Strategic report

In this section

Overview of 2014

"2014 was a significant year for GSK. It was not without its challenges and this was reflected in our trading performance, although I am pleased with how the Group responded. The standout event of the year was our proposed three-part transaction with Novartis which will accelerate our strategy of making GSK a simpler, stronger and more balanced platform for long-term growth."

Sir Andrew Witty
Chief Executive Officer

Read the CEO statement on page 4

Performance summary

£23.0bn
2014 Group turnover
(down 3% CER[a])

£6.6bn
Core operating profit[b]
(down 6% CER[a])

£3.6bn
2014 Total operating profit
(down 40% CER)

£4.1bn
Returned to shareholders via dividends and share buybacks

95.4p
Core earnings per share[b]
(down 1%)

57.3p
Total earnings per share
(down 40% primarily reflecting non-cash adjustments)

40
Around 40 new molecular entities in phase II and III

£1.5bn
New product sales (up 84%)

1st
2014 Access to Medicine Index

100%
All countries have fully implemented new sales force compensation model

1st
Company to file for regulatory approval for malaria vaccine candidate

84%
Dow Jones Sustainability Index score, putting us in top 2% of the pharmaceutical sector

a Excluding divestments completed in 2013. A reconciliation of 2013 core results excluding divestments completed in 2013 and total results is set out on page 61.

b A number of adjusted measures are used to report the performance of our business. These measures are defined on page 52 and a reconciliation of core results to total results is set out on page 61.

Front cover story

Julie, GSK respiratory packaging operator
Ware, UK

Julie (pictured) has been with GSK for 32 years and works as a respiratory packaging operator at our manufacturing site in Ware in the UK. Over the years, her role has been to help ensure that our life-saving medicines for COPD and asthma – from *Ventolin* to *Seretide* and most recently our four new medicines administered by the *Ellipta* inhaler, *Relvar/Breo*, *Anoro*, *Incruse* and *Arnuity* – are always of the highest quality and are available to patients across the world when they need them.

A key part of Julie's role is to help colleagues at GSK understand more about the patient at the end of the supply chain and how critical the contribution of every employee is to delivering our medicines. She leads a training programme which covers quality, safety and patient impact – helping employees to appreciate the importance of GSK's respiratory medicines to millions of adults and children.

Julie is just one of the many people within GSK who have helped us remain the leader in respiratory medicine for over 40 years. We are continuously striving to generate scientific insights to help us develop new medicines and inhalers that meet the needs of patients and have launched more new respiratory medicines in the past two years than in the previous 15 years combined, offering greater choice to healthcare professionals and patients.

Our mission

At GSK our mission is to improve the quality of human life by enabling people to do more, feel better, live longer.

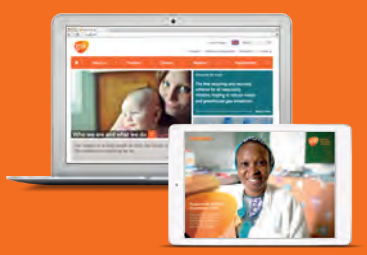
We are doing this by developing innovative products and improving access to healthcare for patients around the world.

Cautionary statement regarding forward-looking statements

The Group's reports filed with or furnished to the US Securities and Exchange Commission (SEC), including this document and written information released, or oral statements made, to the public in the future by or on behalf of the Group, may contain forward-looking statements. Forward-looking statements give the Group's current expectations or forecasts of future events. An investor can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as 'anticipate', 'estimate', 'expect', 'intend', 'will', 'project', 'plan', 'believe' and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority), the Group undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. The reader should, however, consult any additional disclosures that the Group may make in any documents which it publishes and/or files with the SEC. All readers, wherever located, should take note of these disclosures. Accordingly, no assurance can be given that any particular expectation will be met and shareholders are cautioned not to place undue reliance on the forward-looking statements.

Forward-looking statements are subject to assumptions, inherent risks and uncertainties, many of which relate to factors that are beyond the Group's control or precise estimate. The Group cautions investors that a number of important factors, including those in this document, could cause actual results to differ materially from those expressed or implied in any forward-looking statement. Such factors include, but are not limited to, those discussed under 'Risk factors' on pages 232-241 of this Annual Report. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made and are based upon the knowledge and information available to the Directors on the date of this Annual Report.

A number of adjusted measures are used to report the performance of our business. These measures are defined on page 52 and a reconciliation of core results to total results is set out on page 61.



Find out more www.gsk.com

Chairman's statement
To shareholders

"Returns to shareholders remain a key priority for the Board and in 2014 we set a dividend of 80p per share, an increase of 3%"

On behalf of the Board I am pleased to report that 2014 saw good progress against the Group's strategy of building a diversified business, delivering more products of value and simplifying the operating model.

Notwithstanding that, we also recognise the fundamental changes in the trading environment in which the Group operates, particularly in the US, and how that has impacted performance in 2014. However, the Board continues to believe the management team have put in place the appropriate strategy to respond to these challenges.

The Board was particularly pleased to approve the proposed three-part transaction with Novartis which will transform the future shape of the Group making it more balanced and providing better opportunity for broadly based sales growth. I was delighted that shareholders overwhelmingly voted in favour of the transaction in December.

Returns to shareholders remain a key priority for the Board and management team and despite the challenging trading environment, a focus on cost and financial efficiencies have allowed the Board to set a dividend of 80p per share for 2014, an increase of 3%. This year we expect to maintain the dividend at 80p per share and also return £4 billion of net proceeds from the proposed Novartis transaction, once appropriate approvals have been gained.

In total, since 2008 £34 billion has been returned to shareholders through dividends and share buybacks.

Risk management and commitment to ethical behaviour

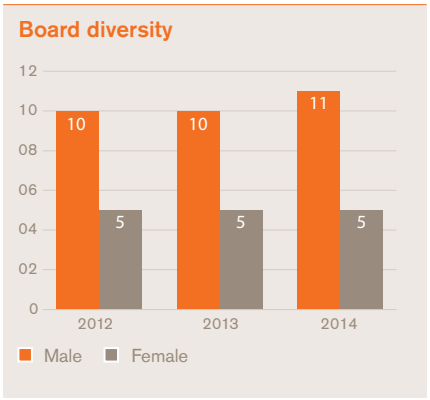
The Board aims to assure the integrity of GSK's business operations through rigorous processes and systems and during the year risk management was once again a key part of the Board's discussions.

The Audit & Risk Committee plays a critical role in overseeing the issues and challenges faced by the management team, including, in 2014, the resolution of the investigation by the Chinese authorities into our business there. The illegal activities of GSK China were a clear breach of GSK's governance and compliance procedures and are wholly contrary to the values and standards expected from GSK employees. We have implemented substantial changes to our Chinese business as a consequence.

The Board expects the Group to remain vigilant on compliance issues and fully supports management's efforts to encourage employees who have concerns to speak up, to investigate all allegations that are made and to continue to invest in improved procedures.

I have no doubt that commercial success is directly linked to operating in a responsible way which meets the changing expectations of society. In this respect, the Board supports the action management has taken to de-link compensation for sales representatives from the number of prescriptions written. The Board also recognises the industry leading work the Group is doing to fundamentally change the relationship we have with doctors and customers which is removing any perception of a conflict of interest.

This forward looking approach is exemplified in our work on the world's first malaria vaccine where we await news from regulators and in our efforts as part of the global response to the Ebola crisis. Both examples show the dedication, skill and expertise that we have in GSK to make a real difference to people's lives worldwide.



This year, in further efforts to improve our corporate reporting, we have incorporated more information about our responsible business approach and performance within the Annual Report as we move towards aligning with the principles of Integrated Reporting. In addition, a Responsible Business Supplement, will be published in March, providing further detail on these topics and setting out progress the Group made during 2014 against its responsible business commitments.

Governance and remuneration

As Chairman, I am committed to GSK seeking to operate to the highest standards of corporate governance. An independent evaluation was undertaken of the Board and our Committees in 2014. I'm pleased to say the results were positive and confirmed the Board operates in an effective manner.

The Remuneration Committee has operated in accordance with the binding remuneration policy, which received overwhelming shareholder support at the 2014 AGM. It's report can be found on page 96.

Board changes and composition

There were a number of changes to the Board during the year.

Following an extensive and rigorous search, Sir Philip Hampton was appointed as my successor. Sir Philip joined the Board as a Non-Executive Director at the start of January and will become Deputy Chairman in April and Chairman from the end of the 2015 AGM in May. Sir Philip brings enormous expertise to the Board, including chairing a number of global companies operating in complex and highly regulated environments.

He succeeded me as Nominations Committee Chairman during January to lead the refreshment of the Board to reflect the requirements of the future reshaped Group. I will continue to provide Sir Philip and the Committee with support and continuity, until I stand down from the Board at the 2015 AGM.

As well as welcoming Sir Philip to the Board, I was also pleased to announce in October that Urs Rohner would join the Board as a Non-Executive Director with effect from 1 January 2015. He is already bringing great value to the Board using his experience as Chairman of Credit Suisse Group AG and his broad business background.

I would like to thank Sir Deryck Maughan for agreeing to remain on the Board for an additional year as Senior Independent Director to assist with transitioning the role of Chairman from myself to Sir Philip, and to utilise his considerable experience and knowledge of GSK's businesses to provide continuity and balance.

My thanks also go to Jing Ulrich for her dedicated service to the Board. Jing has decided not to seek re-election at our AGM.

Finally, Tom de Swaan stands down at our AGM after nine years of valuable and committed service, which has included his exemplary chairmanship of the Audit & Risk and Remuneration Committees. I would like to thank Tom for his advice and support over the years and wish him well for the future.

Prospects

In closing, on behalf of the Board I would like to thank Sir Andrew and his executive team for their continuing commitment during a challenging year where they have once again demonstrated their ability to deliver against the Group's strategy.

This will be my last report as Chairman of GSK and I would like to thank shareholders for their support throughout my tenure. Through my time as Chairman, I have seen many changes and much progress, whether that is delivery from the company's R&D organisation, efforts to improve access to our medicines, or the evolution of the commercial model. This has been coupled with a strong commitment to shareholder returns.

As I look forward, with the integration of new elements following the completion of the proposed three-part Novartis transaction and further restructuring and innovation still to come in the R&D pipeline, I remain confident GSK will deliver considerable, long-term value and returns for shareholders.

Sir Christopher Gent
Chairman

CEO's statement

"Our proposed three-part transaction with Novartis will fundamentally reshape the Group and is a major step towards fulfilling our strategy"

Since 2008 we have been reshaping GSK to help us deliver more sustainable sales and earnings performance, increased innovation in our products and better access to our medicines for patients worldwide.

2014 marked further progress against these objectives, most notably with our proposed innovative three-part transaction with Novartis. This will fundamentally reshape the company and is a major step towards fulfilling our strategy of creating a simpler, stronger and more balanced platform for long-term growth.

Trading conditions continue to be challenging, particularly in the US primary care market. This led to sales for the year declining 3% CER* to £23 billion and core earnings per share down 1% CER to 95.4p, with some of the sales pressure mitigated through delivery of cost and financial efficiencies. We continue to make returns to shareholders a priority and this year increased the dividend 3% to 80p per share and expect to hold it at this level for 2015.

Future success for the Group will be underpinned by our R&D organisation which continues to be productive. In addition to a substantial advanced pipeline we have a large number of exciting early phase assets in key therapeutic areas which are rapidly moving forward through the clinic.

During 2014, we also kept up the pace on innovation in our business model, continuing to evolve our relationships with doctors and customers to ensure we meet society's expectations of a global pharmaceutical company.

Trading performance is challenging

Pharmaceutical and Vaccines sales grew in Emerging Markets by 5% and Japan by 1%. Europe was flat. This was offset by US sales declining 10% as a result of continued pricing and contracting pressure, particularly in our respiratory business.

We have worked hard to improve our formulary positioning and coverage in the US and as we move into 2015, we are starting to see some early encouraging signs of how this will help us regain market share and deliver improved performance in respiratory. In addition we continue to make good progress transitioning to our new portfolio of respiratory medicines and have recently launched two new products, *Incruse Ellipta* for COPD and *Arnuity Ellipta* for asthma and we await a regulatory decision for mepolizumab, potentially a very important product.

Within HIV, ViiV Healthcare grew 15% with sales of *Tivicay* and *Triumeq* reaching £339 million in 2014. The launches of these products have been among the best in class.

Performance in our Consumer Healthcare business was impacted by some supply issues with sales for the year falling 1%, but increasing 2% in the last quarter following progress in remediation of these issues. We expect to see increasing benefit through 2015 from an improved supply situation and I remain confident in the outlook for the business.

Reshaping the company for a sustainable future

In April, we announced a proposed innovative three-part transaction with Novartis where we will acquire their vaccines business, form a joint Consumer Healthcare company and sell Novartis our marketed oncology products.

* excluding divestments completed in 2013

The proposed transaction will give substantial global scale to our Consumer Healthcare business which will become a market leader in more than 30 countries as well as being the number one company worldwide for over-the-counter medicines.

We are currently the world's leading vaccine manufacturer and the proposed transaction further strengthens this position while allowing us to expand our portfolio, most notably in meningitis, build our geographic reach, particularly in the US, and bring together expertise in virology and bacterial infection research.

In selling our marketed oncology assets to Novartis for $16 billion we have realised a very attractive price for a part of our business which, while fast growing, was sub-scale and will benefit from being part of a more established oncology company.

We expect to complete the proposed transaction in the week commencing 2 March 2015.

Sustainable R&D pipeline to support future growth

Over the last few years, our R&D organisation has had an exceptional period of productivity and since 2009 we have achieved more FDA approvals of new molecular entities (NMEs) than any other company.

Following approvals received in 2013 for respiratory products *Breo Ellipta* and *Anoro Ellipta*, *Tafinlar* and *Mekinist* in oncology and *Tivicay* in HIV, we received four further approvals in 2014: *Incruse Ellipta* and *Arnuity Ellipta* in respiratory, *Triumeq* in HIV and *Tanzeum* for type 2 diabetes.

We are awaiting FDA decisions on *Breo Ellipta* for use in asthma and mepolizumab, our first-in-class anti-IL5 treatment for severe eosinophilic asthma. We continue to see significant organic pipeline delivery and this year we expect up to 25 phase II or III starts.

In our advanced pipeline we see significant potential, for example, from our vaccine to prevent shingles, our triple combination therapy for COPD and our new long acting HIV treatment, cabotegravir. In addition to these we have a number of very exciting early stage assets in therapy areas such as immuno-inflammation, immuno-oncology and cardiovascular disease and a number of prophylactic and therapeutic vaccine candidates.

Cost control and financial efficiencies

We remain focused on cost control and improving financial efficiencies. During the year we delivered around £400 million of incremental savings compared with 2013 through our various restructuring initiatives and ongoing cost reduction efforts.

In addition to these organic programmes, the proposed Novartis transaction will allow us to target synergies of £1 billion per year by the fifth year following completion. We have identified a further £1 billion of annual cost savings to be delivered over the next three years as we also reshape our Pharmaceuticals and R&D organisation.

The business remains cash generative with net cash inflow from operations of £5.2 billion for 2014, although this was impacted by global currency fluctuations, particularly the strength of Sterling in the first half of 2014.

Evolution in our business model

As well as making financial savings, our restructuring programmes are also seeking to modernise our ways of working and through 2014 we have continued to challenge ourselves to do more on this agenda.

We have made substantial progress rolling out changes to how we compensate our sales representatives. These changes build on the reforms we started in the US more than two years ago and I was pleased to see our most recent healthcare practitioner satisfaction research showing that GSK now ranks first in the US among our peer group for the value we bring to practitioners' work.

Adding to this, by 2016 we will have fully implemented our commitment to stop paying doctors to speak on our behalf and instead will deliver a new multi-channel system which will transform how doctors receive information from us.

We are undertaking these reforms to ensure patients are put first in everything we do and to eliminate any perception of conflict of interest. We believe these changes are not only the right thing to do, but that they will also be a competitive advantage. They follow our initiatives on clinical trial data transparency and other companies are now also making more of their clinical study results available.

Operating to our values

How we operate is as important to us as delivering financial performance. That's why the issues we saw in China last year have been wholly disappointing and caused harm to the Group's reputation. We have taken significant steps to rectify the issues identified in our Chinese business and to apply appropriate lessons to our operations elsewhere. Given the complexity of our sector and the challenges of working in global healthcare, we will continue to face risks.

Operating in emerging markets is especially challenging given the issues many of these countries face with funding and maturity of their respective healthcare systems. However, we continue to believe that with robust compliance systems and, by working closely with local governments, our presence in these markets can help improve access to medicines and broader healthcare.

Broadening access to our medicines

Enabling the broadest possible access to our medicines remains a priority. I was delighted in 2014 that we again topped the Access To Medicine Index for the fourth consecutive time. Nothing better demonstrated our commitment to innovation and access in everything we do than our work on a vaccine for malaria which was filed during 2014 and our very rapid response to the Ebola crisis. In working on our candidate Ebola vaccine, we have been able to achieve in around ten months which would otherwise have taken several years. I pay tribute to everyone from GSK involved in these two projects.

Outlook

Looking to 2015, we are focused on successful execution of our strategic priorities. Closing the proposed Novartis transaction is clearly key, alongside consolidating and building on the early progress we are seeing in respiratory as well as successfully launching other new products. We will also need to ensure the Consumer Healthcare business continues to recover from its supply issues.

Some of the sales headwinds faced by the Group in 2014 will continue to adversely affect performance during 2015 with a greater impact in the first half of the year. However, with annualisation of these factors and successful execution of our priorities, we expect a stronger performance in the second half of the year.

In 2015, we will also be making a decision on whether to undertake a minority initial public offering of ViiV Healthcare.

In addition, following the closure of the proposed Novartis transaction we plan to hold an Investor Day where we will issue specific earnings guidance for the year and profile the medium and long-term shape and opportunities for GSK.

Finally, I would like to thank all our employees, partners and suppliers for their continued commitment and support.

Sir Andrew Witty
Chief Executive Officer

What we do
Our business

We are a science-led global healthcare company that researches and develops innovative Pharmaceuticals, Vaccines and Consumer Healthcare products.

Our global reach

We have a significant global commercial presence in more than 150 markets, a network of 84 manufacturing sites in 36 countries and large R&D centres in the UK, USA, Belgium and China.

Since 2008 we have reshaped our global footprint to improve access to high growth potential markets including those in Asia Pacific, Latin America and Japan.

£23.0bn

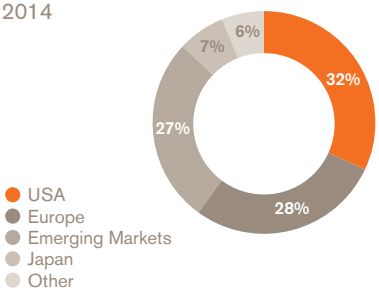
2014 Group turnover (down 3% CER[a])

97,921

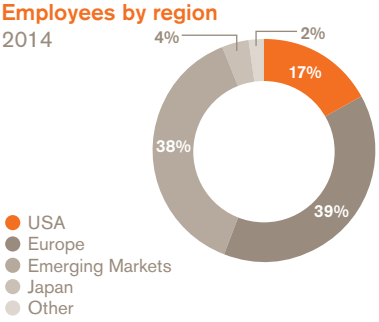
Employees

a Excluding divestments completed in 2013

Turnover by region
2014



Employees by region
2014



How we are structured

While we have three primary areas of business, our commercial operations are structured as a combination of regional units and areas of focus. The businesses each benefit from GSK's global commercial infrastructure, international supply networks, innovative R&D and significant scale.

Pharmaceuticals and Vaccines operate as a combined business in geographical segments. Consumer Healthcare is a global unit, as is ViiV Healthcare, the specialist HIV company we majority own with Pfizer and Shionogi as the other shareholders.

Other trading turnover includes Canada, Puerto Rico, Australasia, central vaccine tender sales and contract manufacturing sales.

Turnover by segment	£bn
Pharmaceuticals and Vaccines	18.7
US	5.0
Europe	4.0
Emerging Markets	3.2
Japan	0.9
ViiV Healthcare	1.5
Established Products	3.0
Other trading	1.1
Consumer Healthcare	4.3

Research and development

£3.1bn

Core R&D expenditure in 2014

80%

Preclinical to phase II NME's have novel mechanisms of action

We sustain and grow our business through investment in R&D. Over 13,000 people work in R&D roles across the group and in 2014 we spent £3.1 billion before non-core[b] items, £3.5 billion in total, in our search to develop innovative medicines, vaccines and consumer products.

In Pharmaceuticals we have around 25 new molecular entities in phase II and phase III in therapeutic areas such as respiratory, immuno-inflammation, HIV and cardiovascular disease.

We have 14 vaccines currently in phase I-III to prevent shingles, hepatitis C, TB, respiratory syncytial virus, exacerbations in COPD, and malaria and Ebola.

Our Consumer Healthcare business is also underpinned by science and innovation. In 2014 we launched over 50 new to market products, including *Sensodyne True White* and *Horlicks* variations.

Core R&D expenditure allocation in 2014	£m	%
Pharmaceuticals	2.5	81
Vaccines	0.4	14
Consumer Healthcare	0.2	5

b The calculation of core results and non-core items is set out on page 52.

Pharmaceuticals

Our Pharmaceuticals business develops and makes medicines to treat a broad range of acute and chronic diseases. Our portfolio is made up of innovative and established medicines and we have leading global positions in respiratory disease and HIV.

