6,968	775	263	1,534	1,308	(2,821)	68	8,095
Taxation	(580)	(150)	(47)	(292)	(229)	17	(14)	(1,295)
Tax rate	*8.3%*							*16.0%*
Profit after taxation	6,388	625	216	1,242	1,079	(2,804)	54	6,800
Profit attributable to non-controlling interests	639				392			1,031
Profit attributable to shareholders	5,749	625	216	1,242	687	(2,804)	54	5,769
Earnings per share	115.5p	12.6p	4.4p	25.0p	13.8p	(56.5)p	1.1p	115.9p
Weighted average number of shares (millions)	4,976							4,976

Adjusted results reconciliation 31 December 2019	Total results £m	Intangible asset amortisation £m	Intangible asset impairment £m	Major restructuring £m	Transaction-related £m	Divestments, significant legal and other items £m		Adjusted results £m
Turnover	33,754							33,754
Cost of sales	(11,863)	713	30	658	383			(10,079)
Gross profit	21,891	713	30	658	383			23,675
Selling, general and administration	(11,402)		4	332	104	247		(10,715)
Research and development	(4,568)	64	49	114		2		(4,339)
Royalty income	351							351
Other operating (expense)/income	689			1	(142)	(548)		–
Operating profit	6,961	777	83	1,105	345	(299)		8,972
Net finance costs	(814)			5		(1)		(810)
Share of after-tax profits of associates and joint ventures	74							74
Profit before taxation	6,221	777	83	1,110	345	(300)		8,236
Taxation	(953)	(156)	(17)	(208)	(124)	140		(1,318)
Tax rate	*15.3%*							*16.0%*
Profit after taxation	5,268	621	66	902	221	(160)		6,918
Profit attributable to non-controlling interests	623				164			787
Profit attributable to shareholders	4,645	621	66	902	57	(160)		6,131
Earnings per share	93.9p	12.6p	1.3p	18.2p	1.2p	(3.3)p		123.9p
Weighted average number of shares (millions)	4,947							4,947

Group financial review continued

Adjusting items continued

Major restructuring and integration

Within the Pharmaceuticals sector, the highly regulated manufacturing operations and supply chains and long life cycle of the business mean that restructuring programmes, particularly those that involve the rationalisation or closure of manufacturing or R&D sites are likely to take several years to complete.

Major restructuring costs are those related to specific Board-approved Major restructuring programmes and are excluded from Adjusted results. Major restructuring programmes, including integration costs following material acquisitions, are those that are structural and are of a significant scale where the costs of individual or related projects exceed £25 million. Other ordinary course smaller-scale restructuring costs are retained within Total and Adjusted results.

Total Major restructuring charges incurred in 2020 were £1,532 million (2019 – £1,105 million), analysed as follows:

	2020			2019		
	Cash £m	**Non-cash £m**	**Total £m**	Cash £m	Non-cash £m	Total £m
2018 major restructuring programme (incl. Tesaro)	**105**	**210**	**315**	227	572	799
Consumer Healthcare Joint Venture integration programme	**298**	**28**	**326**	248	4	252
Separation Preparation restructuring programme	**625**	**216**	**841**	–	–	–
Combined restructuring and integration programme	**39**	**11**	**50**	10	44	54
	1,067	**465**	**1,532**	485	620	1,105

Cash charges of £625 million under the Separation Preparation programme primarily arose from restructuring of Vaccines manufacturing and R&D functions as part of building the One Development organisation for Pharmaceuticals and Vaccines as well as restructuring of commercial pharmaceuticals and some administrative functions. Non-cash charges of £216 million were related to write-down of assets in sites in the Pharmaceuticals Supply Chain.

Cash charges of £298 million under the Consumer Healthcare Joint Venture programme primarily related to severance and integration costs. The commercial integration of Consumer Healthcare is now largely completed and the manufacturing integration is well underway.

The 2018 major restructuring programme incurred cash charges of £105 million in relation to severance costs for restructuring of the manufacturing organisation, R&D and some administrative functions as well as the integration of Tesaro and non-cash charges of £210 million for write-downs on disposal of sites.

Total cash payments made in 2020 were £737 million (2019 – £645 million), £115 million for the existing Combined restructuring and integration programme (2019 – £316 million), £179 million (2019 – £164 million) under the 2018 major restructuring programme including the settlement of certain charges accrued in previous quarters, a further £291 million (2019 – £165 million) relating to the Consumer Healthcare Joint Venture integration programme and £152 million relating to the Separation Preparation restructuring programme.

The analysis of Major restructuring charges by business was as follows:

	2020 £m	2019 £m
Pharmaceuticals	**671**	651
Vaccines	**214**	58
Consumer Healthcare	**374**	321
	1,259	1,030
Corporate and central functions	**273**	75
Total Major restructuring charges	**1,532**	1,105

The analysis of Major restructuring charges by income statement line was as follows:

	2020 £m	2019 £m
Cost of sales	**667**	658
Selling, general and administration	**659**	332
Research and development	**206**	114
Other operating income/(expense)	**–**	1
Total Major restructuring charges	**1,532**	1,105

The benefit in the year from the 2018 major restructuring programme was £0.1 billion and the benefit from the Consumer Healthcare Joint Venture integration was £0.2 billion and the benefit from the Separation Preparation restructuring programme was £0.1 billion.