Read more on page 20

£15.5bn
Total turnover

67.3%
of Group turnover

Sales by therapy area	£m
Respiratory	6,181
Oncology	1,202
Cardiovascular, metabolic and urology	965
Immuno-inflammation	214
Other pharmaceuticals	2,407
ViiV Healthcare (HIV)	1,498
Established Products	3,011

Vaccines

Our Vaccines business is one of the largest in the world. We have a broad portfolio of over 30 paediatric, adolescent, adult and travel vaccines. In 2014, we distributed approximately 800 million doses in 170 countries.

Read more on page 20

£3.2bn
Total turnover

13.9%
of Group turnover

Sales by product line	£m
Infanrix/Pediarix	828
Boostrix	317
Cervarix	118
Fluarix and *FluLaval*	215
Hepatitis	558
Rotarix	376
Synflorix	398
Other	382

Consumer Healthcare

Our Consumer Healthcare business is one of the largest in the world, driven by science and values. We develop and market products in four categories – Wellness, Oral health, Nutrition and Skin health – and our brands are available in over 100 countries.

Read more on page 33

£4.3bn
Total turnover

18.8%
of Group turnover

Sales by category	£m
Wellness	**1,596**
Oral health	**1,797**
Nutrition	**633**
Skin health	**310**

Our global marketplace
Opportunities and challenges

Demand for medicines and healthcare treatments will remain strong in coming years.

Global economic review
The global economy grew by 2.6% in 2014, up slightly from 2.5% in 2013.

However, the recovery has been uneven across regions. Growth in some major economies has been strong – the US grew by 2.4%, up from 2.2% in 2013 and the UK grew by 2.6%, up from 1.7% in 2013. Growth was weaker in the Euro area at 0.8% (up from -0.4% in 2013) and Japan at 0.2% (down from 1.5% in 2013).

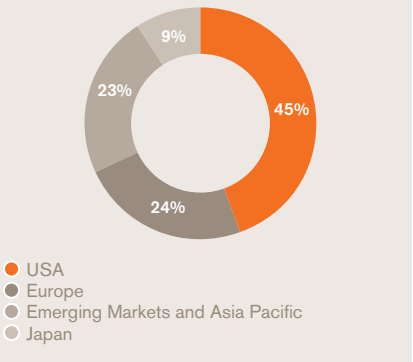
Emerging markets showed stronger economic growth than developed markets in 2014, continuing this long-term trend. China still shows robust growth, but down to 7.4% compared to 7.7% in 2013. Low income countries continued to grow at a robust pace. For example, growth in sub-Saharan Africa was 4.5%, up from 4.2% in 2013.

The global healthcare market
The global pharmaceutical market continued to grow in 2014, with sales of £393 billion (Jan-Sep), up from £362 billion (Jan-Sep 13) (CER).[a]

North America remains the largest pharmaceutical market, with a 45% share of global sales (up from 43% in 2013). Europe showed a slight decline from 25% to 24% over the same period, while emerging markets and Asia Pacific continued to represent 23% of global sales. Japan represented 9%, down from 10% the previous year.[a]

In 2014, the global vaccines market increased 6% to around $25 billion.[b] The market is expected to continue growing and represent around $38 billion by 2020.[b]

Total global sales of medicines by region[a]



The consumer healthcare markets in which GSK operates are estimated to be worth over $100 billion, and are projected to grow by 3-4% per annum over the next five years.[c]

Global trends are impacting the healthcare market. Economic growth and changing demographics in emerging markets are increasing demand for healthcare products. This demand is expected to grow significantly faster in these markets over the longer term than in more mature markets. As these countries become richer, increased consumption of food, alcohol and tobacco, combined with less exercise, is leading to growth in chronic diseases, such as respiratory and cardiovascular disease. In Europe rising public debt and government austerity programmes continue to create pressure on healthcare spending. In the US focus on cost and value, is leading payers to reduce price, restrict access and demand more differentiated products, so manufacturers must develop innovative products that offer significant improvements on existing options.

Globally, populations are ageing and taking an increasingly active role in managing their own health which is creating more demand for healthcare products. Rising individual empowerment and growing expectations from society also mean that patients and consumers want healthcare companies to operate with high standards in order to build trust.

Pricing and regulation
Prescription medicines and vaccines are highly regulated to ensure patients and users have access to safe and effective medicines. Individual governments determine which products can be marketed in their countries and many have state-regulated systems governing product pricing.

USA
In the US, the Food and Drug Administration (FDA) approves new medicines and in 2014 approved 41 novel medicines, an increase from 27 in 2013.

The healthcare landscape in the USA is undergoing substantial change, with a much stronger focus on improving quality and controlling costs. The impact of this was particularly significant in 2014, creating challenging conditions for the industry.

The emphasis on cost has led to increased pricing pressures and competitive intensity – both within the private marketplace, as well as for public programmes. This makes it essential for manufacturers to demonstrate the value medicines and vaccines bring to patients and the healthcare system in the USA and to develop innovative products that offer significant improvements on existing options. Access to healthcare also remains a key priority, as evidenced by initiatives such as new health insurance marketplaces, the expansion of the Medicaid programme and financial penalties for people who do not purchase insurance. However, while more Americans now have access to healthcare coverage, access to medicines continues to be a challenge for some patients across the healthcare system, including the private marketplace.

Europe
In Europe, the European Medicines Agency (EMA) regulates new medicines and in 2014 issued 36 positive opinions recommending marketing authorisation for medicines containing new active substances (38 in 2013).

Given the public funding of healthcare in most countries, the continued pressure on government budgets led to flat or reduced investment in healthcare and pharmaceuticals across Europe. Spending on hospital medicines increased, which was mostly driven by increased use of oncology and biological products, but decreased in primary care. High-priced medicines generated significant public debate, with particular focus on oncology and treatments for hepatitis C.

Inequality of access to medicines, both between European countries and within patient populations, remains a significant concern. Despite much debate on how a new pricing approach could reduce inequality, concrete progress has been limited and practical challenges such as parallel trade and international reference pricing remain. During the year, the EMA launched the Adaptive Pathways Pilot to help accelerate patient access to valuable new medicines. Several countries, including the UK and France, are also considering this issue unilaterally.

Footnotes
a Reference: IMS data Jan-Sep 2014
b Reference: EvaluatePharma
c Reference: IMS, EvaluatePharma and internal analysis

Responding to long-term global opportunities and challenges

Macro-economic and social trends

- Population growth and ageing populations
- Rapid technological advances
- Rise of individual empowerment
- Rising public debt in western markets
- Economic growth in emerging markets
- Climate change and resource depletion
- Lifestyle changes
- Global competition for talent

Opportunities and challenges for the healthcare sector

- Changing lifestyles leading to new disease burden
- Rising public debt leading to pressures on healthcare spending
- Growing demand in emerging markets
- Payer focus on value leading to more demand for differentiated products
- Ageing population leading to increased demand for healthcare
- Rise of individual empowerment and meeting society's growing expectations

Our strategic response

Emerging markets a key focus
Since 2008 we have reshaped our business to enhance access to high-growth markets such as Asia Pacific, Latin America and Japan. Our Emerging Markets sales have grown from c.16% of turnover in 2008 to 27% today.

Creating innovative products
We are committed to developing innovative new products that offer significant improvements over existing treatments and so we focus our research efforts in areas where the science presents the best opportunities to address unmet medical need. 80% of our preclinical to phase II NME's have novel mechanisms of action.

Addressing affordability
We are committed to tackling affordability barriers. In Least Developed Countries we cap the prices of our patented medicines and vaccines at 25% of prices charged in developed countries. In developed markets we have pioneered novel reimbursement approaches to widen access to our newer medicines and priced these at below current treatments.

Changing how we work with healthcare professionals
We are modernising how we work with healthcare professionals (HCPs) to ensure our actions are always in the interests of patients. Our sales staff who directly interact with prescribing HCPs are incentivised on their knowledge, expertise and business performance, rather than individual sales targets. By 2016, we will have stopped direct payments to HCPs to speak about our medicines and vaccines.

Our global marketplace
Opportunities and challenges – continued

Adoption of new vaccines remains slow in many countries and coverage rates vary significantly.

Japan
In Japan, the Pharmaceutical and Medical Device Agency (PMDA) regulates new medicines and approved 33 from April to December 2014.

In April 2014, the Japanese Ministry of Health, Labour and Welfare conducted its bi-yearly review of the pricing in medicines, resulting in a 2.7% reduction (5.6% excluding the impact of the consumption tax increase from 5% to 8%) under the National Health Insurance pricing scheme, based on the government's market price survey.

The premium for new drug development, which was introduced in 2010 on a trial basis, remained in place in 2014.

Emerging markets
In emerging markets, prescription medicines are regulated in a variety of ways. However, the approval process continues to evolve and is aligning more closely with the USA, Europe and Japan both in terms of format and content. Some countries, such as China, India, Russia, Vietnam and Nigeria require local clinical data in order to fulfil their regulatory requirements.

Economic growth and changing demographics in these markets is increasing demand for healthcare products. This demand is expected to grow significantly faster in these markets over the longer term than in more mature markets.

Governments across these regions continue to seek ways to improve access to healthcare while at the same time manage healthcare expenditure, including spending on medicines. Countries such as Indonesia, China and India are looking to expand the population covered by government-funded health schemes. This increases the opportunities for high-volume tenders but also impacts pricing.

Intellectual property and patent protection
The journey from scientific breakthrough to approved new medicine or vaccine takes years and can incur significant costs. To ensure a reasonable return on investment, research-based healthcare companies rely on the protection of their intellectual property through patents and other rights.

Patents generally have a 20-year term from filing and are sometimes challenged before they expire. In these cases there are legal proceedings (see 'Legal proceedings' in Note 45 of the Financial Statements).

Patent expiry or the early loss of a patent can lead to the availability of a generic version of the product which is often cheaper as the generic manufacturer does not typically incur significant R&D costs. In developed markets, generics can rapidly capture a large share of the market. Market erosion may be less in emerging markets where automatic substitution methods are not as developed. Patients may also have quality and safety concerns and therefore prefer an established medicine brand.

In some of the markets we operate in, intellectual property rights, particularly patents and data protection, are less enforceable as governments seek to control prices and increase access to medicines by limiting such rights. For example, India, Brazil and Argentina have implemented, or are considering, practices that restrict the availability of patents. In addition, some countries are considering more widespread use of compulsory licensing where an individual or company can use another's patent without their consent, and pays the patent owner a set fee for the licence.

Vaccines and other biological products do not currently face such a degree of generic competition, partly due to the more complex research and manufacturing processes compared to medicines.

Consumer healthcare products
The development timeline for consumer healthcare products is shorter than for pharmaceuticals and vaccines. While intellectual property protections are available, their importance and effectiveness are different. Consumer Healthcare products are also covered by national regulation regarding the testing, approval, manufacturing, labelling, marketing and advertising.

Consumer healthcare products have strong reliance on brand loyalty and trade mark protection to create value, especially in emerging markets. Brands play an important role in our business. We have many leading brands including *Sensodyne*, *Panadol*, *Horlicks*, *Polident*, *Paradontax*, *Tums*, *ENO*, *NiQuitin/Nicorette*, *Abreva*, *Zovirax* and *Aquafresh*. Moreover, our brands have a distinct heritage such as *Horlicks* (140 years old) and *ENO* (160 years old).

Competition
Competition for our prescription products comes from other companies researching and making patent-protected medicines with indications to treat similar diseases to our medicines. Our principal research-based pharmaceutical and vaccines competitors include: AbbVie, Amgen, Astra Zeneca, Bayer, Bristol-Myers Squibb, Eli Lilly, Johnson & Johnson, Merck & Co, Novartis, Novo Nordisk, Pfizer, Roche Holdings, Sanofi and Takeda.

Some of our main consumer healthcare competitors include Colgate-Palmolive, Johnson & Johnson, Procter & Gamble, Reckitt Benckiser, and Novartis (see full list on page 231).

In addition, many other locally operating companies compete with GSK in certain markets.

Our business model
How we create value

Our success depends on our ability to research and develop innovative healthcare products and make them accessible to as many people as possible.

Our mission is to improve the quality of human life by enabling people to do more, feel better and live longer.

Our resources
To deliver our mission we must align all our resources behind our strategic priorities.

We depend on the expertise and enthusiasm of our 98,000 employees to embrace new ways of working and to forge partnerships that can offer fresh insights into how best to combat the world's healthcare challenges.

We expect everyone to put our values at the heart of their decision making. This means acting transparently, respectfully and with integrity – and putting the interests of patients and consumers first. How we deliver success is just as important as what we achieve.

We have made good progress against our strategic priorities, established in 2008, to grow a diversified, global business, deliver more products of value, and simplify our operating model.

Our businesses
We're a science-led healthcare company operating in three main areas – Pharmaceuticals, Vaccines, and Consumer Healthcare.

Our operating model
Innovation is key to our success and we have transformed our R&D organisation over recent years to be more agile. Since 2009, we've had more medicines approved than any other healthcare company and we have many more in development. We have also implemented different ways of supporting R&D, for example, opening up access to our expertise, our facilities and even some of our intellectual property to collaborate with more than 3,000 external organisations.

To bring these innovations to patients and consumers, we manufacture billions of products to high-quality standards and supply them to more than 150 countries worldwide.

Our commercial success depends on market presence, customer understanding and expanding access. We seek to make our products accessible for countries at all levels of income and development. In the Least Developed Countries, this includes capping prices at 25% of developed market levels, and reducing prices through high-volume contracts. In developed markets, we have pioneered novel reimbursement approaches to widen access to our newer medicines and priced these at or below current treatments.

Outputs
Developing innovative products and maximising access to them delivers direct benefit to patients and consumers.

If we do this successfully, it will lead to profitable and sustainable performance. In turn this allows us to generate value and returns for our shareholders and enables us to reinvest in the business so patients and consumers continue to benefit.

Over and above this, wider society benefits since healthy people and communities are essential to building strong, sustainable societies. We also create value by making direct and indirect economic and social contributions in the countries where we operate, through tax, employment and charitable support.

Our strategic priorities
How we deliver

Our strategy is designed to increase growth, reduce risk and improve our long-term financial performance.

Our strategic priorities	Progress since 2008	Progress in 2014
Grow *a diversified business* Our aim is to create a balanced business and product portfolio, capable of delivering sustainable sales growth, centred on three business areas of Pharmaceuticals, Vaccines, and Consumer Healthcare.	Total group sales broadly stable, despite significant sales losses to generic competition. Diversification delivering organic growth, Emerging Market sales up from c. 16% of turnover in 2008 to 27% today. £34 billion in returns paid to shareholders, including £24 billion of dividends and £10 billion of buy-backs. Dividend up from 57p in 2008 to 80p for 2014.	Proposed major three-part transaction with Novartis to bolster Vaccines and Consumer Healthcare businesses announced. Transition to new respiratory portfolio underway with launch of *Breo/Relvar Ellipta*, *Anoro Ellipta*, *Incruse Ellipta* and *Arnuity Ellipta*. ViiV Healthcare sales up 15% in 2014 with successful launches of *Tivicay* and *Triumeq*.
Deliver *more products of value* Our aim is to research and develop high quality products that offer valuable improvements in treatment for patients, consumers and healthcare providers.	Created a more agile and productive R&D organisation, with more product approvals than any other healthcare company since 2009. Improved R&D investment rate of return from 11% in 2010 to 13% in 2013.	Significant new product approvals in respiratory diseases, HIV and diabetes. Malaria candidate vaccine, RTS,S, submitted for regulatory approval. Positive phase III study results for shingles candidate vaccine (HZ/su).
Simplify *the operating model* Our aim is to reflect how our business is changing by transforming how we operate to reduce complexity and become more efficient. This frees up resources to reinvest elsewhere in the business.	£3.5 billion cumulative annual cost savings delivered through a range of restructuring programmes since 2008. Reduced complexity by disposing of non-core brands, integrating supply chains across our businesses and introducing new workplace efficiencies to speed decision making.	£400 million of incremental savings delivered through restructuring initiatives and ongoing cost reduction. Global enterprise resource planning system (ERP) rolled out to 19 markets.
Responsible business Being a responsible business is central to our strategy, and how we deliver success is just as important as what we achieve. Ensuring our values are embedded in our culture and decision making helps us better meet the expectations of society.	Relentless focus on access to healthcare – first in the Access to Medicine Index since 2008. Evolved our commercial model, changing ways of working with healthcare professionals and incentives for sales force. Led on increasing transparency to clinical trial data – first company to sign up to AllTrials campaign.	Collaborated with partners to accelerate development of Ebola vaccine candidate. Delivered global roll-out of new sales force compensation approach. Launched new Africa strategy to reach 80% of the sub-Saharan African and Least Developed Countries population by 2020. In early 2015 we extended our price freeze commitment to 10 years for Gavi-graduating countries.

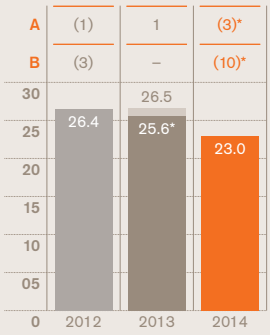
Key challenges in 2014	2014 Key performance	Our priorities in 2015
Increased pricing pressure in the US from market changes, competitor dynamics and contracting. Continued pricing pressure in Europe due to government austerity programmes. Unanticipated supply continuity challenges in Consumer Healthcare.	**£23.0bn** Group turnover **£95.4p** core earnings per share* * a reconciliation of core results to total results is set out on page 61	Implement proposed transaction with Novartis. Improve commercialisation of new respiratory, HIV and Consumer Healthcare products. Drive growth in emerging markets across the three businesses. Capitalise on product supply resumption in Consumer Healthcare business.
Disappointing phase III results for MAGE A3 and darapladib programmes.	**4** new product approvals in major markets **40** In Pharmaceuticals and Vaccines we have around 40 new molecular entities in phase II and III	Continue to progress mid-stage pipeline with 25 phase II/III starts expected. Integrate proposed Novartis vaccines pipeline.
Unanticipated supply continuity challenges in Consumer Healthcare. Complexity of rolling out new systems at scale across many markets.	**21** days increase in working capital* **£3.5bn** cumulative annual savings made through restructuring programmes since 2008 * adjusted to exclude divestments completed in 2013 and the impact of intangible asset impairment	Execute Pharmaceuticals restructuring programme to save £1 billion per annum over three years. Continue streamlining product portfolio embedding common processes. Continue roll-out of ERP system. Execute restructuring programme related to proposed Novartis transaction to save £1 billion per annum by fifth year from closing.
Rebuilding business in China following criminal conviction of China affiliate for violation of Chinese law. Meeting value chain carbon emission target while sales of products with high carbon footprint, such as *Ventolin*, are increasing.	**1st** in 2014 Access to Medicine Index **84%** Dow Jones Sustainability Index score, placing us in the top 2% of our sector	Continue to enhance governance, compliance and quality through proactive risk management and quality-led culture. Deliver new commercial model globally by changing the way we work with HCPs. Improve leadership effectiveness and quality of talent. Continue to progress development of Ebola vaccine candidate.

How we performed
Key performance indicators

We measure our performance against a number of key performance indicators.

Group turnover

£23.0bn



A Reported growth CER %
B Reported growth £ %

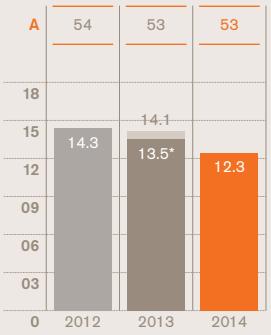
How we performed
Turnover was down 3%, excluding divestments in the prior year. Lower Pharmaceutical and Vaccines sales in the US and in Established Products only partly offset by growth in Emerging Markets, Japan and ViiV Healthcare. Consumer Healthcare sales were lower.

Why it's important
A key objective of our strategy is to deliver sustainable, broadly-sourced sales growth.

* excluding divestments completed in 2013

Turnover in our major growth areas[b]

£12.3bn



A % share of total turnover
* excluding divestments completed in 2013

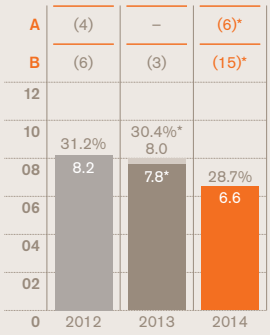
Definition
This measure focuses on major growth areas: Vaccines, Consumer Healthcare, Emerging Markets and Japan.

How we performed
We saw continued Pharmaceuticals growth in Emerging Markets and Japan. Vaccines and Consumer Healthcare were broadly flat. Consumer Healthcare sales were impacted by supply interruptions.

Why it's important
This highlights progress in delivering our strategy to create broad-based sales growth that is more resilient to volatility.

Core operating profit and margin[a]

£6.6bn



A Reported growth CER %
B Reported growth £ %

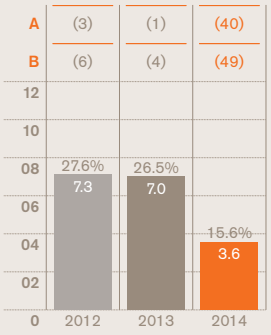
How we performed
Core operating profit was £6.6 billion. Excluding currency effects, core operating margin declined 0.8 percentage points to 28.7%, primarily reflecting an increase in SG&A as a percentage of sales despite the 2% decline in actual sales.

Why it's important
Our objective remains to improve operating leverage to ensure operating profit growth performs ahead of sales performance. The margin indicates how costs are being managed as a percentage of sales.