The 2018 major restructuring programme, including Tesaro, is expected to cost £1.75 billion over the period to 2021, with cash costs of £0.85 billion and non-cash costs of £0.9 billion, and is expected to deliver annual savings of around £450 million by 2021 (at 2019 rates). These savings are intended to be fully reinvested to help fund targeted increases in R&D and commercial support of new products.

The completion of the Consumer Healthcare Joint Venture with Pfizer is expected to realise substantial cost synergies, generating total annual cost savings of £0.5 billion by 2022 for expected cash costs of £0.7 billion and non-cash charges now expected to be £0.1 billion, plus additional capital expenditure of £0.2 billion. Up to 25% of the cost savings are intended to be reinvested in the business to support innovation and other growth opportunities.

Adjusting items continued

The Group initiated in Q1 2020 a two-year Separation Preparation programme to prepare for the separation of GSK into two companies: New GSK, a biopharma company with an R&D approach focused on science related to the immune system, the use of genetics and new technologies, and a new leader in consumer healthcare.

The programme aims to:

- Drive a common approach to R&D with improved capital allocation
- Align and improve the capabilities and efficiency of global support functions to support New GSK
- Further optimise the supply chain and product portfolio, including the divestment of non-core assets. A strategic review of prescription dermatology is underway
- Prepare Consumer Healthcare to operate as a standalone company

The programme continues to target delivery of £0.7 billion of annual savings by 2022 and £0.8 billion by 2023, with total costs estimated at £2.4 billion, of which £1.6 billion is expected to be cash costs. The proceeds of anticipated divestments are largely expected to cover the cash costs of the programme.

Transaction-related adjustments

Transaction-related adjustments resulted in a net charge of £1,308 million (2019 – £345 million). This included a net £1,234 million accounting charge for the re-measurement of the contingent consideration liabilities related to the acquisitions of the former Shionogi-ViiV Healthcare joint venture and the former Novartis Vaccines business and the liabilities for the Pfizer put option and Pfizer and Shionogi preferential dividends in ViiV Healthcare.

Charge/(credit)	2020 £m	2019 £m
Contingent consideration on former Shionogi-ViiV Healthcare Joint Venture (including Shionogi preferential dividends)	**1,114**	31
ViiV Healthcare put options and Pfizer preferential dividends	**(52)**	(234)
Contingent consideration on former Novartis Vaccines business	**172**	76
Release of fair value uplift on acquired Pfizer inventory	**91**	366
Other adjustments	**(17)**	106
Total transaction-related charges	**1,308**	345

The £1,114 million charge relating to the contingent consideration for the former Shionogi-ViiV Healthcare joint venture represented an increase in the valuation of the contingent consideration due to Shionogi, as a result of a £408 million unwind of the discount and £706 million primarily from adjustments to sales forecasts as well as updated exchange rate assumptions. The £52 million credit relating to the ViiV Healthcare put options and Pfizer preferential dividends represented a decrease in the valuation of the put option as a result of adjustments to multiples and sales forecasts and updated exchange rate assumptions.

The ViiV Healthcare contingent consideration liability is fair valued under IFRS. The potential impact of the COVID-19 pandemic remains uncertain and, at 31 December 2020, it has been assumed that there will be no significant impact on the long-term value of the liability. This position remains under review and the amount of the liability will be updated in future quarters as further information on the impact of the pandemic becomes available. An explanation of the accounting for the non-controlling interests in ViiV Healthcare is set out on page 52.

Divestments, significant legal charges and other items

Divestments and other items included a gain in the year of £2,339 million arising from the net profit on disposal of the Horlicks and other Consumer Healthcare brands of £2,815 million in Q2 2020, after reversal of £240 million of embedded derivative gains on the value of the shares taken in prior years. This was partly offset by the related loss on sale of the shares in Hindustan Unilever in Q2 2020 of £476 million. Divestments and other items also included milestone income and gains from a number of asset disposals and certain other Adjusting items. A charge of £7 million (2019 – £251 million) for significant legal matters included the settlement of existing matters as well as provisions for ongoing litigation. Significant legal cash payments were £9 million (2019 – £294 million).

Separation costs

From Q2 2020, the Group has started to report additional costs to prepare Consumer Healthcare for separation. These are estimated at £600-£700 million, excluding transaction costs.

Group financial review continued

Adjusting items continued

Pro-forma growth reconciliations

The tables below set out reconciliations between reported CER growth rates and pro-forma CER growth rates and between reported margin percentages and pro-forma margin percentages.

	Reported growth rate CER%	Adjustment to include January to July 2019 results of Pfizer consumer healthcare business	Pro-forma growth rate CER%
Group			
Turnover	3	(5)	(2)
Adjusted cost of sales	2	(5)	(3)
Adjusted selling, general and administration	2	(5)	(3)
Adjusted research and development	7	(1)	6
Adjusted operating profit	2	(5)	(3)
Consumer Healthcare			
Turnover	14	(16)	(2)
Oral health	6	–	6
Pain relief	27	(22)	5
Vitamins, minerals and supplements	>100	>(100)	19
Respiratory health	4	(9)	(5)
Digestive health and other	14	(15)	(1)
Brands divested/under review	(51)	(2)	(53)
Operating profit	22	(23)	(1)

The 2019 pro-forma financial information used as the basis for the pro-forma growth rates has been calculated as follows:

	GSK reported results 2019 £bn	January to July 2019 results of Pfizer consumer healthcare business £bn	Pro-forma results 2019 £bn
Group			
Turnover	33.8	1.5	35.3
Adjusted cost of sales	(10.1)	(0.5)	(10.6)
Adjusted selling, general and administration	(10.7)	(0.5)	(11.2)
Adjusted research and development	(4.3)	(0.1)	(4.4)
Adjusted operating profit	9.0	0.4	9.4
Consumer Healthcare			
Turnover	9.0	1.5	10.5
Oral health	2.7	–	2.7
Pain relief	1.8	0.4	2.2
Vitamins, minerals and supplements	0.6	0.7	1.3
Respiratory health	1.2	0.1	1.3
Digestive health and other	1.6	0.3	1.9
Brands divested/under review	1.1	–	1.1
Operating profit	1.9	0.4	2.3

Cash generation and conversion

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

	2020 £m	2019 £m
Net cash inflow from operating activities	**8,441**	8,020
Net cash inflow/(outflow) from investing activities	**2,161**	(5,354)
Net cash outflow from financing activities	**(10,132)**	(1,840)
Increase in cash and bank overdrafts	**470**	826
Cash and bank overdrafts at beginning of year	**4,831**	4,087
Increase in cash and bank overdrafts	**470**	826
Exchange adjustments	**(39)**	(82)
Cash and bank overdrafts at end of year	**5,262**	4,831
Cash and bank overdrafts at end of year comprise:		
Cash and cash equivalents	**6,292**	4,707
Cash and cash equivalents reported in assets held for sale	**–**	507
Overdrafts	**(1,030)**	(383)
	5,262	4,831

Capital expenditure and financial investment

Cash payments for tangible and intangible fixed assets amounted to £2,239 million (2019 – £2,163 million) and disposals realised £1,582 million (2019 – £603 million). Cash payments to acquire equity investments amounted to £411 million (2019 – £258 million), primarily relating to Vir Biotechnology and CureVac AG, and sales of equity investments realised £3,269 million (2019 – £69 million) mainly relating to the proceeds arising from the sale of the shares in Hindustan Unilever acquired as a result of the disposal of the Horlicks and other Consumer Healthcare brands.

Free cash flow

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

	2020 £m	2019 £m
Free cash inflow	**5,406**	5,073

Total cash payments to Shionogi in relation to the ViiV Healthcare contingent consideration liability in the year were £858 million (2019 – £865 million), of which £751 million was recognised in cash flows from operating activities and £107 million was recognised in contingent consideration paid within investing cash flows. These payments are deductible for tax purposes.

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

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

	2020 £m	2019 £m
Net cash inflow from operating activities	**8,441**	8,020
Purchase of property, plant and equipment	**(1,226)**	(1,265)
Purchase of intangible assets	**(1,013)**	(898)
Proceeds from sale of property, plant and equipment	**68**	95
Proceeds from disposal of intangible assets	**1,255**	404
Interest paid	**(864)**	(895)
Interest received	**39**	82
Dividends from associates and joint ventures	**31**	7
Contingent consideration paid (reported in investing activities)	**(120)**	(113)
Contribution from non-controlling interests	**3**	–
Distributions to non-controlling interests	**(1,208)**	(364)
Free cash flow	**5,406**	5,073

Future cash flow

Over the long term, we expect that future cash generated from operations will be sufficient to fund our operating and debt servicing costs, normal levels of capital expenditure, obligations under existing licensing agreements, expenditure arising from restructuring programmes and other routine outflows including tax, pension contributions and dividends, subject to the 'Principal risks and uncertainties' discussed on pages 261 to 275. We may from time to time have additional demands for finance, such as for acquisitions, including potentially acquiring increased ownership interests in the ViiV Healthcare business where minority shareholders hold put options. We have access to multiple sources of liquidity from short and long-term capital markets and financial institutions for such needs, in addition to the cash flow from operations.