* excluding divestments completed in 2013

Total operating profit and margin

£3.6bn

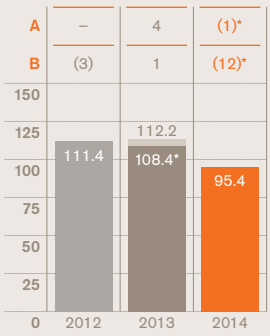


A Reported growth CER %
B Reported growth £ %

How we performed
Total operating profit was £3.6 billion. Excluding currency effects, the total operating margin declined 9.4 percentage points to 15.6%, primarily reflecting higher SG&A costs, lower profits on the disposal of business and products, and non-cash adjustments to the contingent consideration in relation to ViiV Healthcare as a result of higher sales outlook for *Tivicay* and *Triumeq*.

Core earnings per share[a]

95.4p



A Reported growth CER %
B Reported growth £ %

Definition
Core results exclude a number of items from total results. A full definition of core results can be found on page 52 and a reconciliation between core results and total results is provided on page 61.

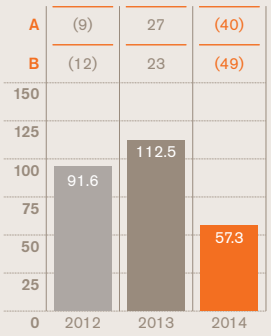
How we performed
Core EPS decreased 1% (CER) compared with a 3% (CER) decline in turnover as a result of cost and financial efficiencies.

Why it's important
Earnings per share is a key indicator of our performance and the returns we are generating for shareholders.

* excluding divestments completed in 2013

Total earnings per share

57.3p

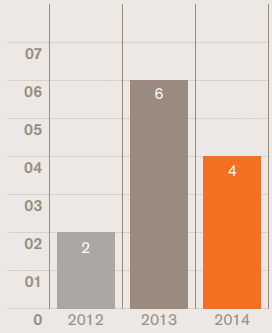


A Reported growth CER %
B Reported growth £ %

How we performed
Total earnings per share was 57.3p, compared with 112.5p in 2013 primarily reflecting non-cash adjustments to the contingent consideration in relation to ViiV Healthcare as a result of higher sales outlook for *Tivicay* and *Triumeq* as well as an unfavourable comparison with product and asset disposal gains in 2013.

New product approvals in major markets

4 approvals



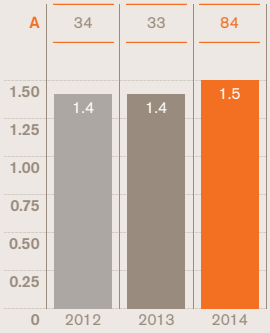
Definition
Major market is defined as USA, EU and/or Japan

How we performed
First regulatory approvals for *Tanzeum*, *Incruse Ellipta*, *Arnuity Ellipta* and *Triumeq*.

Why it's important
This measure shows how the R&D organisation is delivering new products to drive the growth of the Group.

New Pharmaceuticals and Vaccines product performance[b]

£1.5bn



A Reported growth CER %

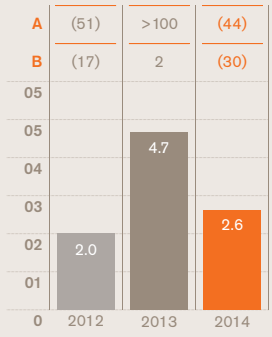
Definition
New products launched in the last five years on a rolling basis. In 2014 the following products were no longer included in the calculation: *Arzerra*, *Lamictal XR*, *Potiga*, *Prolia*, *Votrient*.

How we performed
Sales of new products were £1.5 billion in 2014, grew 84% and represented 8% of Pharmaceutical and Vaccines turnover.

Why it's important
This measure shows the delivery of sales in each year from products launched in the prior five years on a rolling basis, and creates incentives for improved R&D performance.

Free cash flow[b]

£2.6bn



A Reported growth £ %
B Growth excluding legal settlements £ %

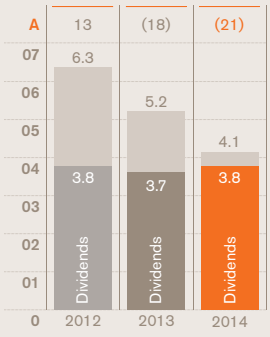
Definition
The calculation of free cash flow is described on page 52 and a reconciliation is provided on page 68. The calculation of CER is described on page 52.

How we performed
Free cash flow was £2.6 billion. The decline reflecting the impact of the strength of Sterling and lower profits, including the impact of divestments.

Why it's important
This measure shows the cash we generate that is available to return to shareholders or reinvest in the business, as well as our effectiveness in converting our earnings to cash through effective working capital control and investment discipline.

Cash returned to shareholders

£4.1bn



A Reported growth £ %

How we performed
During 2014, GSK returned £4.1 billion to shareholders via dividends and share buy-backs.

Why it's important
We continue to focus on delivering dividend growth over the long-term and returning free cash flow to shareholders through share buybacks where this offers a more attractive return than alternative investments.

Footnotes

a We use a number of adjusted measures to report the performance of our business. These include core results, which are used by management for planning and reporting purposes and may not be directly comparable with similarly described measures used by other companies. A reconciliation of core results to total results is set out on page 61.

b The remuneration of our executives is linked to the marked key indicators. Further information on our executive pay policy can be found in our Remuneration report on page 96.

Relative total shareholder return table is on page 107.

Responsible business: external benchmarking

First in 2014 Access to Medicine Index and have topped the bi-annual index since it began in 2008.

Retained our position in CDP's FTSE 350 Climate Disclosure Leadership Index for the seventh year.

Member of FTSE4Good since 2004.

Scored 84% in the Dow Jones Sustainability Index, putting GSK in top 2% of our sector.

Risk management
Our approach to risk

Rigorous risk management processes and systems help us assure the integrity of our business operations.

We are committed to conducting business in accordance with all applicable laws and regulations and in a manner that is consistent with our values. We have an established risk management framework to address operational, legal and compliance risks, both those inherent to the nature of our business and those specific to our strategic ambitions. Risk management, coupled with our internal control framework helps us maintain our focus on product quality, safety and sustainability.

How we manage risk across GSK

Company policies, standards and internal controls, together with our company values underpin our approach to risk management. We are committed to being a responsible, values-based business and our leaders are responsible for embedding this into our culture, decision making and how we work. Ensuring product quality, safety and sustainability are fundamental to our business model.

Employees are accountable for working to established standards and for identifying and escalating encountered risks so that they can be appropriately managed. The company has comprehensive learning programmes to ensure employees are suitably trained including mandatory training on the GSK Code of Conduct and Anti-Bribery and Corruption policies.

Progress in 2014

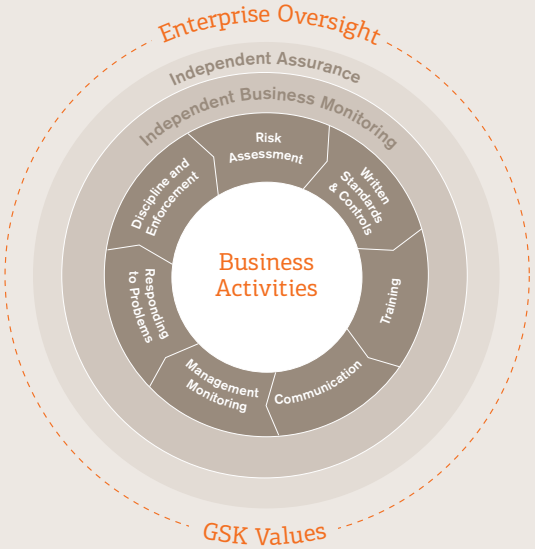
We have learnt lessons from compliance issues experienced over recent years and continue to look for ways to strengthen further our internal control framework so that we can more proactively manage our Principal risks. For example, in China we have implemented a new governance model, increased dedicated compliance resources and put in place additional controls and monitoring local ways of working and financial transactions.

We have a central dedicated Anti-Bribery and Corruption team who provide external insight, standards, training and expertise to our business globally. In 2014, we also strengthened our internal investigations team to create three regional hubs to provide a consistent approach to investigations across the group, allowing us to respond more quickly and consistently to emerging issues.

We have enhanced our approach to independent business monitoring to detect abnormal or inappropriate financial flows better within Europe and Emerging Markets.

In Europe and Emerging Markets we initiated a wide-ranging review of our internal controls to confirm that our company standards, local laws and regulations are understood and adhered to. All countries in these regions took part in the review and are implementing any required improvement plans to address risks and strengthen controls. We have also continued to satisfy our Corporate Integrity Agreement obligations for the Office of the Inspector General in North America.

Our internal control framework



Our internal control framework, in conjunction with our values, helps to ensure that we effectively manage risks as we conduct our business activities.

We are subject to inspections and audits conducted by external parties, including regulatory agencies, to assess the adequacy of our internal control framework. We actively address findings from these activities and take appropriate corrective actions to improve our internal controls across the Group.

Governance structure of risk management

Accountability for monitoring

Responsibility for implementing

Board of Directors	Responsible for our system of corporate governance, strategy, risk management and financial performance
Audit & Risk Committee	Responsible for reviewing and approving the adequacy and effectiveness of our risk management and internal controls
Corporate Executive Team	Supports the CEO in managing our business and activities
Risk Oversight and Compliance Council	Authorised by the Board to assist the Audit & Risk Committee in overseeing the risk management and internal control activities of the Group
Business units	Responsible for identifying, assessing and managing risks within their businesses
Risk Management and Compliance Boards	Ensure that appropriate internal controls for effective risk management are implemented Complemented by Country Executive Risk Boards to ensure a consistent approach to risk management across local geographies

Principal risks

The Principal risks listed below are those we believe could cause our results to differ materially from expected and historical results. They are not listed in order of significance. A full description of the definition, context, potential impact and mitigating activities for these Principal risks is set out on pages 232.

Principal risk	Definition	How we manage risk
Patient safety	Failure to appropriately collect, review, follow up, or report adverse events from all potential sources, and to act on any relevant findings in a timely manner.	The Chief Medical Officer leads a large Global Safety and Pharmacovigilance team and maintains applicable global policies to guide staff worldwide.
Intellectual property	Failure to appropriately secure and protect intellectual property rights.	Our Global Patents group continually analyses and ensures that changes in patent laws and regulations are incorporated into its processes for obtaining, maintaining and enforcing global patent protection.
Product quality	Failure to comply with current Good Manufacturing Practices or inadequate controls and governance of quality.	Our Chief Product Quality Officer leads our global network of Quality Councils, implements applicable policies and assures our single Quality Management System that defines quality across our businesses.
Supply chain continuity	Failure to deliver a continuous supply of compliant finished product.	We closely monitor the inventory status and delivery of our products to help ensure that our customers have the medicines, vaccines and consumer products they need through the Supply Chain Governance Committees.
Financial reporting and disclosure	Failure to report accurate financial information in compliance with accounting standards and applicable legislation.	Our internal controls over financial information and reporting are overseen by regional management and then reviewed with the Financial Controller and the Chief Financial Officer (CFO), and our external auditors.
Tax and treasury	Failure to comply with current tax law or incurring significant losses due to treasury activities.	Tax risk is managed by a set of policies and procedures to help ensure consistency and compliance with tax legislation. Where appropriate we engage advisors and legal counsel to review tax legislation and the applicability to our business.
Anti-Bribery and Corruption (ABAC)	Failure to comply with applicable local and international ABAC legislation.	We have an extensive global ABAC programme, policy and procedures overseen by a top-level ABAC Oversight Committee. As part of the programme, significant training is provided to employees globally regarding anti-bribery and corruption and compliance with the Group's ABAC policies.
Commercial practices and scientific engagement	Failure to engage in commercial and/or scientific activities that are consistent with the letter and spirit of legal, industry, or the Group's requirements relating to marketing and communications about our medicines and therapeutic areas.	We have harmonised policies and standards which govern promotional activities and Scientific Engagement undertaken by the Group or on its behalf. Employees worldwide are trained on the policies and implications for failure to comply with such policies.
Research practices	Failure to protect and inform patients involved in human clinical trial research and, generally, to conduct clinical trials in compliance with law.	We implement systems of governance and controls to oversee our clinical trial research, use of biological samples, and data integrity in all of our key systems.
Environment, health & safety and sustainability (EHSS)	Failure to manage EHSS consistent with the Group's objectives, policies and relevant laws and regulations.	We have Global EHSS Standards which support our EHSS policy and are overseen by members of the CET. Employees globally are routinely trained on the Group's EHSS policies.
Information protection	Failure to protect and maintain access to critical or sensitive computer systems or information.	Our Chief Information Security Officer oversees our global information policy and programme and regularly assesses changes by closely monitoring our systems and through external briefings.
Crisis and continuity management	Inability to recover and sustain critical operations following a disruption or to respond to a crisis incident in a timely manner.	We have established a Crisis and Continuity Management (CCM) governance board and a team of CCM experts to ensure critical business operations have crisis and continuity plans in place.
Third-party oversight	Failure to maintain adequate governance and oversight over third-party relationships.	Our Chief Procurement Officer oversees our policy framework governing how we buy goods and services and management of third-party relationships.

Our businesses

We have leading capabilities in Pharmaceuticals, Vaccines and Consumer Healthcare, driven by science-led innovation.

Innovative science is at the forefront of all we do, whether that is investigating potential new treatments for respiratory patients or conducting research to develop the world's first malaria vaccine. Rhiannon (pictured) works in our laboratory in Ware, in the UK, researching potential treatments for leishmaniasis – a disease that currently affects around 12 million people in some of the world's poorest countries.

Pharmaceuticals and Vaccines

Growth in Emerging Markets, Japan and ViiV Healthcare was offset by a challenging environment in the USA.

We have leading Pharmaceuticals and Vaccines businesses, underpinned by a substantial R&D organisation. We have a significant commercial presence in the USA, Europe, Japan and Emerging Markets. Since 2008, we have increased our investment in emerging markets, which now account for c. 19% of Group turnover, up from c. 13%. In recent years we have launched important new medicines and vaccines in respiratory, HIV, oncology, diabetes and influenza.

Pharmaceuticals

Our Pharmaceuticals business develops and makes medicines to treat a broad range of acute and chronic diseases. Our portfolio is made up of innovative and established medicines and we have leading global positions in respiratory disease and HIV.

We have been a leader in respiratory disease for over 40 years and have a portfolio of mature products such as *Seretide/Advair*, *Ventolin* and *Flovent*. In recent years, we have strengthened and broadened our respiratory portfolio with the addition of new medicines *Relvar/Breo Ellipta*, an inhaled corticosteroid (ICS) and long-acting beta$_2$ agonist (LABA) combination, *Anoro Ellipta*, a long-acting muscarinic antagonist (LAMA) and LABA dual bronchodilator, *Incruse Ellipta* (LAMA) and *Arnuity Ellipta* (ICS).

We have a number of other respiratory products in our pipeline, including mepolizumab, an investigational anti-IL5 monoclonal antibody, to treat severe eosinophilic asthma, and our 'closed' triple combination treatment to treat COPD. We remain confident that we can maintain our leadership in respiratory disease well into the next decade.

Our HIV business is managed through ViiV Healthcare, a global specialist company in HIV that we majority own, with Pfizer and Shionogi as the other shareholders. ViiV Healthcare is now a leading global company in HIV and has had significant recent success with regulatory approval and industry leading launches of its dolutegravir-based medicines, *Tivicay* and, the single-pill treatment *Triumeq*. ViiV Healthcare has a number of other antiretroviral medicines in clinical development, including cabotegravir. For more detail see ViiV Healthcare on page 31.

Beyond respiratory and HIV, we have a portfolio of other Pharmaceutical products for the treatment of conditions such as lupus (*Benlysta*), benign prostatic hyperplasia (*Avodart/Jalyn*), type 2 diabetes (recently launched *Tanzeum/Eperzan*) and bacterial infections (*Augmentin*).

Over the past six years we have built a significant oncology business. In recent years we have had multiple regulatory approvals and global product launches including *Tykerb/Tyverb*, *Votrient*, *Promacta/Revolade*, *Arzerra*, *Tafinlar* and *Mekinist*.

As part of the proposed Novartis transaction, we have agreed to divest our marketed oncology portfolio, related R&D activities and rights to our AKT inhibitors currently in development for $16 billion. This represents a unique opportunity to crystallise value for shareholders and leverage the global scale that Novartis has in this therapy area to improve patient outcomes.

In addition, we have an Established Products Portfolio (EPP) which includes over 50 off-patent products, as well as our branded generics business and other local products. These products are an important part of our Emerging Markets business where the GSK brand is an important differentiator.

Vaccines

Our Vaccines business is one of the largest in the world. We have a broad portfolio of over 30 paediatric, adolescent, adult and travel vaccines. Our four largest Vaccines by sales are *Infanrix* (diphtheria and tetanus), Hepatitis, *Rotarix* (rotavirus) and *Synflorix* (pneumonia).

The Vaccines business is particularly strong in the developing world – of the vaccines we produce, over 80% are distributed in developing countries, which includes the least developed, low and middle income countries.

Our 'tiered pricing' approach, based on countries' Gross National Income, enables countries to maintain and expand their commitment to immunisation as their economies grow. GSK is also one of the largest contributors to Gavi, the Vaccine Alliance, a public-private partnership to improve access to vaccines in developing countries. By 2020, 22 countries with growing economies will graduate from Gavi support. In January 2015, we announced a 10-year price freeze to Gavi graduating countries.

The proposed Novartis transaction will further strengthen our Vaccines portfolio through the acquisition of Novartis's vaccines business (excluding influenza), adding a number of vaccines for meningitis and several travel vaccines, as well as strengthening our manufacturing network. The combined business will also benefit from increased exposure in key markets such as the USA where Novartis has a strong presence and track record of regulatory approvals. The proposed Novartis transaction will further enhance GSK's vaccine R&D pipeline bringing together expertise in virology, bacterial infection and different adjuvant platforms.

Grow

Our strategy remains to grow the business through broadly based sales. Challenging trading conditions in 2014, most notably in the US, meant Group turnover declined 3% to £23 billion. However there were positive performances for the year in Emerging Markets and Japan, while Europe was flat.

Regional performance

Global sales of our Pharmaceuticals and Vaccines fell by 4% in 2014 to £18,670 million. Pharmaceuticals turnover declined 5% as growth in Emerging Markets, Japan and ViiV Healthcare was more than offset by lower sales in the US and in Established Products. Pharmaceuticals sales in Europe were flat in 2014. Global Vaccines sales declined 1% due to lower reported sales in Europe and Japan. This was despite a positive performance from Emerging Markets. US Vaccines sales were flat for the year.

In the US, Pharmaceuticals and Vaccines turnover was down 10% at £4,980 million, with Pharmaceuticals down 12% and Vaccines flat. Pharmaceutical sales were impacted by continued price and contracting pressures in the primary care market, primarily affecting respiratory sales, which were down 18%. Sales of *Advair* were down 25% (14% decline in volume and 11% decline from price and mix). We continue to increase access to our new portfolio of respiratory medicines. As at 1 January 2015, Medicare Part D coverage for *Breo Ellipta*, was 74%, and 65% for *Anoro Ellipta*. We are starting to see some early indications of how increased coverage and our new portfolio will help us regain market share and deliver improved performance in respiratory

Oncology products made a strong contribution to US performance with sales up 41% to £509 million, benefiting from good performances from *Votrient* and *Promacta*, and the recent launches of *Tafinlar* and *Mekinist*. Sales of immuno-inflammation treatment *Benlysta* grew 22% to £155 million. Generic competition in the US continued to impact sales of Dermatology products, which were down 56% to £49 million. *Mepron* reported a sales decline of 49% to £40 million. US sales of *Infanrix/Pediarix* vaccines grew 15% to £297 million, benefiting from favourable CDC stockpiling compared with 2013, and the absence of a competitor, particularly in the first half of the year.

Sales of hepatitis vaccines were down 6% to £234 million due to supply constraints. *Boostrix* was down 7% to £163 million due to a competitor returning to the market during the year and some supply constraints. *Rotarix* sales declined 16% to £86 million as a result of a CDC stockpile withdrawal during Q4 2014.

In Europe, Pharmaceuticals and Vaccines turnover was flat at £4,035 million. Pharmaceutical sales were flat at £3,057 million, as strong growth in Oncology sales (up 29% to £417 million), led by *Votrient*, *Promacta* and the newly launched *Tafinlar* and the *Avodart* franchise (up 8% to £280 million) was offset by a 3% fall in Respiratory sales to £1,675 million. While newly launched *Relvar Ellipta* recorded sales of £18 million in the year, *Seretide* sales declined, down 5% to £1,330 million as a result of increasing competitive pressures and the transition of our respiratory portfolio to the newer products, particularly in the latter part of the year.

Vaccines sales in Europe fell 2%, with lower sales of *Infanrix*, *Cervarix* and flu vaccines reflecting increased competitive pressures, which were only partly offset by sales growth in other products such as *Boostrix*, which was up 26% due in part to a competitor supply issue in the first half of the year.

In Emerging Markets, Pharmaceuticals and Vaccines turnover increased 5% to £3,203 million, with Pharmaceuticals up 7% and Vaccines up 1%. Most markets outside Asia showed strong growth, with notable performances from Brazil (up 12% to £380 million) and the rest of Latin America (up 9% to £593 million). Sales in China fell 1% due to the effects of the government investigation during the year. There was continued growth from Respiratory and Oncology products, up 3% and 30% respectively, and the *Avodart* franchise, which grew 20%. In Vaccines, growth from strong tender sales of *Boostrix*, *Rotarix* and *Synflorix* was largely offset by lower sales of *Cervarix*, as a result of some lost tenders, and some supply constraints.