Investment appraisal and capital allocation

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

Financial position and resources

	2020 £m	2019 £m
Assets		
Non-current assets		
Property, plant and equipment	**10,176**	10,348
Right of use assets	**830**	966
Goodwill	**10,597**	10,562
Other intangible assets	**29,824**	30,955
Investments in associates and joint ventures	**364**	314
Other investments	**3,060**	1,837
Deferred tax assets	**4,287**	4,096
Derivative financial instruments	**5**	103
Other non-current assets	**1,041**	1,020
Total non-current assets	**60,184**	60,201
Current assets		
Inventories	**5,996**	5,947
Current tax recoverable	**671**	262
Trade and other receivables	**6,952**	7,202
Derivative financial instruments	**152**	421
Liquid investments	**78**	79
Cash and cash equivalents	**6,292**	4,707
Assets held for sale	**106**	873
Total current assets	**20,247**	19,491
Total assets	**80,431**	79,692
Liabilities		
Current liabilities		
Short-term borrowings	**(3,725)**	(6,918)
Contingent consideration liabilities	**(765)**	(755)
Trade and other payables	**(15,840)**	(14,939)
Derivative financial instruments	**(221)**	(188)
Current tax payable	**(545)**	(629)
Short-term provisions	**(1,052)**	(621)
Total current liabilities	**(22,148)**	(24,050)
Non-current liabilities		
Long-term borrowings	**(23,425)**	(23,590)
Corporation tax payable	**(176)**	(189)
Deferred tax liabilities	**(3,600)**	(3,810)
Pensions and other post-employment benefits	**(3,650)**	(3,457)
Other provisions	**(707)**	(670)
Derivative financial instruments	**(10)**	(1)
Contingent consideration liabilities	**(5,104)**	(4,724)
Other non-current liabilities	**(803)**	(844)
Total non-current liabilities	**(37,475)**	(37,285)
Total liabilities	**(59,623)**	(61,335)
Net assets	**20,808**	18,357
Total equity	**20,808**	18,357

Property, plant and equipment

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

The total cost of our property, plant and equipment at 31 December 2020 was £21,483 million, with a net book value of £10,176 million. Of this, land and buildings represented £3,898 million, plant and equipment £4,414 million and assets in construction £1,864 million. In 2020, we invested £1,233 million in new property, plant and equipment. This was mainly related to a large number of projects for the renewal, improvement and expansion of facilities at various worldwide sites to support new product development and launches as well as to improve the efficiency of existing supply chains. Property is mainly held freehold. New investment is financed from our liquid resources. At 31 December 2020, we had contractual commitments for future capital expenditure of £528 million. We believe that our property and plant facilities are adequate for our current needs.

We observe stringent procedures and use specialist skills to manage environmental risks from our activities. Environmental issues, sometimes dating from operations now modified or discontinued, are reported under 'Environment' on page 41 and in Note 46 to the financial statements, 'Legal proceedings'.

Right of use assets

Right of use assets amounted to £830 million at 31 December 2020 compared with £966 million on 1 January 2020. The decrease in the year reflected the impact of depreciation and disposals of £225 million and £84 million respectively, partly offset by additions of £187 million.

Goodwill

Goodwill increased to £10,597 million at 31 December 2020, from £10,562 million.

Other intangible assets

Other intangible assets include the cost of intangibles acquired from third parties and computer software. The net book value of other intangible assets as at 31 December 2020 was £29,824 million (2019 – £30,955 million). The decrease primarily reflected amortisation and impairment losses, net of reversals, in the year of £1,394 million.

Financial position and resources continued

Investments in associates and joint ventures

We held investments in associates and joint ventures with a carrying value at 31 December 2020 of £364 million (2019 – £314 million). The market value at 31 December 2020 was £364 million (2019 – £396 million). The largest of these investments was in Innoviva Inc., which had a book value at 31 December 2020 of £291 million (2019 – £261 million) and a market value of £291 million. See Note 20 to the financial statements, 'Investments in associates and joint ventures'.

Other investments

We held other investments with a carrying value at 31 December 2020 of £3,060 million (2019 – £1,837 million). The highest value investments held at 31 December 2020 were in CureVac AG, which was acquired in the year and had a book value at 31 December 2020 of £887 million, Crispr Therapeutics, which had a book value of £361 million (2019 – £149 million) and Lyell Immunopharma, Inc., which had a book value at 31 December 2020 of £261 million (2019 – £155 million). The other investments included equity stakes in companies with which we have research collaborations, and which provide access to biotechnology developments of potential interest and interests in companies that arise from business divestments.

Derivative financial instruments: assets

We held current derivative financial assets at fair value of £152 million (2019 – £421 million) and non-current derivative financial assets held at fair value of £5 million (2019 – £103 million). The majority of these financial instruments related to foreign exchange contracts both designated and not designated as accounting hedges. At 31 December 2019, £240 million of current derivative financial assets related to a derivative embedded in the agreement to divest Horlicks and other nutritional brands to Unilever plc. See Note 40 for further information.

Inventories

Inventory of £5,996 million increased from £5,947 million in 2019.

Trade and other receivables

Trade and other receivables of £6,952 million decreased from £7,202 million in 2019.

Deferred tax assets

Deferred tax assets amounted to £4,287 million (2019 – £4,096 million) at 31 December 2020.

Derivative financial instruments: liabilities

We held current and non-current derivative financial liabilities at fair value of £231 million (2019 – £189 million). This primarily related to foreign exchange contracts both designated and not designated as accounting hedges.

Trade and other payables

At 31 December 2020, trade and other payables were £15,840 million compared with £14,939 million at 31 December 2019. The increase primarily reflected the impact of higher customer return and rebate accruals. See Note 28 to the financial statements, 'Trade and other payables'.

Provisions

We carried deferred tax provisions and other short-term and non-current provisions of £5,359 million at 31 December 2020 (2019 – £5,101 million). Other provisions at the year-end included £320 million (2019 – £198 million) related to legal and other disputes and £860 million (2019 – £505 million) related to Major restructuring programmes. Provision has been made for legal and other disputes, indemnified disposal liabilities, employee related liabilities and the costs of the restructuring programme to the extent that at the balance sheet date a legal or constructive obligation existed and could be reliably estimated.

Pensions and other post-employment benefits

We account for pension and other post-employment arrangements in accordance with IAS 19. The net deficits were £2,104 million (2019 – £1,921 million) on pension arrangements and £1,363 million (2019 – £1,418 million) on unfunded post-employment liabilities. See Note 30 to the financial statements, 'Pensions and other post-employment benefits'.

Other non-current liabilities

Other non-current liabilities amounted to £803 million at 31 December 2020 (2019 – £844 million).

Contingent consideration liabilities

Contingent consideration amounted to £5,869 million at 31 December 2020 (2019 – £5,479 million), of which £5,359 million (2019 – £5,103 million) represented the estimated present value of amounts payable to Shionogi relating to ViiV Healthcare and £477 million (2019 – £339 million) represented the estimated present value of contingent consideration payable to Novartis related to the Vaccines acquisition.

The liability due to Shionogi included £230 million in respect of preferential dividends. The liability for preferential dividends due to Pfizer at 31 December 2020 was £1 million (2019 – £4 million). An explanation of the accounting for the non-controlling interests in ViiV Healthcare is set out on page 52.

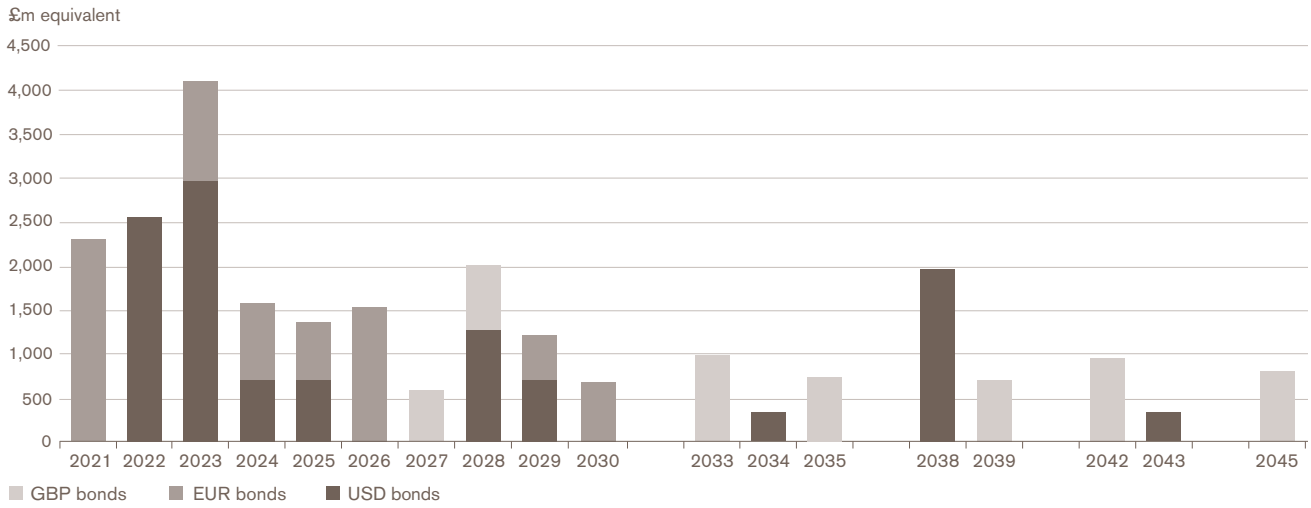
Of the total contingent consideration payable (on a post-tax basis) at 31 December 2020, £765 million (2019 – £755 million) is expected to be paid within one year. The consideration payable is expected to be paid over a number of years. As a result, the total estimated liabilities are discounted to their present values, on a post-tax basis using post-tax discount rates.

The Shionogi-ViiV Healthcare contingent consideration liability is discounted at 8.5% and the Novartis Vaccines contingent consideration liability is discounted partly at 8% and partly at 9%.

Group financial review continued

Financial position and resources continued

Maturity profile of bond debt



Net debt

	2020 £m	2019 £m
Cash, cash equivalents and liquid investments	**6,370**	4,786
Cash, cash equivalents reported in assets held for sale	**–**	507
Borrowings – repayable within one year	**(3,725)**	(6,918)
Borrowings – repayable after one year	**(23,425)**	(23,590)
Net debt	**(20,780)**	(25,215)

At 31 December 2020, net debt was £20.8 billion, compared with £25.2 billion at 31 December 2019, comprising gross debt of £27.2 billion and cash and liquid investments of £6.4 billion. Net debt decreased due to the £3.3 billion proceeds from the Horlicks and other Consumer brands disposal including shares in Hindustan Unilever of £2.7 billion and £0.6 billion of other assets, plus £0.6 billion of other business and asset disposals together with £5.4 billion free cash flow, partly offset by cash divested of £0.5 billion, dividends paid to shareholders of £4.0 billion and £0.4 billion in additional investments.