Putting patients and customers first

We are fundamentally transforming and modernising the way we sell and market our medicines to meet the information needs of healthcare professionals and ensure we put patients' interests first. We believe these changes are not only the right thing to do but can be a competitive advantage for us.

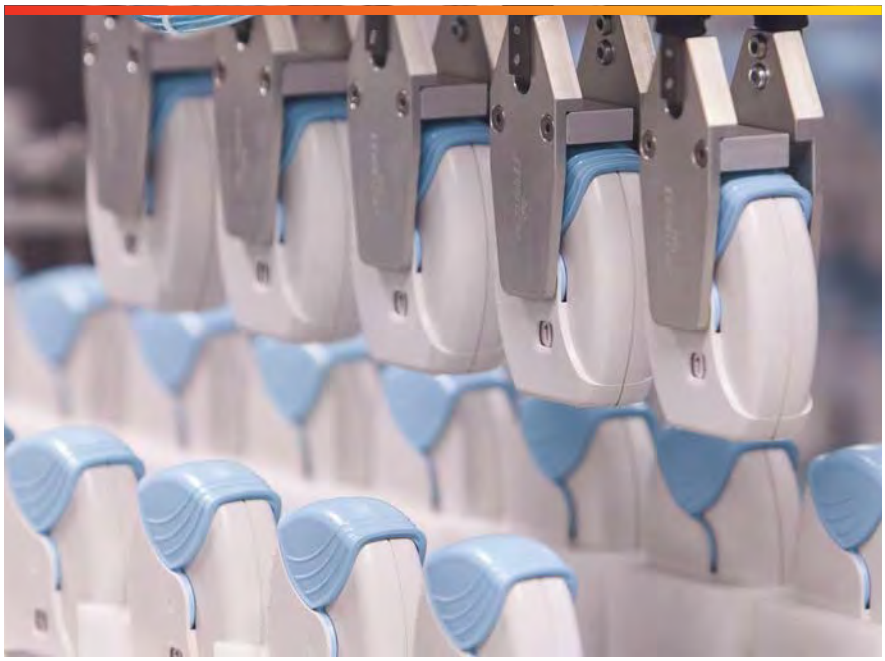
GSK has led the industry by changing the way we reward our sales representatives – focusing on the quality of the information we're sharing with healthcare professionals and overall business performance, rather than individual sales targets. This approach has now been rolled-out to 150 countries where we operate. In the USA, more than 10,000 healthcare professionals surveyed in 2014 ranked GSK first among major pharmaceutical companies on the value we bring.

Our customers tell us we are a valuable source of information and we want to provide that information in ways that better meet their needs. So we are exploring digital and real-time channels to provide information in the way our customers want it, when they want it.

We are also investing in our own healthcare professionals and will stop paying external experts to speak on our behalf about our prescription medicines by 2016. Medical Science Liaisons or (MSLs) are already stepping up to deliver talks to physicians about our recently launched medicines in the US. One benefit of this new way of working is that our internal experts may have more direct knowledge of the clinical trials which led to approval of the medicine. Customers who attended talks about *Anoro Ellipta* delivered by GSK's medical staff have given these presentations high marks, at times rating them even more effective than those led by external speakers. Thus far the programmes are attracting the same number of attendees as the external-led presentations of the past.

All of these changes allow us to continue to better meet the needs of healthcare professionals and their patients.

Pharmaceuticals and Vaccines
continued



Leading the way in respiratory

GSK has been at the forefront of many advances in respiratory disease since the launch of *Ventolin* over 40 years ago.

We have the broadest portfolio of marketed respiratory medicines globally, with the potential to add two further 'first-in-class' medicines in the coming years.

In 2014, we transformed our respiratory pipeline and years of scientific research into approved medicines that have the potential to benefit some of the millions of patients living with asthma and COPD. During the year we gained approval for *Incruse Ellipta* in the USA and Europe, and *Arnuity Ellipta* in the USA. We also gained EU approval for *Anoro Ellipta* in Europe, following US approval in 2013. This success builds on the approval of *Relvar/Ellipta* in 2013, which was the first medicine to be delivered in the *Ellipta* inhaler. This achievement was even more significant given that we amassed an unprecedented 37 regulatory approvals for *Relvar Ellipta* in 2014.

We are committed to helping people with respiratory disease optimise their treatment to achieve the best possible clinical outcome, and now we have expanded our portfolio of respiratory medicines, we are enabling clinicians to tailor treatment to patients' individual needs. In fact the recent approvals mean that we have launched more new respiratory medicines in the past two years than in the previous 15 years combined, offering greater choice to healthcare professionals and patients.

These medicines add to the strength of our respiratory portfolio and with a number of assets currently in late stage development, we are confident that our respiratory pipeline will continue to deliver new treatment options that are able to meet the evolving needs of patients well into the next decade.

Meanwhile we continue to work hard to ensure mainstay treatments such as *Seretide* and *Ventolin*, remain important treatments for millions of patients across the world. We want to ensure these are accessed by the broadest number of patients, for example, by reducing pack sizes to enable smaller amounts to be purchased and creating low-cost formulations.

We recognise that there is still much more to be achieved to overcome the global burden of respiratory disease. Through our ongoing commitment and investment into scientific research and by working in collaboration with external experts, we will remain at the forefront of respiratory medicine. Only through this commitment and our scientific leadership can we help transform the lives of patients, enabling them to do more, feel better and live longer.

In Japan, Pharmaceuticals and Vaccines turnover grew 1% to £937 million, with Pharmaceuticals sales up 2%, while Vaccines were down 14%. Pharmaceuticals sales benefited from strong growth of our Oncology products and *Avodart*, which were up 17% and 14% respectively. This was partially offset by lower sales in the Respiratory portfolio (down 2%) which was in turn affected by a weaker allergy season at the beginning of the year and increased competitive pressures. Our new prescription share has increased to 56.5% following substantial increases in new prescriptions for *Relvar Ellipta* after the lifting of the 'Ryotan' prescribing restrictions. Sales for the year for *Relvar Ellipta* were £17 million. Overall, Respiratory sales fell 2% to £475 million. The lower Vaccines sales reflected the impact on *Cervarix* of the continued suspension of the recommendation for use of HPV vaccines, although higher sales of *Rotarix* partly compensated for this.

Respiratory

We continue to develop and enhance our respiratory portfolio with new product launches and we await FDA decisions on *Breo Ellipta* for use in asthma and mepolizumab, our first-in-class anti-IL5 treatment for severe asthma. Overall, we continue to expect total sales of our respiratory portfolio to return to growth in 2016.

Respiratory sales in 2014 fell 10% to £6,181 million during the year. *Seretide/Advair* sales were down 15% to £4,229 million, *Flixotide/Flovent* sales fell 6% to £702 million while *Ventolin* sales grew 11% to £665 million. *Xyzal* sales, almost exclusively made in Japan, were up 7% to £130 million.

In the USA, Respiratory sales fell by 18% in the face of continued price and contracting pressures in the market. Sales of *Advair* were down 25% to £1,972 million (14% fall in volume and an 11% decline of price and mix). *Flovent* sales were down 6% while *Ventolin* sales were up 18%. Our newly launched products, *Breo Ellipta* recorded sales of £29 million while *Anoro Ellipta* sold £14 million in the year.

European Respiratory sales declined 3%, largely due to increased competition. *Seretide* sales fell 5% at £1,330 million (1% decrease in volume and a 4% negative impact of price), as a result of increasing competitive pressures and the transition of our Respiratory portfolio to the newer products in the latter part of the year. *Relvar Ellipta* recorded sales of £18 million in the year.

Respiratory sales in Emerging Markets grew 3%. Sales of *Seretide* were up 3% to £400 million, helped by an improved performance in China. Sales growth for *Ventolin* (up 8% to £165 million) and *Veramyst* (up 15% to £73 million) was offset by *Flixonase*, sales of which fell 33%, largely due to a sales decline in China.

In Japan, Respiratory sales fell 2% to £475 million. Sales of £17 million for *Relvar Ellipta* offset the impact of increasing competitor action on *Adoair*, which fell 6% to £228 million. The growth in *Xyzal*, up 8% to £114 million, was more than offset by lower sales elsewhere in the Respiratory portfolio. However, our new prescription share has increased to 56.5% following substantial increases in new prescriptions for *Relvar* after the lifting of the 'Ryotan' prescribing restrictions.

Oncology

Oncology sales grew 33% to £1,202 million for the year with contributions from *Votrient* (sales up 33% to £410 million) and *Promacta* (sales up 34% to £231 million). Sales of *Arzerra* fell 24% to £54 million, while *Tykerb/Tyverb* sales declined 11% to £171 million. New launches compensated for generic competition to both *Hycamtin* and argatroban, with *Tafinlar* and *Mekinist* recording sales of £135 million and £68 million respectively.

In the US, Oncology grew 41% to £509 million with contributions from *Votrient* (£181 million), *Promacta* (£91 million), *Tafinlar* (£58 million) and *Mekinist* (£67 million).

In Europe, Oncology sales grew 29% to £417 million, led by *Votrient*, sales of which were up 23% to £153 million, while in Emerging Markets, sales were up 30% to £169 million and in Japan, sales grew 17% to £65 million.

Other categories

Sales in our Cardiovascular, metabolic and urology category were down 3% to £965 million for the year. The *Avodart* franchise grew 1% to £805 million, with a 17% increase in sales of *Duodart/Jalyn*, although *Avodart* sales declined by 4%. Sales of *Levitra* fell 28% to £100 million in the year, while sales of *Prolia* were down 10% to £41 million, following an agreement with Amgen to terminate joint commercialisation in selected markets.

Regionally, sales in the USA were down 16% to £364 million, although Emerging Markets grew 20% to £145 million while Japan also grew with sales up 14% to £114 million. Europe was flat at £293 million.

Sales of our Immuno-inflammation products grew 40% to £214 million, helped by a 25% sales increase for *Benlysta* to £173 million for the year. Our other therapy areas were down 2% to £2,407 million, largely reflecting generic competition to Dermatology products.

Established Products

Sales of our Established Products fell 16% to £3,011 million. Generic competition to *Lovaza* (down 57% to £240 million), *Seroxat/Paxil* (down 19% to £210 million) and *Valtrex* (down 24% to £154 million), all contributed to the fall in this category.

Regionally, sales in the USA were down 31% to £854 million, while sales in Europe and Japan fell 13% to £601 million and 15% to £444 million respectively. In Emerging Markets, the performance of this category declined 1% to £1,050 million.

Vaccines

Vaccines sales were down 1% at £3,192 million for the year, although declines in Europe (down 2%) and Japan (down 14%) were partly offset by growth of 1% in Emerging Markets, while sales in the USA were flat. Emerging Markets were helped by the strong performances of *Synflorix*, *Boostrix* and *Rotarix*.

Infanrix/Pediarix grew 2% to £828 million, with growth in the USA offset by sales decline in Europe and Emerging Markets. *Boostrix* sales increased 16% to £317 million, with growth in all regions except the US, where sales fell 7% largely due to the return of a competitor product.

Rotarix sales grew 7% to £376 million, driven by tender shipments in Europe and Emerging Markets, although there was a decrease in the USA, which was impacted by a CDC stockpile withdrawal in the fourth quarter. *Synflorix* sales were also up, 4% to £398 million, mainly due to a strong tender performance in Emerging Markets.

Sales of our hepatitis vaccines fell 6% to £558 million, partly due to supply constraints affecting the US and Emerging Markets. *Fluarix* and *FluLaval* sales were down 9% at £215 million due to lower production levels for 2014 and increased competition. *Cervarix* sales declined 26% to £118 million in 2014, largely due to a fall in sales in Emerging Markets and Japan as well as increasing competitive pressures.

Pharmaceuticals and Vaccines
continued

Deliver

In 2014, our R&D organisation delivered a number of new medicines and vaccines for patients and expanded treatment options through additional indications for several existing products. We also filed a number of late-stage assets with regulators and significant new assets progressed to final stages of development.

This progress gives us continued confidence that our pipeline of potential new medicines remains strong and sustainable, and can continue to deliver value for patients and GSK. In Pharmaceuticals and Vaccines we currently have around 40 new molecular entities (NMEs) in phase II/III clinical development.

Product approvals in 2014

Respiratory

Within respiratory, *Anoro Ellipta*, our once-daily medicine combining two bronchodilators – a long-acting muscarinic antagonist (LAMA), and a long-acting beta$_2$ agonist (LABA) – in a single inhaler, was approved in Europe for chronic obstructive pulmonary disease (COPD). This followed its approval in the USA at the end of 2013. *Incruse Ellipta*, our first monotherapy LAMA, was approved as a once-daily treatment for COPD, including chronic bronchitis and/or emphysema, in the USA and Europe, and launched in the USA in the first quarter of 2015. Finally, *Arnuity Ellipta*, a once-daily inhaled corticosteroid medicine to treat asthma, was approved in the USA – the first asthma treatment from our new respiratory portfolio to have gained approval there. All these respiratory medicines are administered using our innovative, patented dry powder inhaler, *Ellipta*.

Oncology

Mekinist, our MEK inhibitor, gained European approval for the treatment of BRAF mutant metastatic melanoma – the first medicine in its class to be licensed in Europe. This oral targeted therapy also received approval in the USA, under the FDA's accelerated approval process, for use in combination with *Tafinlar*, a previously approved oral targeted therapy. This accelerated approval is contingent on the results of a phase III trial, which is designed to evaluate the clinical benefits of the combination. Positive overall survival results were announced in February 2015 from the phase III COMBI-d study. These results will be submitted to regulatory authorities for review.

New indications were also approved by regulators for existing oncology medicines: *Arzerra* as a first-line treatment for chronic lymphocytic leukaemia, in combination with chemotherapy treatments in the USA and Europe; and *Promacta* in the USA as a treatment for severe aplastic anaemia.

HIV/AIDS

ViiV Healthcare gained EU approval for *Tivicay* (dolutegravir), an integrase inhibitor. This followed its approval in the USA in 2013. Approval was also given for *Triumeq* in the USA and Europe in 2014. *Triumeq* is a single-pill regimen for the treatment of HIV, combining dolutegravir with the nucleoside reverse transcriptase inhibitors (NRTIs) abacavir and lamivudine.

Diabetes

Tanzeum, a new GLP-1 treatment for type 2 diabetes, received approval in the USA offering a once-weekly injectable option for patients. The same product, under the name *Eperzan*, was also approved in Europe.

Other pipeline newsflow

Pharmaceuticals

Regulatory files were submitted in the USA and Europe for our first biologic in respiratory, mepolizumab, an investigational anti-IL5 monoclonal antibody administered every four weeks to treat patients with severe eosinophilic asthma. The same asset is also being evaluated in two phase III studies, one for the treatment of eosinophilic granulomatosis with polyangiitis (EGPA), a rare disease characterised by widespread inflammation in the walls of small blood vessels (vasculitis) and as an adjunctive therapy for adults who have severe COPD.

Breo Ellipta, our once-daily fixed dose combination of an inhaled corticosteroid (ICS) and a long-acting beta$_2$ agonist, approved in the USA in 2013 for COPD, was filed in the USA as a treatment for asthma. We also announced the start of a phase III programme to evaluate the efficacy and safety of our 'closed' triple combination treatment of a ICS/LAMA/LABA in patients with COPD, the first to evaluate a once-daily triple combination treatment of an inhaled corticosteroid and two long-acting bronchodilators in a single inhaler.

A phase III study began to evaluate the effects of losmapimod for acute coronary syndrome. Losmapimod is an inhibitor of p38 mitogen activated protein (MAP) kinase, an enzyme understood to play a central role in the acute inflammation that occurs during a heart attack. It is being developed as a short-term treatment to be administered as quickly as possible after a heart attack to reduce the risk of a subsequent cardiac event.

Darapladib, also an investigational cardiovascular medicine, was not successful in phase III studies and its development has been terminated.

Along with our partners MMV, we started a phase III study to investigate the safety and efficacy of tafenoquine – a single-dose investigational radical cure for *Plasmodium vivax* malaria. This form of the disease occurs primarily in South and South East Asia, Latin America and the horn of Africa.

In 2014 we also continued to pursue new indications for existing medicines. Within Oncology, a phase III study began, evaluating *Promacta/Revolade* in patients with myelodysplastic syndromes (MDS), a type of cancer in which the bone marrow does not make enough healthy blood cells. We also submitted regulatory files seeking additional indications for this medicine – severe aplastic anaemia in Europe and chronic immune (idiopathic) thrombocytopenia (ITP) in the paediatric setting in the USA. A phase III study of subcutaneous ofatumumab in patients with pemphigus vulgaris, a rare autoimmune skin disorder, also began.

We also submitted a regulatory file to the EMA, for a variation to the marketing authorisation for *Volibris* – our medicine for pulmonary arterial hypertension (PAH) – to include its use in initial combination therapy in PAH patients.

Alongside these advances, in our late-stage pipeline we also see significant potential for cabotegravir in HIV (see page 32 for more information); sirukumab, an anti-IL6 monoclonal antibody for rheumatoid arthritis; '863, our prolyl hydroxylase inhibitor for anaemia and an ex-vivo stem cell gene therapy treatment and potential cure for ADA-SCID, a rare disease affecting children. This would be GSK's first product using cell and gene therapy technology, a fast-moving area of science and one which, we believe, has the potential to deliver a number of transformational medicines.

Vaccines

Within our Vaccines business, we announced pivotal phase III study results for our shingles candidate vaccine (HZ/su) that showed it reduced the risk of shingles by 97.2 % in adults aged 50 years and older compared with placebo. The study, which started in August 2010, is ongoing in 18 countries and involves more than 16,000 individuals. We are now evaluating the filing strategy for this vaccine.

We reached a major milestone in the development programme of our malaria candidate vaccine, RTS,S, with the submission of a regulatory file in July to the European Medicines Agency (see case study).

Since the Ebola crisis began in March 2014, GSK has been working closely with the World Health Organization (WHO), regulators and other partners to respond to the outbreak and to accelerate development of our investigational Ebola vaccine. We are also contributing to the overall humanitarian effort and taking steps to support the small number of employees we have in the region. In phase I studies, our investigational Ebola vaccine demonstrated an acceptable safety profile and produced an immunological response in healthy adult volunteers. It is now being tested in a large phase III clinical trial sponsored by the US National Institutes of Health (NIH) in Liberia.

In April, we announced our decision to stop development of an investigational MAGE-A3 antigen-specific cancer immunotherapeutic for the treatment of non-small cell lung cancer, after a phase III study failed to meet its efficacy endpoints. Following a strategic review of our vaccines immunotherapeutics unit which included all available data, developments in the current environment and the investigation of additional technologies, we decided not to pursue any new research efforts in antigen specific immunotherapy.

Early-stage pipeline

In Pharmaceuticals we continue to see substantial improvements in the novelty of our early-stage Pharmaceutical research programmes with over 80% of our preclinical to phase II NME projects having novel mechanisms of action. We are developing multiple early-stage assets in therapeutic areas where we see significant opportunity. In immuno-inflammation, and specifically in diseases such as rheumatoid arthritis, inflammatory bowel disease and psoriatic arthritis, we have multiple assets in development including a GM-CSF monoclonal antibody; a number of RIP 1 and 2 kinase inhibitors and an IL-7 receptor monoclonal antibody. In immuno-oncology, we have a range of assets targeting haematological cancers and solid tumours including OX-40, iCOS, and TLR-4 as well as a cell therapy partnership with the biotechnology company Adaptimmune. In cancer epigenetics we have three clinical programmes addressing the BET-i, EZH2 and LSD-1 targets.

Submitting regulatory application for our candidate malaria vaccine

In July, we reached a major milestone with the submission of a regulatory application for our candidate malaria vaccine, RTS,S, to the European Medicines Agency (EMA). This is a key moment in GSK's 30-year journey to develop the world's first malaria vaccine. This submission follows our 2013 announcement of phase III data showing that RTS,S almost halved the number of cases of clinical malaria in young children (aged 5-17 months at first vaccination) in the 18 months after vaccination.

RTS,S is intended exclusively for use against the Plasmodium falciparum malaria parasite, which is most prevalent in sub-Saharan Africa (SSA). Around 90% of estimated deaths from malaria occur in SSA, and 77% of these are in children under the age of five.

To date there is no licensed vaccine available for the prevention of malaria. If a positive opinion from the EMA is granted, the World Health Organization has indicated that a policy recommendation may be possible by the end of 2015. A positive opinion from EMA will also be the basis for marketing authorisation applications (NRAs) in SSA.

RTS,S's development involved one of the biggest vaccine trials ever conducted in Africa. While a number of additional steps still need to be completed, we anticipate that the vaccine could be available for implementation in early adopter SSA countries in 2017.

GSK has invested hundreds of millions of dollars to date in RTS,S and the programme has also received funding from the Bill & Melinda Gates Foundation, while the international non-profit organisation PATH has contributed financial, scientific, managerial and field expertise to the development of RTS,S. We have committed that the price of RTS,S will cover the cost of manufacturing the vaccine together with a small return of around 5% that will be reinvested in R&D for second generation malaria vaccines, or vaccines against other tropical diseases.

Pharmaceuticals and Vaccines
continued

In Vaccines we continue to integrate some early-stage assets following our acquisition of the biotechnology company, Okairos, in 2013. The novel adenovector platform has shown potential in diseases such as Ebola, hepatitis C and respiratory syncytial virus (RSV). RSV is one of the remaining paediatric infectious diseases for which a vaccine does not yet exist and recent phase I data for our vaccine candidate demonstrated the value of further exploratory work.