At 31 December 2020, GSK had short-term borrowings (including overdrafts and lease liabilities) repayable within 12 months of £3.7 billion with loans of £2.6 billion repayable in the subsequent year.

At 31 December 2020, GSK's cash and liquid investments were held as follows:

	2020 £m	2019 £m
Bank balances and deposits	**3,000**	2,565
Bank balances and deposits reported in assets held for sale	**–**	507
US Treasury and Treasury repo only money market funds	**317**	102
Liquidity funds	**2,975**	2,040
Cash and cash equivalents	**6,292**	5,214
Liquid investments – government securities	**78**	79
	6,370	5,293

Cash and liquid investments of £5.4 billion (2019 – £3.6 billion) were held centrally at 31 December 2020.

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

	2020 £m	2019 £m
Cash and liquid investments	**6,370**	5,293
Gross debt – fixed[1]	**(24,538)**	(25,064)
– floating	**(2,612)**	(5,444)
– non-interest bearing	**–**	–
Net debt	**(20,780)**	(25,215)

1 Includes £1.45 billion equivalent of notes swapped from floating to fixed rates via interest rate swaps.

Movements in net debt

	2020 £m	2019 £m
Net debt at beginning of year	**(25,215)**	(21,621)
Implementation of IFRS 16	**–**	(1,303)
Net debt at beginning of year, as adjusted	**(25,215)**	(22,924)
Increase in cash and bank overdrafts	**470**	826
Increase/(decrease) in liquid investments	**1**	(1)
Increase in long-term loans	**(3,298)**	(4,794)
Net repayment of short-term loans	**7,305**	1,065
Repayment of lease liabilities	**227**	214
Debt of subsidiary undertakings acquired	**–**	(524)
Exchange movements	**(135)**	1,015
Other movements	**(135)**	(92)
Net debt at end of year	**(20,780)**	(25,215)

Financial position and resources continued

Interest rate benchmark reform

'Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7' was issued by the IASB in September 2019. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms.

At 31 December 2020, the Group was not directly exposed to interest rate benchmark reform as it held no interest rate derivatives that referenced LIBOR and matured after the end of 2021 and all floating rate bonds were due to mature before the end of 2021.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators, including the Financial Conduct Authority (FCA) and the US Commodity Futures Trading Commission, regarding the transition away from LIBOR (including GBP LIBOR, USD LIBOR and EURIBOR) to the Sterling Overnight Index Average Rate (SONIA), the Secured Overnight Financing Rate (SOFR), and the Euro Short-Term Rate (€STR) respectively. The FCA has made it clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR. The only exception to this is USD LIBOR, where the Intercontinental Exchange (ICE) Benchmark Administration (IBA), the FCA-regulated and authorised administrator of LIBOR, has announced that it will consult on its intention to cease USD LIBOR. IBA intends that, subject to confirmation following its consultation, one week and two month USD LIBOR settings will cease at the end of 2021, and that the USD LIBOR panel will cease at the end of June 2023.

The Group is undertaking an interest rate benchmark transition programme to identify potential exposures within the business and deliver a smooth transition to appropriate alternative benchmark rates.

Total equity

At 31 December 2020, total equity had increased from £18,357 million at 31 December 2019 to £20,808 million.

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

	2020 £m	2019 £m
Total equity at beginning of year	**18,357**	3,672
Implementation of IFRS 16	**–**	(93)
Total equity at beginning of year, as adjusted	**18,357**	3,579
Total comprehensive income for the year	**7,358**	3,701
Dividends to shareholders	**(3,977)**	(3,953)
Recognition of interest in Consumer Healthcare Joint Venture	**–**	14,969
Ordinary shares issued	**29**	51
Changes in non-controlling interests	**(131)**	(10)
Share-based incentive plans	**381**	365
Tax on share-based incentive plans	**(4)**	19
Contributions from non-controlling interests	**3**	–
Distributions to non-controlling interests	**(1,208)**	(364)
Total equity at end of year	**20,808**	18,357

Share purchases

At 31 December 2020, GSK held 355.2 million shares as Treasury shares (2019 – 393.5 million shares), at a cost of £4,969 million (2019 – £5,505 million), which has been deducted from retained earnings.

No ordinary shares were repurchased in the period 1 January 2020 to 3 March 2021 and the company does not expect to make any ordinary share repurchases in the remainder of 2021.

In 2020, 38.3 million Treasury shares were transferred to the Employee Share Ownership Plan (ESOP) Trusts. Shares are held by the Trusts to satisfy future exercises of options and awards under the Group share option and award schemes. A proportion of the shares held by the Trusts are in respect of awards where the rules of the scheme require us to satisfy exercises through market purchases rather than the issue of new shares. The shares held by the Trusts are matched to options and awards granted.

At 31 December 2020, the ESOP Trusts held 49.0 million (2019 – 36.4 million) GSK shares against the future exercise of share options and share awards. The carrying value of £195 million (2019 – £135 million) has been deducted from other reserves. The market value of these shares was £657 million (2019 – £647 million).

Group financial review continued

Financial position and resources continued

Contractual obligations and commitments

Financial commitments are summarised in Note 35 to the financial statements, 'Commitments'.

The following table sets out our contractual obligations and commitments at 31 December 2020 as they fall due for payment.

	Total £m	Under 1 yr £m	1-3 yrs £m	3-5 yrs £m	5 yrs+ £m
Loans	26,191	3,493	6,644	3,039	13,015
Interest on loans	8,309	725	1,307	1,115	5,162
Lease obligations	1,117	230	333	182	372
Future finance charges	180	34	50	33	63
Intangible assets	12,307	354	1,337	2,031	8,585
Property, plant & equipment	528	403	124	1	–
Investments	153	40	58	55	–
Purchase commitments	746	648	90	2	6
Pensions	88	44	44	–	–
Total	49,619	5,971	9,987	6,458	27,203

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

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

As some of these agreements relate to compounds in the early stages of development, the potential obligation to make milestone payments will continue for a number of years if the compounds move successfully through the development process. Generally, the closer the product is to marketing approval, the greater the probability of success. The amounts shown above within intangible assets represent the maximum that would be paid if all milestones were achieved, and include £4.5 billion which relates to externalised projects in the discovery portfolio. There was a decrease in the commitments in 2020 as a result of a reduction in outstanding loan commitments.

In 2018, we reached an agreement with the trustees of the UK pension schemes to make additional contributions, to assist in eliminating the pension deficit identified as part of the 31 December 2017 actuarial funding valuation. The table includes this commitment but excludes the normal ongoing annual funding requirement in the UK of approximately £130 million. For further information on pension obligations, see Note 30 to the financial statements, 'Pensions and other post-employment benefits'.

Contingent liabilities

Other contingent liabilities are set out in Note 34 to the financial statements, 'Contingent liabilities'.

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

	Total £m	Under 1 yr £m	1-3 yrs £m	3-5 yrs £m	5 yrs+ £m
Guarantees	34	21	4	9	–
Other contingent liabilities	104	14	21	17	52
Total	138	35	25	26	52

In the normal course of business, we have provided various indemnification guarantees in respect of business disposals in which legal and other disputes have subsequently arisen. A provision is made where an outflow of resources is considered probable and a reliable estimate can be made of the likely outcome of the dispute and this is included in Note 31 to the financial statements, 'Other provisions'.

We provide for the outcome of tax, legal and other disputes when an outflow of resources is considered probable and a reliable estimate of the outflow may be made. At 31 December 2020, other than for those disputes where provision has been made, it was not possible to make a reliable estimate of the potential outflow of funds that might be required to settle disputes where the possibility of there being an outflow was more than remote.

The ultimate liability for such matters may vary significantly from the amounts provided and is dependent upon negotiations with the relevant tax authorities and the outcome of litigation proceedings, where relevant. This is discussed further in 'Principal risks and uncertainties' on pages 261 to 275 and Note 46 to the financial statements, 'Legal proceedings'.

Treasury policies

We report in Sterling and pay dividends out of Sterling cash flows. The role of Treasury is to monitor and manage the Group's external and internal funding requirements and financial risks in support of our strategic objectives. GSK operates on a global basis, primarily through subsidiary companies, and we manage our capital to ensure that our subsidiaries are able to operate as going concerns and to optimise returns to shareholders through an appropriate balance of debt and equity. Treasury activities are governed by policies approved annually by the Board of Directors, and most recently on 15 October 2020. A Treasury Management Group (TMG) meeting, chaired by our Chief Financial Officer, takes place on a regular basis to review Treasury activities. Its members receive management information relating to these activities.

Treasury operations

The objective of GSK's Treasury activities is to minimise the post-tax net cost of financial operations and reduce its volatility in order to benefit earnings and cash flows. GSK uses a variety of financial instruments to finance its operations and derivative financial instruments to manage market risks from these operations. Derivatives principally comprise foreign exchange forward contracts and swaps which are used to swap borrowings and liquid assets into currencies required for Group purposes, as well as interest rate swaps which are used to manage exposure to financial risks from changes in interest rates.

Derivatives are used exclusively for hedging purposes in relation to underlying business activities and not as trading or speculative instruments.

Capital management

GSK's financial strategy, implemented through the Group's financial architecture, supports GSK's strategic priorities and is regularly reviewed by the Board. We manage the capital structure of the Group through an appropriate mix of debt and equity. We continue to manage our financial policies to a credit profile that particularly targets short-term credit ratings of A-1 and P-1 while maintaining single A long-term ratings consistent with those targets.