Pharmaceuticals R&D approach

Our Pharmaceuticals R&D business is a dynamic organisation which we believe has built a sustainable pipeline of innovative new medicines through its focus on cutting-edge science.

We are highly selective with our R&D investments and concentrate only on areas where we believe the science presents us with opportunities most likely to deliver significant medical advances. It is essential that we continue to challenge the areas in which we work. Recognising this, in 2014, we announced a programme to further sharpen the focus of our R&D activities, eliminating areas of low probability of success. We also announced plans to change our geographical R&D footprint by bringing our significant R&D operations together into two global centres – one in Philadelphia in the USA and the other in the Stevenage area of the UK. We believe this is vital to enable our scientists to work in world-class facilities.

Collaborating with external partners has become a critical component of our R&D strategy in recent years. We are now involved in more partnerships with external companies, individuals and academics than ever before, which enables us to access and increase our understanding of new areas of science and to share the risk of development.

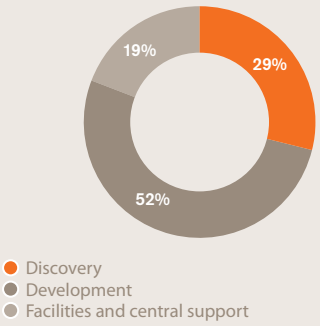
Our Pharmaceuticals R&D business employs approximately 10,000 people. In 2014, our Pharmaceuticals core R&D expenditure was £2.5 billion, a decline of 4% compared to the previous year, resulting from execution of changes leading to continued efficiency improvements.

Early-stage research

In early-stage research (drug discovery) the crucial first step in exploring new medicines – and one of the greatest challenges – is to identify the biological mechanisms involved in the development of diseases. We then create small molecules or biopharmaceuticals that interact with these disease targets, ultimately leading to new medicines. Through our own research and working with external scientists we are making progress improving our understanding of disease targets, and believe this will improve the success rate for discovering new medicines (see case study on p27).

Our Discovery Performance Units (DPUs) are responsible for discovery and development of potential new medicines through to early-stage clinical trials (up to the completion of phase IIa). We have over 30 DPUs, each with between 5 and 70 scientists working on a particular disease pathway or area of science.

Core Pharmaceutical investment

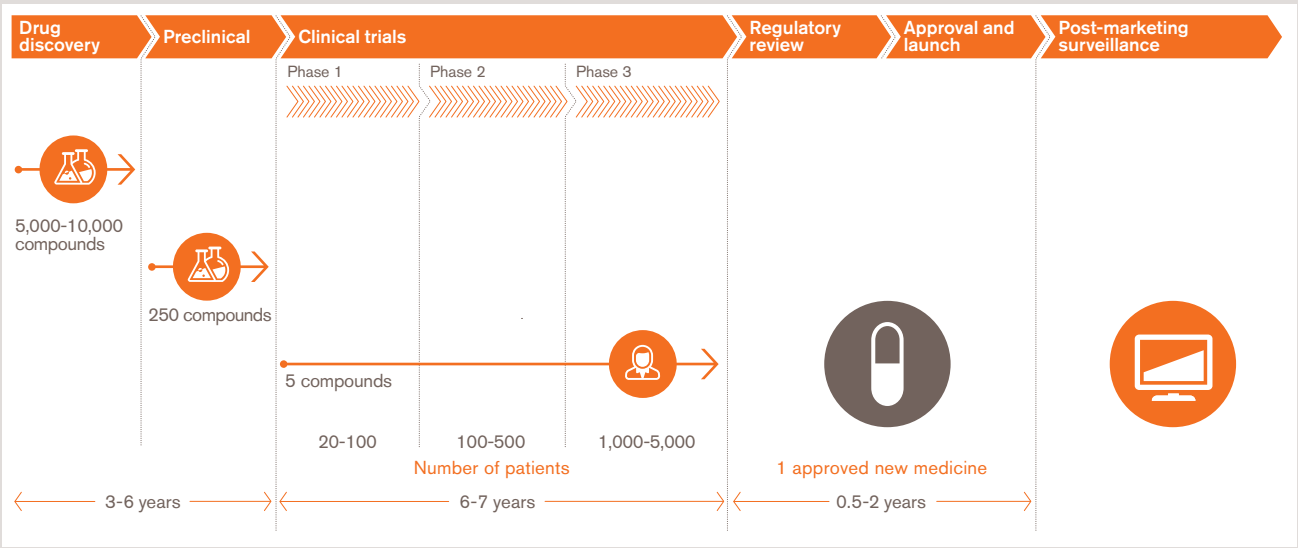


These nimble, personalised units are a fundamental step away from the traditional hierarchical R&D business model and help us to maintain flexibility in our research investment, while focusing on the most promising scientific opportunities. They have their own budget and so greater accountability for their projects. Progress against DPU business plans is regularly reviewed by the Discovery Investment Board (DIB), a group from senior R&D and commercial management, alongside external individuals with life science investment expertise and an understanding of payer perspectives.

Late-stage development

When a compound has demonstrated a potential proof of concept for how it works, we must decide whether to advance it into later-stage development. Our Portfolio Investment Board (PIB) assesses the technical, commercial and investment case for each project to progress in development.

Timeline and development stages for pharmaceutical research



This stage is called 'commit to medicine development' and typically takes place after phase IIa trials, when the compound is tested in a small number of patients with a particular condition or disease. Then there are phase III studies, which are larger-scale studies in patients to further examine the compound's efficacy and safety, often at different therapeutic doses to determine which may be most appropriate. If all of these stages are successful, we use the results of these studies combined with other key scientific information to submit a regulatory file for review and possible approval with regulatory agencies.

At the same time, we work to optimise the compound's physical properties and its formulation so that it can be produced efficiently and in sufficient quantities through the manufacturing process. In some cases, our research may include developing new inhalers or other devices to deliver these medicines.

The responsibility for guiding an investigational medicine through these later stages of development to filing rests with our Medicines Development Teams (MDTs), which are small units of 6 to 10 people.

In Pharmaceuticals we now have 25 new molecular entities (NMEs) in phase II/III clinical development.

Governance

The length of time and costs involved in drug discovery and development make it essential that we are highly selective in where we invest and focus our resources. The R&D Executive Team has oversight of strategic issues and overall budget management across R&D, and a number of governance boards manage investment decisions through the life cycle of R&D and early commercialisation. These investment decisions begin during the discovery phase, with the DIB, and continue in the PIB as described earlier.

PIB is co-chaired by the President of Pharmaceutical R&D and the President of Global Pharmaceuticals, and also includes the heads of each Pharmaceutical region along with the head of global manufacturing and legal counsel.

Additional governance committees also assess technical, scientific, commercial and investment decisions for projects through development, into commercial operations, and once a new medicine has launched.

Harnessing advances in technology to drive drug discovery and development

We continue to build scientific and technical capabilities that enable us to make better decisions earlier in drug discovery and development, increasing our probability of success and reducing our attrition rate. We have significantly improved the proportion of high quality drug candidates that progress to clinical development by ensuring we select the best candidates and prioritising resources to progress the most promising potential medicines.

We are also capitalising on major technology advances to help our researchers take the crucial first step in exploring new medicines – finding where to start. In 2014, we launched the Centre for Therapeutic Target Validation (CTTV) with the European Bioinformatics Institute and the Wellcome Trust Sanger Institute – a pioneering research initiative harnessing 'big data' and genome sequencing to improve the success rate for discovering new medicines.

Currently, an estimated 90% of compounds entering clinical trials never reach patients as medicines. This is often because the biological target for a drug is not well understood – one of the greatest challenges in drug discovery. We need to understand better the mechanisms in our body related to disease to improve how we can develop the most effective medicines.

CTTV scientists are combining their expertise to explore and interpret large volumes of data with the aim of improving our ability to define the biological targets in a range of diseases. The Wellcome Trust Sanger Institute is contributing its unique understanding of the role of genetics in health and disease. The European Bioinformatics Institute is integrating huge streams of experimental data to create bioinformatics insights. We are contributing expertise in disease biology, translational medicine and drug discovery. We have also made a multi-million pound contribution to fund an initial wave of projects.

Investment in R&D

Focus on productivity

We remain committed to improving productivity in R&D, so we can develop more innovative new products with greater efficiency.

Our R&D investment decisions are based on where we see the best opportunities, having considered patient need, the market opportunity and scientific understanding. We believe this is more effective than determining investment requirements on the basis of a fixed proportion of sales.

R&D productivity is a key challenge for our industry and we believe it is important to provide a greater level of transparency regarding R&D decision making and our R&D returns.

This rate of return for R&D is determined by assessing the costs involved in discovering and developing late-stage pipeline projects against the profits of medicines and vaccines as they are approved and launched.

In 2010, we calculated that our estimated R&D internal rate of return (IRR) was 11% and stated a long-term aim of increasing this to 14%.

We continue to improve the financial efficiency of our R&D and in February 2014 announced an estimated IRR of 13%. We continue to target 14% on a longer-term basis.

Our estimated IRR is an important measure of our financial discipline and our strategic progress to improve the economics of R&D. It also underpins our strategy to create more flexibility around the pricing of our new medicines.

Calculation of our most recent IRR for 2013 included products launched from 1 January 2012 to 31 December 2013 and compounds that were in phases IIb and III of the development process at year-end 2013. The calculation was based on actual sales from 2011 to 2013, and forecast sales up to 2034, adjusted to reflect expected failure rates, which are broadly in line with standard industry failure rates. The cost base used in this calculation comprised an estimate of attributable R&D costs, and actual and projected milestone payments where appropriate.

Pharmaceuticals and Vaccines
continued

Vaccines R&D approach

Our vaccine R&D work focuses on discovering and developing new prophylactic and therapeutic vaccines to help protect and treat people against infectious diseases, cancers and chronic disorders. We also look at life cycle management to maximise the potential of existing vaccines, through broadening their geographic availability, and advancing their formulation. This approach allows us to increase the value our products can bring, by extending their reach and adapting them to ensure they meet the needs of patients.

We manage and prioritise our investment decisions to best meet the needs of our customers and help address some of the remaining global health challenges. Our core vaccine R&D investment in 2014 was £443 million, down 6% against 2013, this reflects our decision to stop development of MAGE-A3 (see page 25). We have more than 2,000 scientists working across our vaccine R&D organisation and currently have 14 vaccines in development for a range of diseases.

We also continue to explore the potential of some early stage assets acquired from Okairos in 2013. The novel adenovector platform complements our existing vaccine adjuvant technology and expertise, enabling us to continue our work developing the next generation of vaccines and may allow for the tackling of new diseases.

Discovery and development

The discovery and development of a new vaccine is a complex process that typically takes between 10 and 12 years. Vaccine discovery begins by identifying new antigens, which are specific structures on pathogens (viruses, bacteria or parasites) or on cancer cells that are recognised by the immune system. We then produce these pathogens in yeast, bacteria or mammalian cells and genetically manipulate them so that they can be purified and formulated into a vaccine. It is the antigen that creates the body's immune response.

In some cases, formulation of the vaccine involves mixing antigens with GSK proprietary adjuvant systems. We use adjuvants to improve the immune system's response to antigens contained in vaccines and we have been innovating in the area of adjuvant systems for more than 20 years. The formulations of candidate vaccines are usually a combination of several antigens, and the final composition of the vaccine (antigens and adjuvant) may change over time.

Governance

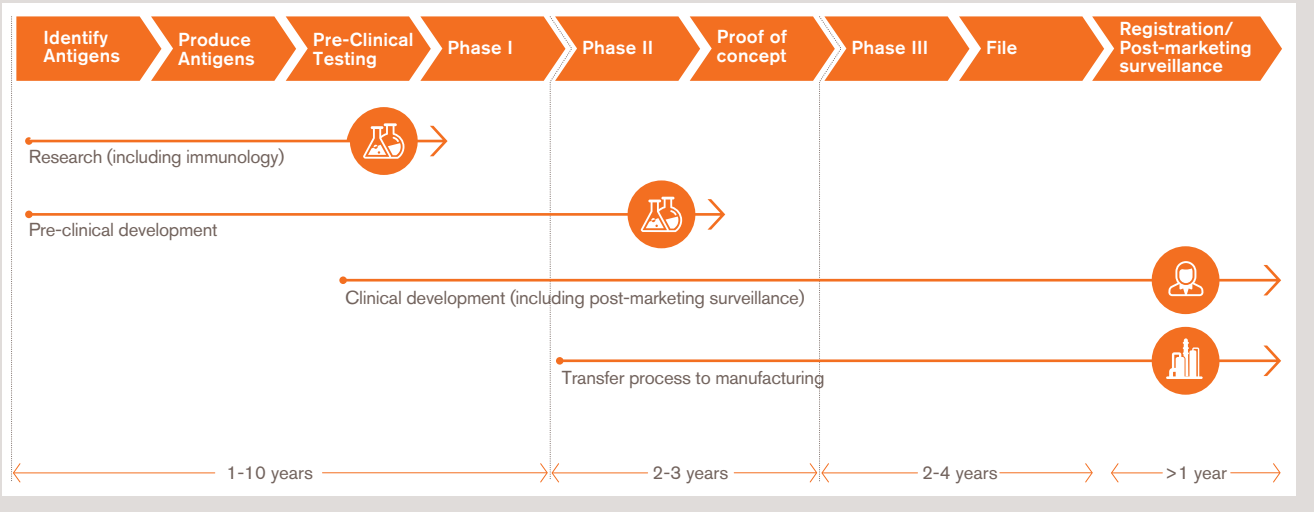
There are several key decision points in the vaccine development process: commit to research (decide to initiate full research programme) commit to candidate development (decide to invest resources towards exploring potential of vaccine in number of clinical trials); commit to early clinical development (phase I and II), commit to phase III; commit to registration and launch.

Oversight of these key decisions rests with two bodies. The Vaccine Development and Commercial Board (VDCB) and the Vaccine Investment Board (VIB).

The VDCB reviews the research and development project strategy and advises on its scientific, technical and commercial opportunity assessment. It has an overall view of both early, advanced and life cycle development projects. All VDCB 'recommendations to progress' projects from one stage to the next are submitted to the VIB.

The VIB is co-chaired by our President of Vaccines and the Chairman for Global Vaccines. This board makes the final decision on whether to invest in a project, by evaluating the VDCB's recommendation alongside public health benefit, business opportunity, development costs and risks, project timing and overall evolution of our portfolio of vaccines.

Vaccines research development cycle



Pharmaceuticals and Vaccines
continued

Late-stage pipeline

Our pipeline remains extensive. A summary of Pharmaceuticals and Vaccines in phase III and regulatory is set out below. A more comprehensive list of our medicines and vaccines in phases I to III of development is available on pages 225 to 228.

Compound	Indication	US	EU
Respiratory			
Relvar/Breo Ellipta (FF/VI)	Asthma	Filed June 2014	Approved Nov 2013
vilanterol (VI)	COPD	Ph III	Ph III
mepolizumab	Severe eosinophilic asthma	Filed Nov 2014	Filed Nov 2014
	COPD	Ph III	Ph III
FF+UMEC+VI	COPD	Ph III	Ph III
Vaccines			
Nimenrix (MenACWY)	MenACWY prophylaxis	Ph II	Approved Apr 2012
MAGE-A3	Melanoma	Ph III	Ph III
Herpes zoster	Shingles prophylaxis	Ph III	Ph III
Mosquirix (RTS,S)	Malaria prophylaxis	n/a	Filed July 2014
Oncology			
Arzerra (ofatumumab)	CLL (relapsed/relapsed maintenance)	Ph III	Ph III
	NHL (FL)	Ph III	Ph III
Mekinist (trametinib) + *Tafinlar* (dabrafenib) in combination use	Metastatic melanoma	Approved Jan 2014	Ph III
	Adjuvant melanoma	Ph III	Ph III
Promacta/Revolade	Myelodysplastic syndrome (MDS)	Ph III	Ph III
	Severe aplastic anaemia	Approved Aug 2014	Filed Nov 2014
Cardiovascular and Metabolic			
retosiban	Threatened pre-term labour	Ph III	Ph III
losmapimod	Acute coronary syndrome (ACS)	Ph III	Ph III
Immuno-inflammation			
Benlysta (s.c.)	Systemic lupus erythematosus	Ph III	Ph III
Benlysta (i.v.)	Vasculitis	Ph III	Ph III
sirukumab	Rheumatoid arthritis	Ph III	Ph III
Rare Diseases			
2696273 (Ex-vivo stem cell gene therapy)	Adenosine deaminase severe combined immune deficiency (ADA-SCID)	Ph II/III	Ph II/III
mepolizumab	Eosinophilic granulomatosis with polyangiitis (EGPA)	Ph III	Ph III
Infectious Diseases			
tafenoquine	Treatment and relapse prevention of Plasmodium vivax malaria	Ph III	n/a
Dermatology			
ofatumumab (s.c.)	Pemphigus vulgaris	Ph III	Ph III

Pharmaceuticals and Vaccines
continued

Simplify

We are committed to reducing complexity in our business. This helps us be more efficient and allows us to respond to the needs of patients and consumers more quickly and effectively.

Over the last few years we have undertaken a broad range of restructuring and simplification programmes across the Group which have both reduced operational complexity and delivered a total of £3.5 billion in annual savings to date.

Reshaping our business

We have identified significant simplification and synergy opportunities for our Consumer Healthcare and Vaccine businesses when the proposed Novartis transaction completes. We are targeting total annual savings from the transaction of £1 billion by the fifth year from closing, including those related to oncology. We expect approximately 50% of this to be delivered by year three.

We are also undertaking a restructuring programme to refocus our global Pharmaceuticals business following the divestment of our oncology products and the changing dynamics in the US respiratory market and cost base. This will rescale our commercial operations, global support functions and relevant R&D and manufacturing across Pharmaceuticals and is intended to improve our performance by establishing a more streamlined and agile business. We expect it to deliver annual cost savings of £1 billion over three years, with 50% of this expected in 2016.

As part of this programme we will reshape our global Pharmaceutical operations to create two franchises: Respiratory and Speciality Pharmaceuticals, which will sit alongside our Established Products Portfolio and other global businesses. The Respiratory franchise will continue to focus on our existing and emerging respiratory portfolio, while the newly created Specialty Pharmaceuticals business will comprise the late-stage pipeline assets and newly launched global medicines in Cardiovascular, Metabolic and Neurosciences (CVM&NS), Immuno- inflammation & Infectious Diseases (II-ID), Oncology discovery and Dermatology. This will create a leaner commercial operation, simplify processes and eliminate duplication.

Manufacturing and supply

GSK has 43 Pharmaceutical and 14 Vaccine sites in 26 countries making pharmaceutical and vaccines products, with more than 27,000 people involved in manufacture and supply activities.

Within our Pharmaceuticals and Vaccines manufacturing organisations, our aim is consistently to deliver outstanding quality, service and value to our patients and customers.

During 2014, the sales performances of certain pharmaceuticals and vaccines were impacted by supply constraints.

Manufacturing network

We continue to review our global pharmaceuticals manufacturing and supply network to ensure effectiveness and efficiencies.

During the year, we continued to invest in our network to ensure capacity in key areas. For example, in respiratory, we have committed to build a new manufacturing facility in Montrose, Scotland, to provide additional capacity for our newest products, *Relvar/Breo Ellipta*, *Anoro Ellipta*, *Incruse Ellipta* and *Arnuity Ellipta*. In antibiotics, we continued to invest in manufacturing capacity for both active ingredients and the finished products.

In 2014, the site at Notre Dame de Bondeville in France left the network, a change that was announced in 2013.

End-to-end supply chain

Our end-to-end supply chain programme, which began in 2013, is designed to reform and simplify our supply chain. In 2014, we introduced processes to improve coordination across each stage of production from sourcing and manufacturing to more efficient delivery of our products to patients and consumers.

In 2014, we introduced the GSK Production System (GPS) across our Pharmaceutical manufacturing sites. The GPS is a standard way of working to identify and eliminate the root causes of accidents, defects and waste. This standardised way of working will improve our processes and performance. For example, at our site in Cairo, Egypt, deployment of the programme has resulted in a 26% increase in production with a decrease in manufacturing interruptions of more than 40%.

Common processes

Across our Pharmaceuticals and Vaccines business we continued to streamline core processes and boost efficiency. A key step has been the establishment of our Core Commercial Cycle programme – a key enterprise-wide planning and decision-making process which brings together commercial, finance and supply chain to ensure we can meet the expected demand for our products.

Consolidation of our supply base also helps to simplify our Pharmaceutical manufacturing and supply chain operations and during 2014 we reduced the number of third-party suppliers who manufacture medicines on behalf of GSK, by a further 8%, compared with 2013. We have also continued to reduce complexity in our supply base by standardising specifications for goods and materials that we buy and pursuing integrated sourcing processes.

We continued our initiative to reduce the complexity of our Pharmaceutical product portfolio, which allows us to simplify both supply chain and commercial operations and reduce risk and complexity while increasing service levels. In 2014, we achieved a 19% reduction (against our 2012 baseline) which equates to more than 4,000 discontinued packs.

Commitment to quality

We are strongly committed to meeting the highest quality standards through stringent quality control and quality insurance processes. Our medicines and vaccines are manufactured according to current Good Manufacturing Practice (cGMP) regulations, the approved file which includes our commitments to the authorities and our own internal quality standard procedures. Two GSK sites (at Cork in Ireland and Ste. Foy in Canada) received warning letters from the US Food and Drug Administration (FDA) this year. We are taking comprehensive actions to resolve these issues.

Procurement

Our procurement organisation continues to support the delivery of greater value from our external expenditure. The procurement savings performance on core external operating expenditure increased by 19% in 2014 from 2013. Additionally, in September, we launched category councils comprising business, finance and procurement leaders to further enhance our procurement process and accelerate performance. This will drive the right rigour in buying decisions, help strengthen our relationships with those external partners who are a critical part of our business and modify processes that are causing inefficiencies.

Pharmaceuticals and Vaccines
ViiV Healthcare

The growing dolutegravir-based HIV portfolio that includes *Tivicay* and *Triumeq* contributed to a very strong year for ViiV Healthcare.

ViiV Healthcare is a specialist global HIV company delivering advances in treatment and care for people living with HIV. Established in 2009, and majority-owned by GSK, with Pfizer and Shionogi as the other shareholders, the company focuses 100% on HIV. ViiV Healthcare delivered a very strong performance in 2014 and, having proven its ability to deliver as a standalone company, GSK has announced its intention to explore the potential to undertake an initial public offering of a minority share of the ViiV Healthcare business.

Around 35 million people worldwide are still living with HIV, according to latest available figures from UNAIDS, and 1.5 million died from AIDS-related causes in 2013. However, global efforts have helped to reduce the rate of new HIV infections by 38% since 2001 and AIDS-related deaths by 37% since 2005.

Today, the disease is most prevalent in sub-Saharan Africa with some 5% of the adult population infected. With nearly 90% of all people infected with HIV living in low-income countries and sub-Saharan Africa, increasing access to treatment is a priority.

Grow

ViiV Healthcare turnover for 2014 was up 15% at £1.5 billion. Growth generated by *Tivicay* and *Epzicom/Kivexa*, together with the newly launched *Triumeq*, more than offset the impact of generic competition to older ViiV Healthcare products, including *Combivir* and *Trizivir*. Core operating profit grew 20%. ViiV Healthcare's growth is outpacing the HIV global market growth of 12%. ViiV Healthcare's core operating profit includes R&D costs, and excludes non-core items such as the contingent consideration payable to Shionogi in relation to sales of *Tivicay* and *Triumeq*.

Tivicay recorded sales of £282 million in 2014. Uptake of *Tivicay* has led the industry in the USA and other markets including Germany and Japan, compared with recent HIV medicine launches. Sales of *Triumeq*, the new single-pill treatment that was launched in the USA in August and in some European countries in September, were £57 million in 2014. *Epzicom/Kivexa* (abacavir, lamivudine) grew by 8% to £768 million and *Celsentri/Selzentry* (maraviroc) was flat at £136 million.

Photo: Katy Hayward, ViiV Healthcare

Increasing access to HIV treatments

Access to HIV treatments is a major focus for ViiV Healthcare. During 2014, the company supported people living with HIV in 139 countries through a variety of approaches, to address the needs of people living with HIV in different parts of the world.

The company offers royalty-free voluntary licences and access pricing in all low-income and least-developed countries and in all sub-Saharan Africa countries, where 70.5% of all people with HIV currently live. For middle-income countries, ViiV Healthcare takes a case-by-case approach based on the burden of the disease and GDP per person. All its medicines, including those in the pipeline and new treatments such as *Tivicay* and *Triumeq*, are covered by this access policy.

In April, just months after approval of *Tivicay* in the EU and USA, ViiV Healthcare announced new collaborations with the Medicines Patent Pool (MPP) to increase access to dolutegravir in the countries where 99% of the children and 93.4% of adults with HIV in the developing world live.

For adults, the MPP collaboration includes two approaches. First ViiV Healthcare will apply the established royalty-free voluntary licensing to dolutegravir. Second, for specific middle-income countries including India, the company has established the first-ever MPP licence with a tiered royalty structure, where a country pays only a small percentage of the sale price based on GDP.

For children, ViiV Healthcare has granted MPP a voluntary licence in 121 countries for generic manufacturers to develop paediatric formulations of dolutegravir without paying a royalty.

In 2014, the company continued to support more than 300 community projects worldwide through Positive Action, Positive Action for Children Fund, Positive Action Southern Initiative and the Paediatric Innovation Seed Fund.

Pharmaceuticals and Vaccines
ViiV Healthcare – continued

Regionally, sales in North America grew 28%, driven by strong performances of *Tivicay* and *Triumeq* as well as continued growth from *Epzicom*. *Tivicay* and *Triumeq* are performing strongly in the dynamic segments (patients initiating and switching therapy), achieving a joint 18% share of treatment in naive patients, and 31% in switch patients.

In Europe, for the first time since ViiV Healthcare's creation, sales are growing faster than the market as a result of the excellent performance of *Tivicay* (approved in January 2014 and achieving reimbursements in most European markets), the successful initial uptake of *Triumeq* in countries where it has been launched, and the continued growth of *Kivexa*.

In the International region, sales also grew owing to the growth portfolio of *Celsentri*, *Kivexa* and *Tivicay*, which now contribute over two-thirds of the region's revenue. Japan and Australia, which launched *Tivicay* in the second half of the year, have seen particularly impressive sales performances.

Deliver

There were important regulatory approvals for our dolutegravir-based portfolio during the year. *Tivicay* (dolutegravir) was approved in the EU in 2014 following its US approval in 2013. *Triumeq,* combining dolutegravir with two nucleoside reverse transcriptase inhibitors (NRTIs), was also approved in the USA and EU in 2014.

The innovative antiretroviral treatment, *Tivicay,* is an integrase inhibitor used with other antiretroviral medicines for treatment of adults and adolescents living with HIV. *Tivicay's* clinical development programme included people living with HIV who were new to treatment (naive), as well as those who had already been treated with other HIV medicines (experienced) and those who were infected with a virus that had developed resistance to previously available integrase inhibitors. The WHO has cited dolutegravir as one of the long-term developmental priorities for child antiretroviral treatments.

HIV treatment regimens often combine three different antiretrovirals to improve convenience for patients. *Triumeq* is the only drug to combine dolutegravir and NRTIs, abacavir and lamivudine, in a single-pill regimen.

ViiV Healthcare entered a collaboration with Janssen in 2014 to develop a two-drug single tablet combining dolutegravir with Janssen's rilpivirine, a non-nucleoside reverse transcriptase inhibitor. The research will compare the efficacy of this two-drug regimen compared to a three-drug regimen, in maintaining viral suppression for patients already virally suppressed on a three-drug regimen.

In 2014, we also began two phase II studies on the experimental long-acting injectable integrase inhibitor, cabotegravir, previously known as GSK744. One of these studies is investigating the potential of cabotegravir for prevention in HIV negative men, the other, in combination with long-acting rilpivirine, for the treatment of people living with HIV. Cabotegravir offers the possibility of treatment via injection and might allow people to switch from daily oral use to a monthly (or potentially less frequent) form of treatment.

Simplify

The decision to create ViiV Healthcare as a company with a 100% focus on HIV has allowed everyone in the company to be totally dedicated to innovating for, and making a difference to, people living with HIV.

ViiV Healthcare has also maintained a nimble model through which, while being a specialist organisation focused on its core capabilities, it relies on relationships with its three shareholders, in particular GSK, allowing them to operate in a simplified operating model.

Combining this model with a lean management structure globally and locally, the company has reduced complexity and maximised efficiency. ViiV Healthcare pays for the services provided by the three shareholders under arms-length contracts.

This model extends to how the organisation conducts research in partnership with GSK's HIV Discovery Performance Unit, pharmaceutical and biotech companies, as well as academic researchers.

Consumer Healthcare

Strong innovation and a focus on geographic expansion and new routes to market have led to continued growth in several key categories.

GSK's Consumer Healthcare business is already among the largest in the world. Our products reach millions of people every day in more than 100 countries, with top-selling brands including *Sensodyne*, *Panadol* and *Horlicks*.

Across our four categories of Wellness, Oral health, Nutrition, and Skin health, our brands exist to help people to do more, feel better and live longer.

Our Wellness category focuses on pain management, respiratory health, gastrointestinal health and smokers' health. *Panadol* is the top-selling paracetamol brand globally and *Tums* is the #1 antacid brand in the USA.

We are the global leader in specialist Oral health, with leading positions in Sensitivity (*Sensodyne*), Acid Erosion (*Pronamel*), Denture Care and Gum Health.

In Nutrition, our *Horlicks* brand – over 140 years old – is the leading nutritional supplement in the Indian subcontinent.

Finally, our Skin health brands *Abreva* and *Zovirax* hold leading positions in some of the world's largest markets.

Our focus is to combine the best of our Pharmaceutical and Fast Moving Consumer Goods (FMCG) capabilities to become the world's first and best, Fast Moving Consumer Healthcare (FMCH) company, driven by science and values. To realise this vision, we are implementing a strategy with five key growth levers:

- Building category defining brands our consumers love. This means building strong global brands with leadership positions.
- Improving lives through scientific innovation with a strong pipeline of new products.
- Becoming first choice for shoppers, retail partners and experts.
- Delivering high quality products at the right time and cost.
- Living our values and developing our people in a high performance culture.

In April, we announced a proposed major three-part transaction with Novartis, which once completed, will create a new joint venture Consumer Healthcare Company with significant scale and reach making it one of the world's largest Consumer Healthcare companies, operating in markets estimated to grow at approximately 3-4% per annum over the next five years.

The new GSK Consumer Healthcare business will be geographically well matched with a strong presence in the US, emerging markets and in the CIS, Central and Eastern Europe. The combined business will be a world leading Consumer Healthcare company with number one positions in specialist oral health and in OTC across 36 markets

Flonase Allergy Relief – expanding access to proven medicines

Our Consumer Healthcare business is focused on helping more people all over the world to improve their everyday health.

One way we are doing this is by making our prescription medications (Rx) more easily available to consumers by switching them to over-the-counter (OTC) products – an 'Rx to OTC switch.' By removing the need for people to see their healthcare professional in order to get the medicines they need, these switches can reduce the overall cost of healthcare. In addition, Rx to OTC switches can enable people to manage a variety of everyday health conditions themselves.

Over the past 20 years we have drawn on the specialist knowledge of the scientists and researchers in both our Consumer Healthcare and Pharmaceuticals businesses to make these switches possible, expanding access to widely-used products for Smokers' health, Weight loss, Skin conditions and Pain.

We have now used our strong heritage and scientific strength in discovering and developing respiratory products used by patients worldwide to bring prescription *Flonase* to consumers in the USA as an over-the-counter medicine.

Flonase contains the #1-prescribed allergy treatment ingredient as an OTC treatment for temporary relief of the symptoms of hay fever or other upper respiratory allergies. It is the first and only OTC nasal spray that provides relief of both nasal and ocular symptoms. *Flonase* inhibits six key substances that are part of the allergic response, unlike most common OTC allergy pills that target one histamine alone.

In the USA, some 50 million people suffer from serious nasal allergies, and an estimated 70% of them treat their symptoms with prescription or OTC treatments. However, half of these sufferers report they are not completely satisfied with their current method of treatment, presenting a significant opportunity for GSK to provide an additional new option to consumers.

We expect *Flonase Allergy Relief* to be a growth driver for the Consumer Healthcare business in 2015, and to provide a well-established allergy treatment to consumers as we continue to launch the brand as an OTC product in more markets.

Consumer Healthcare
continued

and leading positions in skin health and family nutrition with key brands like *Sensodyne*, *parodontax*, *Polident*, *Voltaren*, *Theraflu*, *Panadol*, *Otrivin*, *Horlicks*, *Zovirax* and *Abreva*. In total, the new company will have 19 major brands each with annual revenues in excess of US$100 million.

Approximately half of the business will be OTC medicines creating the world's #1 OTC business. The other half of the new company will comprise FMCG brands in the areas of Oral health, Nutrition and Skin health. With increased speed to market and investment in new products, this business will have greater opportunities to deliver revenue growth consistently above market rates.

Grow

Overall, Consumer Healthcare turnover was down 1% at £4,336 million in 2014. This was primarily a result of supply disruptions, however we began to see early signs of supply recovery in the fourth quarter, with growth of 2% generating positive momentum for the business as we move into 2015.

Category performance

Oral health sales grew 4% to £1,797 million. This was driven by strong growth of *Sensodyne* in Sensitivity and acid erosion which was up 11% and Gum health which grew 11%. In 2014, *Sensodyne* maintained its leading position in the sensitive teeth category, and consumption grew ahead of the market in all regions. Growth was seen across both emerging and developed markets with most notable successes in China and North America. *Sensodyne Repair & Protect* and *Sensodyne Complete* were key drivers in this growth. A combination of strong brand innovation and a successful marketing approach using dentist testimonials continues to drive the brand's success.

Our Nutrition category grew 10% to £633 million, led by *Horlicks* and *Boost* which grew 11% and 9% respectively, reflecting a strong innovation-driven performance and continued focus on expanded rural distribution in India. Our leading UK protein brand, *MaxiNutrition,* was up 10% driven by strong innovation and increased distribution.

In Wellness, sales were down 7% to £1,596 million, impacted significantly by supply particularly in Smokers' Health. Our Gastro-intestinal products grew 4% and even though we were impacted by some supply constraints, *ENO* saw very strong growth in Emerging Markets, especially in India and Brazil. Pain management grew 2% driven by double-digit growth of *Fenbid* in China, but offset by some supply interruption to *Bactroban* in China.

Skin health sales were down 11% to £310 million driven primarily by *Bactroban* supply interruption in China. *Physiogel* sales were up 10%.

Regional performance

At a regional level, the US business declined 8% to £836 million, impacted by supply disruptions primarily in Wellness. Oral health grew 4% led by very strong sales of *Sensodyne* and the successful launches of *Pronamel Multi-Action* and *Sensodyne Repair & Protect*.

In Europe, sales fell by 5% to £1,242 million. This was due to a combination of factors including supply, competitive pressures particularly in Oral health, and political disruption in Central and Eastern Europe, where market growth rates slowed during the year.

Our Rest of World markets including India, China, Latin America, Middle East and Africa were up 4% to £2,258 million despite an overall slowdown in emerging markets. Of particular note was our India business which grew 12% during the year. Here, we executed a successful re-stage of *Horlicks* focusing on its increased nutritional benefit if consumed every day and an improved formula which dissolves more easily in hot and cold milk. We also launched a new variant, *Horlicks Kesar Badam* (Saffron & Almond) in India, specifically designed to meet the unique tastes of Indian consumers. We continue to focus on new routes to market, expanding our distribution model to better reach rural consumers with products from across our brand portfolio. This is helping to maintain *Horlicks'* position as India's leading nutritional supplement. Latin America sales were up 4% with strong performances in Oral health and Wellness.

Deliver

Our 'innovation' portfolio – comprising new products or unique line extensions launched in the last three years – is critical to the growth of our Consumer Healthcare business.

We are focused on creating a continued pipeline of new, scientifically differentiated products across our four categories, launching over 50 new-to-market products throughout the year. In 2014, our innovation portfolio accounted for 12% of our Consumer Healthcare global sales and we invested £159 million in core Consumer Healthcare R&D.

Our key innovation launches in 2014 included *Horlicks Kesar Badam*, *Sensodyne True White*, *Sensodyne Complete*, *Pronamel Multi-Action* and *Fenbid* 400mg sustained release.

Other major contributors to our innovation sales, include *Sensodyne Repair & Protect*, *NiQuitin Flash Strips*, *Panadol Extra*, *Panadol Advance* and *Zovirax Duo*.

We continue to benefit from the scientific strengths of our Pharmaceutical business. The US FDA approval of *Flonase Allergy Relief* allergy spray for OTC use was based on a New Drug Application (NDA) which included data from over 43 clinical studies and global post-marketing experience from prescription and non-prescription markets.

As part of our focus on ensuring consumers are at the heart of our business, this year we invested in the roll-out of a new fully-integrated platform for single point of consumer contact across phone, social media and digital. This will allow us to listen better and interact with our consumers and to gather insights which will ultimately drive product improvement, marketing strategy and innovation. In 2014, we deployed this new platform in 47 countries, collecting nearly two million data points which led to the creation of multiple new marketing and promotional campaigns.

During the year we began the process of adding the GSK branding to all of our Consumer Healthcare products and to our advertising and promotional materials. Research has shown this work has proven value for our brands. We expect the majority of our product packaging to carry the GSK branding by the end of 2015.

Simplify

We have faced challenges during the year with several of our Consumer Healthcare manufacturing sites primarily in North America. However, affected supply lines are now fully operational and we expect to see increasing benefit from resumption in supply during 2015.

We have undertaken a comprehensive operational review of our supply network and are investing heavily in a multi-year programme to ensure future sustainable supply including improvements in systems and capacity, more training for our people and addition of new roles, particularly in key areas such as quality and engineering. We are also working to reduce our exposure to single source supply.

In 2014, we continued to roll-out GSK's commercial Enterprise Resource Planning (ERP) system across the Consumer Healthcare business. This new platform allows us to make better commercial decisions and drive financial efficiencies as we standardise and consolidate data, forecast and plan on the same system, save time and money on system maintenance and upgrades, and become more efficient in how we do business with our customers. With 11 Consumer Healthcare markets added in 2014, 26% of global consumer healthcare revenue is now on the system and we expect to fully complete the roll-out by 2020.

In order to deliver high quality products to our customers at the right time and cost, we are focusing on reducing the number of packs within our product portfolio. This provides shoppers with simpler and easier choices based on clear brand propositions.

It also simplifies our supply chain resulting in easier and better forecasting, less inventory resulting in lower warehousing costs, increased capacity in our factories and lower cost of goods. In 2014, we achieved a net pack reduction of 14%.

Going forward, we also expect to deliver an estimated total annual cost saving of £400 million as a result of the proposed Novartis transaction. The delivery of these savings is phased over five years with 50% being achieved by year three.

Our innovative approach to rural distribution in India

In Consumer Healthcare we are constantly innovating to give our consumers access to the widest available range of high quality healthcare products. We are committed to expanding our geographic reach and achieving greater flexibility around our product offering, format and price in order to reach more consumers.

The traditional distribution model used to build business in India has not worked in the rural, hard-to-reach villages which currently represent 70% of India's 1.2 billion population.

Our goal was to build a strong infrastructure while at the same time improving consumer awareness of health and nutrition information in these markets, thereby building a more sustainable business.

We wanted to go beyond our existing direct distribution network and cover villages which were previously only serviced by distributors giving little insight into the products purchased by retailers or the communication our customers received.

In the short span of three years we have built a huge distribution network and today we cover 20,000 villages directly, supplying products across our range of Wellness, Oral health and Nutritional products at the right size and price.

In small to medium-sized villages with about eight to ten retail outlets, we've created a network of over 13,000 rural sub-distributors who are regularly delivering GSK's products to over 200,000 village retailers. In even smaller villages with populations under 2,500 with few or no retail outlets, we have created a distribution channel that goes directly to homes. For this, we have trained local women to set up their own distribution business selling directly to households and helping to build a sustainable income source for them. At the end of 2014, 435 women have been trained though this programme.

Responsible business

Our success depends on our ability to research and develop innovative medicines, vaccines and consumer healthcare products and make them accessible for more people worldwide in a responsible way.

Our partnership with Save the Children aims to help save the lives of one million children. One of our programmes is in the Democratic Republic of Congo, where health workers like Head Nurse Jacqueline Mankenda (pictured), are directly reaching thousands of children, including those in the hardest to reach communities.

Ivy Lahon / Save the Children

Responsible business
Our approach

How we conduct our business is just as important as financial performance.

Being a responsible business is central to our strategy, and how we conduct our business is just as important to us as the financial results we achieve. We strive to put our values at the heart of every decision we make and to meet or exceed the expectations of society.

Our commitment starts at the top, with our CEO and Corporate Executive Team, and a dedicated Board-level Corporate Responsibility Committee (CRC) led by our Chairman (see page 94 for the 2014 report from the CRC).

Creating value for society

Developing innovative products and maximising access to them delivers direct benefit to patients and consumers. If we do this successfully, this will deliver profitable and sustainable business performance. In turn this allows us to generate value and returns for our shareholders and to reinvest in the business. Over and above this, wider society benefits, since healthy people and communities are essential to building strong, sustainable societies.

We also contribute significant value by making direct and indirect economic contributions in the countries and communities where we operate through tax (see box), our employment of 98,000 people and charitable support. Our total charitable contributions for the year are set out on page 40. Further details about our corporate tax charges for the year are on page 63 and we publish full details about our position on tax.

Responsible business priorities

The priorities for our responsible business approach sit within the context of macro-economic and social trends that are impacting wider society and all companies. These trends present both opportunities and challenges for global healthcare companies like GSK (see page 8).

We report our progress across four areas: Health for all, Our behaviour, Our people, and Our planet. Our responsible business priorities have been identified through our understanding of the issues that are most important to our business success and to our stakeholders. For more detail on this analysis see our responsible business supplement at gsk.com/responsibility.

In 2012, we developed longer-term commitments across the four areas. These reflect global health needs and are aligned with our strategic priorities and our values of transparency, respect for people, integrity, and patient focus.

We report detailed progress against these commitments in our responsible business supplement, available on gsk.com/responsibility. In 2014 we assessed 14 of these commitments as progressing well, six as on track, two with more work to do and one under review.

Tax

Businesses are increasingly being challenged to ensure they contribute through the tax system to the societies in which they operate, and to provide information on their tax management principles and policies. We understand our responsibility to pay an appropriate amount of tax. We fully support efforts to ensure companies are appropriately transparent about how their tax affairs are managed.

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 tax regimes which are attractive to business investment.