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

Liquidity risk management

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

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

Interest rate risk management

GSK's objective is to minimise the effective net interest cost and to balance the mix of debt at fixed and floating interest rates over time. The policy on interest rate risk management limits the net amount of floating rate debt to a specific cap, reviewed and agreed no less than annually by the Board.

Foreign exchange risk management

Our objective is to minimise the exposure of overseas operating subsidiaries to transaction risk by matching local currency income with local currency costs where possible. Foreign currency transaction exposures arising on external and internal trade flows are selectively hedged. GSK's internal trading transactions are matched centrally and we manage inter-company payment terms to reduce foreign currency risk. Where possible, we manage the cash surpluses or borrowing requirements of subsidiary companies centrally using forward contracts to hedge future repayments back into the originating currency.

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

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

Counterparty risk management

We set global counterparty limits for each of our banking and investment counterparties based on long-term credit ratings from Moody's and Standard and Poor's. Usage of these limits is actively monitored and any breach of these limits would be reported to the CFO immediately.

In addition, relationship banks and their credit ratings are reviewed regularly so that, when changes in ratings occur, changes can be made to investment levels or to authority limits as appropriate. All banking counterparty limits are reviewed at least annually.

Critical accounting policies

The Group consolidated financial statements are prepared in accordance with IFRS, as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and also with IFRS as issued by the International Accounting Standards Board (IASB), following the accounting policies approved by the Board and described in Note 2 to the financial statements, 'Accounting principles and policies'.

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

The critical accounting policies relate to the following areas:

- Turnover
- Taxation (Note 14)
- Legal and other disputes (Notes 31 and 46)
- Contingent consideration (Note 32)
- Pensions and other post-employment benefits (Note 30).

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

Turnover

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

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

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

	2020		2019		2018	
	£m	**Margin %**	£m	Margin %	£m	Margin %
Gross turnover	**20,035**	**100**	18,471	100	18,227	100
Market-driven segments	**(6,754)**	**(34)**	(5,976)	(32)	(5,147)	(28)
Government mandated and state programmes	**(5,205)**	**(26)**	(4,264)	(23)	(4,594)	(25)
Cash discounts	**(388)**	**(2)**	(356)	(2)	(361)	(2)
Customer returns	**(117)**	**(1)**	(141)	(1)	(98)	(1)
Prior year adjustments	**402**	**2**	247	1	98	1
Other prior year items	**–**	**–**	–	–	(59)	–
Other items	**(522)**	**(2)**	(579)	(3)	(613)	(4)
Total deductions	**(12,584)**	**(63)**	(11,069)	(60)	(10,774)	(59)
Net turnover	**7,451**	**37**	7,402	40	7,453	41

Market-driven segments consist primarily of managed care and Medicare plans with which we negotiate contract pricing that is honoured via rebates and chargebacks. Mandated segments consist primarily of Medicaid and federal government programmes which receive government-mandated pricing via rebates and chargebacks.

Critical accounting policies continued

The increased deductions in the government-mandated and state programmes of the gross turnover to net turnover reconciliation primarily reflected higher rebates and chargebacks on respiratory products, and on *Advair* in particular. During the year *Advair* accounted for 6% of US Pharmaceuticals turnover and approximately 24% of the total deduction for rebates and returns.

The respiratory portfolio as a whole, including Established Respiratory products, accounted for approximately 79% of the total deduction in the year.

The balance sheet accruals for rebates, discounts, allowances and returns for the US Pharmaceuticals and Vaccines businesses are managed on a combined basis. At 31 December 2020, the total accrual amounted to £4,686 million (2019 – £4,200 million).

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

On this basis, US Pharmaceuticals and Vaccines inventory levels at wholesalers and in other distribution channels at 31 December 2020 were estimated to amount to approximately four weeks of turnover. This calculation uses third party information, the accuracy of which cannot be totally verified, but is believed to be sufficiently reliable for this purpose.

Legal and other disputes

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

In accordance with the requirements of IAS 37, 'Provisions, contingent liabilities and contingent assets', we provide for anticipated settlement costs where an outflow of resources is considered probable and a reliable estimate may be made of the likely outcome of the dispute and legal and other expenses arising from claims against the Group.

We may become involved in significant legal proceedings, in respect of which it is not possible to make a reliable estimate of the expected financial effect, if any, that could result from ultimate resolution of the proceedings. In these cases, appropriate disclosure about such cases would be included in the Annual Report, but no provision would be made.

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

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

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

The meetings also include an assessment of whether or not there is sufficient information available for us to be able to make a reliable estimate of the potential outcomes of the disputes. Often, external counsel assisting us with various litigation matters and investigations will also assist in the briefing of the Board and senior management. Following these discussions, for those matters where it is possible to make a reliable estimate of the amount of a provision, if any, that may be required, the level of provision for legal and other disputes is reviewed and adjusted as appropriate. These matters are discussed further in Note 46 to the financial statements, 'Legal proceedings'.

Strategic report

The Strategic report was approved by the Board of Directors on 8 March 2021

Iain Mackay
Chief Financial Officer
8 March 2021