We pay a considerable amount of tax in the UK because a significant proportion of our global corporate functions and R&D and manufacturing activities are located in the UK. This includes corporation tax on profits generated, as well as indirect tax and employment taxes, although the precise amounts fluctuate from year to year.

Access to healthcare
Ensuring access for all

We are determined to drive access to our products to reach more patients and consumers, no matter where they live or their ability to pay.

Our medicines, vaccines and consumer health products are improving quality of life for patients and consumers around the world. But millions of people are still not getting the vaccines and treatments they need because they cannot afford them, and there are still many diseases that impact the poorest for which treatments do not exist.

To play our part in tackling this global health challenge and to drive access to our products to more people, we are pioneering new business models, collaborating to strengthen healthcare infrastructure and innovating to tackle diseases that disproportionately affect the poorest.

Affordability and availability

Improving access to healthcare is central to our business, and we have evolved our approach to increase access to more patients and consumers by tackling affordability and availability barriers.

To maximise patient benefits and sustain our business in Least Developed Countries (LDCs), we have a lower price/higher volume approach and have capped prices of our products at 25% of developed market levels.

We seek regulatory approvals for our established products in developing countries through our 'catch up' programme to bridge the gap in access compared with developed countries. Our investment in local manufacturing and capability building also increases the availability of locally relevant vaccines and medicines.

We supply vaccines to Gavi, the Vaccine Alliance, at significantly reduced prices for use in the world's poorest countries. We have committed to provide Gavi with more than 850 million vaccine doses at reduced prices to help protect 300 million children in the developing world by 2024. We have also committed to a 10-year price freeze to Gavi graduating countries. By 2020, 22 countries with growing economies will graduate from Gavi support.


Aubrey Wade/Save the Children

Responding to the Ebola outbreak

Since the Ebola crisis began in March 2014, GSK has been working closely with the World Health Organization (WHO), regulators and other partners to respond to the outbreak and to accelerate development of our investigational Ebola vaccine. We are also contributing to the overall humanitarian effort and taking steps to support the small number of employees we have in the region.

In phase I studies, our investigational Ebola vaccine demonstrated an acceptable safety profile and produced an immunological response in healthy adult volunteers. It is now being tested in a large phase III clinical trial sponsored by the National Institute of Health (NIH) which began in Liberia in February 2015. This trial is expected to involve up to 30,000 people, one-third of whom will receive GSK's candidate Ebola vaccine. It will compare the candidate vaccine to a control vaccine to assess whether the immune response seen in phase I trials actually translates into meaningful protection against Ebola.

If it protects volunteers as hoped, it could contribute significantly to controlling this outbreak. Its future use in mass vaccination campaigns will depend on whether WHO, regulators and other stakeholders are satisfied that the vaccine candidate provides protection against Ebola without causing significant side effects and how quickly large quantities of vaccine can be made.

We are actively exploring with relevant organisations and partners all opportunities to accelerate the development of manufacturing at an industrial scale so that if the trials are successful, we will be in a position to significantly ramp-up production of the vaccine candidate to help combat this or future Ebola outbreaks.

Access to healthcare
continued

We are also investing in new formulations, smaller packs and different distribution models to make products more affordable and available. Since we introduced single-dose capsules to help respiratory patients spread the cost for inhalers, *Ventolin Rotacaps* has become the most widely distributed GSK product in the Philippines.

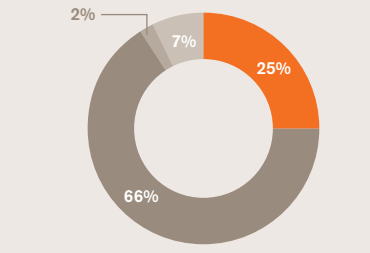
We have a tiered pricing approach for prescription medicines and vaccines, where countries pay different prices based on their ability to pay, as determined by Gross National Income (GNI) per person, which will enable broad access to GSK medicines and vaccines globally.

In middle income countries like Brazil, Mexico, Indonesia and India, we work with governments and other healthcare providers to provide reimbursement or payment assistance for patients who cannot afford medicines such as *Relvar Ellipta*, *Benlysta* or *Revolade*.

In developed markets, we have pioneered novel reimbursement approaches to widen access to our newer medicines and have priced these at or below current treatments.

For example, in the USA the list price for our diabetes medicine, *Tanzeum*, is lower than medicines in the same class. Diabetes affects nearly 21 million adults age 20 and over, and nearly 60% of patients with type 2 diabetes are on multiple treatment therapies, each with their own separate cost. We aim to be mindful of healthcare costs, as we work to increase access and affordability and reflect the value our innovative, quality medicines bring to patients.

Our giving in 2014



	£m
Cash	51
Product and in-kind	133
Time	4
Management	13
Total	201

In the UK, we have taken a considered approach to the pricing of *Relvar Ellipta*, *Anoro Ellipta* and *Incruse Ellipta*, which are priced and in line with, or less than, other alternatives.

Strengthening healthcare systems

In the world's poorest countries, the lack of trained healthcare workers to diagnose diseases and administer treatment is preventing many patients from accessing our life-saving medicines and vaccines, regardless of the cost.

By reinvesting 20% of our profits in LDCs to train front line healthcare workers, we aim to improve access to healthcare for 20 million people by 2020. We have invested £6 million in 2014 (based on 2013 profits) and a total of more than £21 million since the reinvestment programme began in 2009. The 25,000 healthcare workers trained by our partners, Amref Health Africa, CARE International and Save the Children, in collaboration with country ministries of health, have improved access to healthcare for over 6.5 million people.

In addition to this, we have committed to train an additional 10,000 health workers in Kenya, Ghana and Nigeria by 2017, and are currently supporting the UN-backed One Million Community Health Workers Campaign run by the Earth Institute at Columbia University with a grant of £500,000.

We provide additional support for vulnerable communities through product and financial donations. In 2014, our contributions totalled £201 million (£221 million in 2013). This included: support for nearly 183,000 people through Patient Assistance Programs in the USA; 858 million tablets of albendazole to prevent lymphatic filariasis and soil-transmitted helminths as part of our commitment to combat neglected tropical diseases, and £5.5 million of products (valued at cost) to support humanitarian aid in 78 countries, distributed through our non-profit partners.

1st access to medicine index

GSK topped the Access to Medicine Index for the fourth consecutive time. The Index measures the performance of the top 20 pharmaceutical companies on their efforts to improve access to medicines and healthcare in developing countries.

Since the last Index in 2012, we have taken further steps to help widen access to our medicines. These include filing our malaria vaccine candidate for regulatory approval; forming a groundbreaking five-year partnership with Save the Children; launching an Africa NCD Open Lab; and putting patients at the centre of our sales and marketing efforts.

The overall 2014 total contribution represents a decline, largely due to fewer US patients enrolling in GSK's patient assistance programs, which is primarily a result of new coverage options available for patients via the Affordable Care Act. Even with the new coverage options in the USA, GSK continues to help support patient access to our medicines and also provides services to help interested and potentially eligible enrollees understand these alternative coverage options.

Partnership with Save the Children

Our partnership with Save the Children, formed in 2013, aims to help save the lives of one million children in the world's poorest countries by combining our scientific expertise and global reach with the charity's on-the-ground knowledge.

Together we established two signature programmes in Democratic Republic of Congo (DRC) and Kenya that aim to tackle challenges in the supply and demand of effective healthcare and contribute to a reduction in maternal, newborn and under five deaths. We are exploring how an antiseptic used in our *Corsodyl* mouthwash can be reformulated to prevent infected umbilical cords in newborns.

Investing in Africa

GSK is investing in Africa to increase access to medicines, build capacity and deliver sustainable growth. Our vision is to make GSK products available to 80% of the population in sub-Saharan Africa and least developed countries by 2020. This is not just philanthropy, it is a new way of doing business.

Over the next five years, we will invest £130 million in Africa. Working with partners, we aim to provide a portfolio of relevant products, support African R&D expertise and increase local manufacturing capacity and capability.

We are investing £25 million to create the world's first Africa Non-Communicable Diseases Open Lab, where GSK scientists and external researchers will work together to improve understanding of non-communicable disease variations seen in African patients. It is hoped this will enable researchers across academia and industry to develop new medicines to address the specific needs of African patients. We will invest in up to 25 academic chairs or other forms of support for students, programmes and research across a range of healthcare related disciplines. These initiatives are all to promote the expansion of pharmaceutical sciences, public health, engineering and logistics at African universities.

To increase local capability and capacity to manufacture medicines, we are investing up to £100 million to expand our existing facilities in Kenya and Nigeria and build new factories elsewhere to ensure the sustainable production of medicines in Africa for African people. These facilities will make locally relevant products, including antibiotics and respiratory and HIV medicines, create jobs and boost long-term economic prospects.

We will also work with partners to train 10,000 healthcare workers in Kenya, Ghana and Nigeria in addition to those trained in LDC's through our 20% reinvestment programme.

Innovation for diseases impacting the developing world

We are committed to innovation for diseases that disproportionately affect the world's poorest, even when there is not the same potential for commercial return on our R&D investment.

Our pipeline includes the world's first malaria vaccine candidate, filed for regulatory approval in 2014, as well as a vaccine candidate for tuberculosis (TB). We are also accelerating the development of an Ebola vaccine at an unprecedented rate (see page 39). We received regulatory approvals in respiratory, oncology, HIV/AIDS and diabetes in 2014, which will help address the changing health burden in developing countries. All of these innovations promise to deliver treatments needed by some of the world's most vulnerable people.

We know that by sharing our insights and collaborating with partners we have the potential to make progress faster. Our open innovation strategy offers external scientists access to our compound library for TB and malaria, and to our resources to promote research into diseases of the developing world. Since 2010, 50 external researchers have worked alongside GSK scientists at our Open Lab in Spain and have built up a portfolio of 42 research projects.

Now we are applying the same open innovation model to target other areas of need where the traditional commercial model is not appropriate. In 2014, we announced plans to create the world's first Africa NCD Open Lab. We also continue to collaborate with partners to accelerate the development of new drugs for Alzheimer's disease and new antibiotics to combat growing resistance.

Behaviour

Putting the needs of patients and consumers first

We are changing the way we work to further embed our values in everything we do.

We expect all of our employees to act transparently, respectfully and with integrity – and to put the interests of patients and consumers first at all times.

We aim to put these core values at the heart of everything we do and every decision we make: from the way we conduct our research, to our approach to sales and marketing to the way we interact with patients, doctors and policymakers.

Code of Conduct

Our Code of Conduct and accompanying training, seeks to ensure everyone at GSK understands how to put our values into practice. Mandatory training on the Code helps our employees gain the confidence to make the right decisions and report any concerns through our Speak up programme.

Our Speak up programme offers people within and outside GSK a range of channels to voice concerns and report misconduct without fear of reprisal. These include telephone and internet channels run by independent external operators to enable anonymous reporting. In 2014, we standardised how we monitor contacts made to our global compliance management system to report potential allegations and ask questions, and we significantly increased our monitoring activities globally. This has led to an increase from 1,865 contacts made in 2013 to 3,203 contacts in 2014.

We updated the Code of Conduct in 2014 to reinforce the critical role our values play in protecting our reputation and commercial success, and we extended it to cover our complementary workforce who will be required to complete training in 2015.

Suppliers are also expected to follow our standards and we are increasing our focus on responsible procurement with a new initiative that will simplify and standardise our approach to managing third-party risk globally. This focus on supply chain risk is also one of the key areas we need to address as part of our ongoing commitment to the UN Guiding Principles on Business and Human Rights.

Rigorous patient and consumer safety

Patient safety is our number one priority in the development, testing, manufacturing and use of our products.

All medicines have potential risks as well as benefits. Our robust policies and governance framework help us detect and act on any side effects that may be associated with our medicines and we put patient safety first in our clinical trials wherever they take place.

All our trial protocols are reviewed by an independent ethics committee that has the power to reject or stop a trial, and we maintain a global risk register to help our research teams around the world monitor quality and safety controls appropriately. In 2014, we conducted 234 audits of our trial sites and third parties carrying out trials on our behalf to ensure high ethical quality and safety standards.

We maintain strict quality and safety standards at all our manufacturing sites. Our quality culture puts the patient at the centre of our efforts to deliver 'right first time'. It is also essential that the ingredients and materials that go into our products are safe and of high quality.

We expect our suppliers to uphold the same high standards we set ourselves and we monitor their performance through our compliance processes and quality risk assessments.

Counterfeit medicines, vaccines and other healthcare products pose a significant threat to patient and consumer safety as well as to our reputation. Counterfeiting is a crime and we work closely with appropriate law enforcement and customs agencies to combat large-scale, often highly organised, counterfeiters.

In 2014, we introduced Fingerprint, an end-to-end supply chain serialisation programme that will apply unique serial 'fingerprints' on many of our products. The unique identifiers will be recorded in a database so the product can then be scanned and verified against the database at any point in the supply chain. By the end of 2014, 48 packaging lines at 14 of our sites had serialisation capability.

Modernising sales and marketing

We are modernising the way we sell and market our medicines, transforming the business model the industry has had for many years. We are changing how we reward our sales representatives and engage with healthcare professionals (HCPs), to meet customer needs and to ensure patients interests come first. In 2014, we made good progress against our commitments in three key areas, announced in December 2013.

Our values

- Patient focus
- Integrity
- Respect for people
- Transparency

Firstly, in January 2015 we completed the roll-out of changes to the way our sales teams are compensated. Our sales professionals around the world no longer have individual sales targets, but instead, are assessed and rewarded primarily based on their technical skills, scientific knowledge, quality of service they deliver to HCPs, and broader business performance. In the USA, GSK was ranked first among major pharmaceutical companies by HCPs on the value we bring in our 2014 customer satisfaction survey (see case study on page 21).

Secondly, we are changing how we support education for doctors. Our commitment to medical education remains unchanged, but we will move away from direct sponsorship of individual HCPs to arm's length funding, for example via third-party independent medical organisations.

Thirdly, by 2016, we will no longer pay HCPs to speak to other prescribers about our medicines. Instead we are using other channels, including digital and real-time applications, to provide information about our medicines and vaccines in the way HCPs want it, when they want it.

The expert medical doctors we have within GSK will also take on a role to talk and answer questions about our medicines with their peers. They will be responsible for, and measured on, providing the right information to support the safe and effective use of our medicines.

Clinical research transparency

Sharing information on our clinical research helps to build trust and supports further research to benefit medical science and patient care.

Since 2004, we have shared information on our trials and results, regardless of whether the outcomes might be considered positive or negative, through an online clinical study register.

Addressing misconduct

As part of our commitment to transparency, we report annually on how we have addressed misconduct within our business. In 2014, we standardised how we capture the number of contacts made to our global compliance management system which employees can use to report potential allegations and ask questions. This has led to an increase from 1,800 contacts made in 2013 to 3,200 contacts in 2014.

In 2014, 3,947 employees were disciplined for policy violations (3,128 in 2013), the majority of these were for attendance or payroll violations. Of the total disciplined, 373 (375 in 2013) were dismissed or agreed to leave the company voluntarily. Policy violations related to sales and marketing codes accounted for 233 dismissals (161 in 2013). Of the total disciplined, 3,131 employees received a documented warning (2,753 in 2013).

The primary reason for the increase in the number of disciplinary cases (particularly documented warnings related to Code of Conduct violations) was the increased number of reports from China (652 in 2014, 48 in 2013). The increases in China were related to the investigation by the Chinese authorities, the strengthening of monitoring systems, and the introduction of a quarterly knowledge test for sales representatives. Failure to pass the test results in the employee receiving a documented warning. Employees in the sales force who receive a documented warning are disqualified from the sales incentive programme for 12 months.

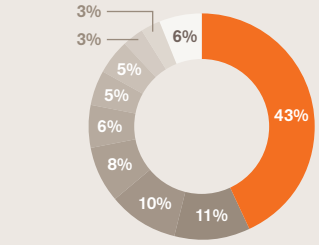
Employees who remain with the company following a policy violation receive retraining and increased monitoring or support.

In some cases retraining is extended to an employee's colleagues to prevent them from making similar mistakes.

Breaches of external codes
GSK was found to be in breach of external industry or government promotional codes 39 times in 2014 compared with 36 times in 2013. 23 breaches were for our Consumer Healthcare products and were primarily breaches of country specific regulations/codes regarding local advertising guidelines. The remaining breaches were for our prescription products including breaches for promotional materials and advertising and breaches of local country specific regulations/codes.

We investigate every breach of an external code and take steps to prevent a reoccurrence, which may include retraining or other corrective action, such as disciplinary action.

Types of policy violations
2014



- Attendance/payroll
- Code of conduct
- Goods manufacturing practices/good distribution practices
- Local work regulation violations
- Marketing and promotional activities
- Training completion
- Falsification of documents
- Travel and expenses
- Fraud
- Other

In 2013, GSK became the first company to publish formal reports that are the basis of submissions to regulatory agencies known as Clinical Study Reports (CSRs). The register now includes over 5,500 summaries and 180 CSRs.

Following improvements to the design and utility of the register, we have seen an increase in the number of pages viewed per visit and the duration of each visit.

We were the first company to provide researchers with the detailed data that sit behind clinical trials results. Researchers can request access to detailed anonymised patient-level data from over 1,000 of our trials through an online system, which we expanded to include data from nine other companies in 2014. Researchers must submit their proposals to an independent review panel to ensure the data will be used appropriately and commit to publishing the results of their work.

Anti-Bribery and Corruption

We are exposed to bribery and corruption risk through our global business operations. In some markets, the government structure and the rule of law are less developed, and this has a bearing on our bribery and corruption risk exposure. In addition to the global nature of our business, the healthcare sector is highly competitive and subject to regulation. This increases the instances where we are exposed to activities and interactions with bribery and corruption risk.

Given the complexity of our sector and the challenges of working in global healthcare, we will continue to face risks. Operating in emerging markets is especially challenging given the issues many of these countries face with funding and maturity of their respective healthcare systems. However, we continue to believe that with robust compliance systems and, by working closely with local governments, our presence in these markets can help improve access to medicines and broader healthcare.

Our Anti-Bribery and Corruption (ABAC) programme is designed to prevent non-compliance through controls, practical guidance and mandatory training. During the year, all GSK employees and complementary workers completed basic level training and over 72,000 in high risk-roles completed advanced ABAC training.

Our governance structures and strong focus on responsible behaviour are designed to prevent ethical breaches. But sometimes things can still go wrong. If that happens, we act promptly and decisively.

In September 2014, GSK China Investment Co. Ltd (GSKCI) was found guilty, according to Chinese law, of bribing non-government personnel. This verdict followed investigations initiated by China's Ministry of Public Security in June 2013 and included a fine of £301 million.

This has been a deeply disappointing matter for us. The illegal activities of GSKCI are a clear breach of GSK's governance and compliance procedures. They are wholly contrary to the values and standards expected from our employees. We have published a statement of apology to the Chinese government and its people on our website.

Our focus is on learning from this issue. We have taken steps to comprehensively rectify the issues identified at GSKCI, including changing engagement activities with healthcare professionals and expanding our review and monitoring of invoicing and payments. We will use robust compliance systems and work closely with government to continue to innovate, improve access to medicines and establish GSKCI as a model for reform in China's healthcare industry.

We have also sought to apply appropriate lessons to our operations elsewhere, but, given the complex global environment in which we operate, we will continue to face risks.

Our people

Respect for people is one of GSK's core values

To ensure we have the right people with the right skills, we focus on talent, leadership, performance and engagement.

Talent and leadership

We are working hard to attract, develop and retain the skilled and talented people we need at all levels of our organisation.

For employees in the early stage of their careers, we offer many opportunities, including apprenticeships, internships and graduate schemes. We are on track to achieve our global target to recruit 450 students a year onto our early talent programmes by 2015. Acknowledging our global commitment to increasing our apprentice population, we have decided to include them in our early talent community, alongside our Future Leaders (graduates) and Esprit (post-graduate) programme participants.

Our leadership development programmes provide employees at all levels with the skills they need to become effective leaders – from Management Essentials, for those new to management, to the more advanced Leading Business for our experienced leaders. Our coaching programmes helped 4,034 participants strengthen their leadership capabilities in 2014. See our case study on page 45 for more information on our approach to leadership.

In addition, our flagship PULSE Volunteer Partnership enables employees to work full time with a non-profit organisation or charity for three or six months. This experience adds a new dimension to the development of our people and provides insights and expertise to organisations working to address major healthcare challenges. Since 2009, we have sent 482 employees from 51 countries to work with 94 non-profits and provided over £16 million worth of skilled services to our partners. In 2014, 98 employees volunteered with 39 organisations.

Performance and engagement

We are improving the way we manage employees' performance. Our new global performance system sets clear objectives, aligns with delivering our strategy and is underpinned by the six GSK Expectations that promote individual responsibility by defining what we require of everyone at GSK. By putting more emphasis on results and the way results are achieved, it strengthens the connection between individual performance and reward.

Engaging employees in our mission, values and strategy gives everyone at GSK a clear sense of how they can help drive the business forward. Our CEO and members of the Corporate Executive Team (CET) keep employees informed about our strategy and progress throughout the year. We also encourage employee feedback to improve their experience. In 2014, we conducted interim surveys covering around 33,000 employees that indicated our managers were leading our people more effectively.

Engagement and formal consultation with employees and representatives, such as unions and works councils, is particularly important during periods of restructuring. We continue to work closely with these groups during the proposed three-part transaction with Novartis which will lead to considerable change. Around 12,000 Novartis employees will join our business and employee transfers will take place in around 80 countries. A key priority is to limit the number of redundancies, offer support where redundancies are unavoidable and assist in cases where employees need to find new employment.

Health, safety and resilience

We take a progressive approach to protecting the health and wellbeing of our people with a focus on sustaining a strong health and safety culture. Over the last ten years, we have more than halved our reportable injury and illness rate. In 2014, we reduced this figure by 4% to 0.26 incidents per 100,000 hours worked. This means we have achieved our 2015 target a year early.

Our health and safety culture seeks to ensure employees are aware of health and safety risks. In 2014, we continued to invest in leadership training to help leaders from 30 countries manage such risks more effectively.

Recognising the challenge of balancing personal and professional responsibilities, we run Energy & Resilience programmes globally to help our employees lead healthier lives, at home and at work. Since 2012, 16% of our global workforce across 45 countries have participated in this initiative. We plan to increase participation in 2015.

42%

Women in management positions

50%

reduction in injury and illness rate over the last 10 years

Our groundbreaking global Partnership for Prevention (P4P) programme aims to create a healthier workforce and differentiate GSK as an employer. P4P offers up to 40 preventive healthcare services – such as immunisations, cancer screenings and preventive examinations – to employees and their families. We are the only multinational company to offer such benefits on this scale and we are making good progress towards our target to implement P4P globally by 2018.

Inclusion and diversity

As an inclusive employer we value the different perspectives, experiences and working styles of our global workforce.

We aim to improve gender balance at all levels of our organisation. In 2014, we focused on creating opportunities for women in management. The proportion of women in management continued to increase to 42% (see page 45). Women continued to represent 21% of our CET and 31% of our Board. GSK ranked joint fifth in the UK Government's 2014 report on women's representation on the boards of FTSE 100 companies.

Our employee-led Women's Leadership Initiative brought together, both virtually and at regional hubs, 1,500 people and over 20 GSK senior leaders at an inaugural global conference in 2014 to encourage action on women's career development.

Our coaching and sponsorship programme supported 118 female managers complete individual and group coaching sessions. We also encourage senior leaders to sponsor female managers to support their career development.

Creating a pipeline of strong leaders at all levels of our business

We support our leaders in developing best-practice management capabilities and values-based decision making, through a range of leadership programmes. These clarify what is expected of our leaders in delivering our strategy of helping our patients and customers do more, feel better and live longer.

Strengthened by the common language created through our GSK Leadership Expectations, our leadership programmes also ensure we have exceptional and diverse leaders at all levels of the business.

Our Management Essentials and First Line Leader programmes provide new managers with a thorough grounding in essential management responsibilities.

The Leading Delivery programme helps our middle managers – those 'leading managers' – to translate our business strategy into action, drive performance, build capabilities and enhance trust with their team members and colleagues.

For experienced, high-potential leaders, our Leading Business programme equips them to manage and support diverse, cross-cultural and high-performing teams, while translating our strategy into effective actions for their business units. Over an 18-month period, participants undertake an immersive experience in Mumbai and London focusing on balancing their numerous leadership responsibilities.

The small number of leaders demonstrating the business acumen and leadership capabilities to be appointed to our CET or one of its direct reports, participate in our Enterprise Leadership programme, a highly customised two-year global learning experience.

In 2014, we introduced a new programme to enable our female leaders to enhance their network, clarify their career ambitions and build their confidence to become strong senior leaders. We believe this programme helps our organisation to make better decisions by further reducing risk and increasing innovation.

Women in management positions (%)

	2010	2011	2012	2013	2014
SVP/VP	25	26	27	28	29
Director	37	38	39	40	40
Manager	42	42	43	44	45
Total	38	39	40	41	42

Employees by gender (number)

	Male	Female	Total
Board	11	5	16
Management[a]	9,899	7,201	17,100
Total	55,620	42,301	97,921

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

We are also working hard to ensure we understand the needs of people with disabilities when developing employment opportunities and have established a Global Disability Council to support our aim to become a disability confident organisation.

As a founding member of business disability international, a social enterprise involving other global businesses, GSK is helping develop global standards to measure business's disability performance.

To ensure our leadership teams represent the diverse markets we serve, we are building a talent pipeline that includes people from a range of cultural and ethnic backgrounds. Currently, eight nationalities are represented on the Corporate Executive Team and Board.

The people we employ in Emerging Markets, Asia Pacific and Japan represent 44% of our workforce. In 2014, our consumer healthcare business in India and pharmaceutical business in Latin America made particularly good progress in attracting and developing local talent.

We also increased the proportion of people from emerging markets participating in our development programmes and joining the company through our graduate and MBA programmes.

Our planet
Reducing our environmental impacts

We have set ambitious goals to reduce carbon, water and waste across our value chain.

Carbon
We aim to achieve a carbon neutral value chain by 2050. We are reducing operational carbon emissions and engaging suppliers, patients and consumers to cut emissions associated with sourcing raw materials and use of our products.

In 2014, we reduced our Scope 1 and 2 emissions, those within our operations, by 11% to 1.6 million tonnes of CO_2e. This is a 19% reduction compared with 2010. Our Scope 3 emissions, such as those associated with raw materials, logistics, business travel and use of our metered dose inhalers (that use an HFA propellant), increased by 2% in 2014. This is an increase of 17% compared to 2010. Tackling our Scope 3 emissions continues to be a challenge as the sales of our propellant-based inhalers continue to grow.

Reducing energy use and the carbon emissions associated with generating the energy we purchase, is key to cutting our operational carbon impact. To address this, we are investing in renewable energy infrastructure and using waste as fuel for energy. For example, at our Cork site in Ireland we have installed a 150-metre wind turbine that will cut the site's electrical carbon footprint by 30% and which has already saved over £900,000 in energy costs in 2014.

Helping our suppliers reduce their carbon emissions is critical to achieving our value chain carbon goal and to better understand the impacts here. In 2014, we collected carbon, as well as water and waste, data from over 200 of our largest materials suppliers.

Patient or consumer use of our products, such as metered dose inhalers, accounts for 46% of carbon emissions across our value chain. Our inhaler recycling scheme, Complete the Cycle, now running in six countries, allows us to reduce waste sent to landfill and prevent any remaining inhaler propellant being released as greenhouse gas.

Water
In 2014, we cut our operational water use by a further 5%. This represents a 20% reduction from the 2010 baseline and means we have met our 2015 target to cut operational water use by 20% a year early. Measuring and reducing our wider water impact across the value chain – not just the amount we use – is more challenging but in 2014 we completed an extensive assessment to prioritise our future efforts in this regard.

We use just under 15 million m^3 of water per year in our operations and systematically audit our sites to identify opportunities to cut usage. In 2014, we cut water use by an average of 10% at four of our higher-use sites. We have worked with the Carbon Trust to pilot new ways to reduce water impacts in our sites, and piloted this approach in eight sites in 2014.

External benchmarking

GSK is the only pharmaceutical company to have achieved the Carbon Trust's standards for cutting carbon emissions and water use.

CARBON TRUST STANDARD – REDUCING WATER YEAR ON YEAR

CARBON TRUST STANDARD – REDUCING CO2 YEAR ON YEAR

GSK is one of only two pharmaceutical companies to be included in CDP's FTSE 350 Climate Disclosure Leadership Index.

CDP CLIMATE PERFORMANCE LEADER 2013

Our supply chain, particularly where we are sourcing raw materials, uses an estimated 1,200 million m^3 of water. We have partnered with TERI, an NGO in India, to develop a diagnostic water impact tool. In 2014, we used this to identify opportunities for 10 of our largest suppliers to reduce their water impacts. In 2015, we will work with our suppliers and TERI to extend this process to a further 20 suppliers.

Tonnes CO_2e[a]	2010	2011	2012	2013	2014
Scope 1 emissions	1,011,180	1,035,856	1,016,983	1,040,928	877,037
Scope 2 emissions	964,215	881,101	777,669	767,710	726,469
Scope 3 emissions	11,712,125	11,857,189	12,299,391	12,397,550	12,526,801

Intensity ratios	2010	2011	2012	2013	2014
Scope 1 and 2 emissions/ sales revenue (tonnes CO_2e/£m)	69.6	70.0	67.9	68.2	69.7
Scope 1 and 2/FTE (tonnes CO_2e/FTE)	20.5	19.7	18.0	18.2	16.4

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

Waste

With a goal to halve operational waste by 2020, we are actively eliminating, reusing and recycling waste, as well as generating energy from waste. In 2014, we produced 165,000 tonnes of waste from our operations, 0.5% less than in 2013 and 7% less than 2010. We continue to explore ways to cut waste to bring us back on track to achieve our 2020 goal.

Only 6% of our total waste went to landfill in 2014, and three more sites achieved zero waste to landfill status, bringing the total to 48. This means 50% of our manufacturing and major research and development sites send zero waste to landfill. We are on track to hit our 2015 waste-to-landfill target, but we have more work to do to achieve zero to landfill at all our sites by 2020. While we recognise the need to continue reducing waste, complex regulatory environments can mean it takes several years to make the required improvements to manufacturing processes.

Rather than sending waste to landfill, we focus on reusing waste where possible, or recycling it or incinerating it to generate energy. The proportion of waste that is recycled or disposed of with a positive benefit has increased from 71% in 2010 to 75% in 2014.

Reducing environmental impacts while improving access to medicines

Antibiotics have the third biggest carbon footprint of our products based on volume sold. We have been on a journey to change the way we make them, looking for ways to save energy, cut water impact and waste, improve yields and reduce costs. We have achieved a 15% reduction in our antibiotics carbon footprint per pack over the last five years, while increasing production volumes by 40%.

In Irvine, Scotland, where fermentation takes place to make penicillin and clavulanic acid, we have introduced wind turbines and two combined heat and power plants to reduce carbon emissions from energy use. We have also installed an anaerobic digester that treats fermentation waste to generate biogas used to fuel a 1MW combined heat and power plant that will save the site £1.4 million a year. Together, these changes mean Irvine is now producing around 40% more product using just 5% more energy and the same amount of water as in 2010, with a 10% reduction in carbon emissions.

At our amoxicillin production site, Quality Road, in Singapore, we are introducing a new process that will eliminate chlorinated solvents, cut the amount of waste produced and reduce carbon emissions. We are using unrecoverable solvent waste as fuel to generate electricity and steam at Jurong, our other factory in Singapore.

At our site in Worthing UK, we formulate and package the antibiotic, *Augmentin*, from amoxicillin and clavulanic acid. By putting six tablets in each foil blister strip, instead of four, we have reduced foil use by 30% and pack size by 25%, enabling us to put more packs on each pallet.

Group financial review

Our Group financial review discusses the financial architecture, the operating and financial performance of the Group, our financial resources and returns to shareholders.

Hock-Peng is a senior maintenance technician at our Tuas Vaccines manufacturing site in Singapore, where we make hundreds of thousands of doses of *Synflorix* each year for use around the world.

Group financial review
CFO's statement

Our financial architecture is designed to support the execution of our strategy and to enhance returns to shareholders.

2014 highlights

£23.0bn

Sales
Down 3% CER excluding divestments
(Down 7% CER including divestments)

95.4p

Core earnings per share
Down 1% CER excluding divestments

57.3p

Total earnings per share
Down 40% CER

2014 simplification highlights

£3.5bn

Cumulative annual savings from restructuring achieved since 2008

93 markets

Already supported by Core Business Services, representing 65% of GSK sales

26%

Proportion of GSK sales that is already running on the new global ERP platform

2014 was clearly a challenging year with a number of factors combining to create significant headwinds for us, particularly the greater than expected contracting and competitive pressure in our US respiratory business, the launch of *Lovaza* generics and the supply disruption we saw in our Consumer Healthcare business through most of the year.

Despite these pressures, we saw strong performances from a number of other areas of the business, further progress in R&D delivery, multiple new product launches as well as continued delivery of operating and financial efficiencies through the restructuring of our cost base.

At the same time, we also protected the investments we need to make across our business behind our new launches and other future growth drivers.

Financial architecture

Our financial architecture is designed to support the consistent execution of our strategy and to enhance the returns it delivers to shareholders.

It is focused on delivering more sustainable sales growth across the company, improving our operating leverage or profitability and enhancing our financial efficiency. This is in order to drive growth in EPS ahead of our sales performance and then convert more of those earnings into cash that we can use to invest in the business or return to shareholders wherever we see the most attractive returns.

This clear set of priorities ensures consistency in how we allocate our capital across the different businesses within GSK. Investment decisions are rigorously benchmarked using a Cash Flow Return on Investment (CFROI) framework.

Sales performance

Sales in 2014 declined by 3% CER excluding divestments. This decline reflects the significant headwinds from US respiratory, *Lovaza* generics and some supply disruption in Consumer.

On the positive side, we saw strong progress in several parts of the business that we have been investing in, especially ViiV Healthcare, up 15%, and Emerging Markets, up 5%. Our oncology portfolio, boosted by new product launches, also grew strongly, up 33%.

Operating leverage

Our ability to deliver operating leverage or improved profitability is heavily impacted by the overall trend in sales, but it is particularly affected by changes in the mix of regional or product contributions. These were a significant factor in 2014, with the sales decline driven primarily by higher margin US products such as *Advair* and *Lovaza*. As a result, core operating profit in 2014 was 6% lower than in 2013 in CER terms on a turnover decline of 3%, despite around £400 million of incremental cost savings being delivered in the year from our various restructuring initiatives and ongoing cost reduction efforts.

Some of these savings were reinvested into new launches and improvements to our manufacturing capabilities and capacity, in line with our strategic priorities. The balance was not sufficient however to offset the impact of mix changes and lower sales. As a result, the core operating margin of 28.7% was 1.7 percentage points lower than in 2013 and excluding currency effects, the margin decreased 0.8 percentage points. This primarily reflected the increase in SG&A as a percentage of sales despite the 2% decline in actual spend.

We remain focused on managing our cost base more effectively. Our Operational Excellence programme initiated in 2007 has now been completed, delivering £2.9 billion of annual savings. Together with our major change programme announced in 2013, we have delivered £3.5 billion of annual savings to date. In October 2014, we announced a further programme to refocus our pharmaceuticals business to deliver an additional £1.0 billion of annual savings by 2017.

GSK financial architecture: driving improved returns to shareholders

Reducing complexity in our business remains central to our strategy as it allows us to enhance our efficiency, reduce operating costs and improve our consistency of execution. Reducing complexity also allows us to create more flexibility in our cost base so that as well as releasing savings we can more easily reallocate resources behind key investment opportunities such as our multiple new launches.

You can find details of simplification initiatives throughout this report, from the implementation of an end-to-end supply chain to organisational redesign. In addition to these initiatives, we have been establishing Core Business Services (CBS) to bring together our support functions in order to streamline and standardise functional support to the business. Six CBS regional business centres already support 93 markets, representing 65% of GSK sales. Further, the enterprise resource planning (ERP) platform that we are implementing is replacing a large number of separate outdated IT systems across the company, giving us common databases and standard business processes that will help us simplify our operations, drive efficiencies and give us detailed analytics to improve our day-to-day operations and decision making.

Financial efficiency

In 2014, financial efficiencies delivered significant value and contributed positive leverage to our reported core EPS.

We have continued to take advantage of an era of low interest rates to secure more attractive long-term funding, without losing flexibility. Overall we have reduced net funding costs by 3 percentage points since 2010. We continue to target a credit rating of A1/P1. We believe this target balances equity returns with the interests of other stakeholders, including our bond holders, while optimising our access to the capital markets.

We also continue to align our tax strategy with our evolving business profile and have implemented a number of measures to centralise our Pharmaceutical intellectual property and product inventory ownership in the UK. This has helped us to reduce our core tax rate from 23.0% in 2013 to 19.6% in 2014. The lower tax rate in 2014 also reflects the resolution of a number of matters that benefited the year.

Earnings per share

The increased flexibility that our restructuring programmes and financial efficiencies have delivered allowed us to offset a substantial proportion of the top line pressure during the year and deliver core EPS down 1% while also protecting investments in the business.

Total EPS 57.3p (down 40%) primarily reflects non-cash adjustments to the contingent consideration due in relation to ViiV Healthcare as a result of the improved sales outlook for *Tivicay* and *Triumeq* as well as an unfavourable comparison with product and asset disposal gains in 2013.

Cash conversion

The business remains highly cash-generative and we continue to focus on improving conversion of earnings into cash through greater focus on cash generation, working capital control and capital allocation.

Net cash inflow from operations was £5.2 billion for the year (down 28% in Sterling terms). This reflected the negative impact of the strength of Sterling as well as lower profits, including the impact of divestments. The currency effect abated in the fourth quarter, which also saw an improved working capital position.

Returns to shareholders

GSK's commitment is to use free cash flow to support increasing dividends over the long-term, undertake share repurchases or, where returns are more attractive, reinvest in the business, including bolt-on acquisitions. The decision as to how to allocate such cash flow is rigorously benchmarked using a returns-based framework based on CFROI comparisons.

In 2014, we returned £4.1 billion of cash to shareholders, including £3,843 million in dividends and £238 million in share repurchases. The total ordinary dividend declared for 2014 is 80p per share, a 3% increase over 2013. The dividend per share for the full year 2015 is expected to be maintained at the same level as 2014.

Following the completion of the Novartis transaction, GSK intends to return to shareholders £4 billion of the net proceeds. The company does not expect to make any ordinary share repurchases in 2015.

Future shape of the business

The proposed 3-part transaction with Novartis accelerates our strategy and also clearly meets the objectives of the financial architecture. In particular, it will provide a better balanced and broader range of growth drivers, significant synergy and operating leverage efficiencies, continued financial efficiencies and a more balanced and sustainable cashflow.

The closure of the transaction remains on track for completion in H1 2015.

A fuller review of the financial results is set out on pages 52 to 70.

Simon Dingemans
Chief Financial Officer

Group financial review

Group performance

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

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

All growth rates included in this Report are at constant exchange rates (CER) unless otherwise stated. CER growth is discussed below.

We use a number of adjusted measures to report the performance of our business. These measures are used by management for planning and reporting purposes and in discussions with and presentations to investment analysts and rating agencies and are defined below. These measures are not defined in IFRS and may not be comparable with similarly described measures used by other companies.

Core results reporting

During 2014, we have reported core results performance measured against 2013 core results excluding divestments completed during 2013.

Core results exclude the following items from total results: amortisation and impairment of intangible assets (excluding computer software) and goodwill; major restructuring costs, including those costs following material acquisitions; legal charges (net of insurance recoveries) and expenses on the settlement of litigation and government investigations; other operating income other than royalty income; disposals of associates, products and businesses, and acquisition accounting adjustments for material acquisitions, together with the tax effects of all of these items.

In addition, the charge for an additional year of the US Branded Prescription Drug fee, in accordance with the final regulations issued by the IRS during the year, has been recorded as a non-core item. The normal ongoing charge remains in core results.

Major restructuring costs charged in arriving at operating profit include:

- costs arising under the Operational Excellence restructuring programme, initiated in 2007 expanded in 2009, 2010 and 2011 and substantially complete at the end of 2014
- the Major Change restructuring programme initiated in 2013
- restructuring costs following the acquisitions of Human Genome Sciences, Inc. in August 2012 and Stiefel Laboratories, Inc. in July 2009
- a Pharmaceuticals restructuring programme, announced in October 2014, which will rescale commercial operations, global support functions and the relevant R&D/manufacturing operations across Pharmaceuticals following the proposed divestment of Oncology products and the changed dynamics in the US respiratory market.

Core CER growth rates for 2014 are calculated compared with 2013 core results excluding divestments unless otherwise stated.

Reconciliations of core results to total results are presented on page 61.

Core results reporting aligns business performance reporting around the underlying trading performance of the Group and its primary growth drivers by removing the volatility inherent in many of the non-core items.

Core results reporting is utilised as the basis for internal performance reporting and the core results are presented and discussed in this Group financial review as we believe that this approach provides investors with a clearer view of the underlying trading performance of the Group. We also believe that this approach should make the Group's results more comparable with the majority of our peers, many of which use similar forms of underlying performance reporting to discuss their results, although the precise calculations may differ. The Group financial review also presents and discusses the total results of the Group.

Free cash flow

Free cash flow is the net cash inflow from operating activities less capital expenditure, interest and dividends paid to non-controlling interests plus proceeds from the sale of property, plant and equipment and dividends received from joint ventures and associated undertakings. Free cash flow growth is calculated on a Sterling basis. A reconciliation is presented on page 68.

Working capital conversion cycle

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

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

Financial review 2014

Group turnover by business

	2014 £m	2013 (restated) £m	Growth CER%	Growth £%
Pharmaceuticals	**15,478**	17,426	(5)	(11)
Vaccines	**3,192**	3,420	(1)	(7)
Pharmaceuticals and Vaccines	**18,670**	20,846	(4)	(10)
Consumer Healthcare	**4,336**	4,756	(1)	(9)
	23,006	25,602	(3)	(10)
Divestments	**–**	903	–	–
Total	**23,006**	26,505	(3)	(10)

CER% represents growth at constant exchange rates. £% represents growth at actual exchange rates.

Total Group turnover for 2014 declined 3% to £23,006 million. Pharmaceuticals and Vaccines turnover fell by 4%. Pharmaceuticals turnover declined 5% as growth in Emerging Markets, Japan and ViiV Healthcare was more than offset by lower sales in the US and in Established Products. Europe Pharmaceuticals was flat for the year. Worldwide Vaccines turnover declined 1%, as a positive performance in Emerging Markets was more than offset by lower reported sales in Europe and Japan. US Vaccines sales were flat. Consumer Healthcare turnover was £4,336 million in the year, down 1% compared with 2013.

Group turnover by geographic region

	2014 £m	2013 (restated) £m	Growth CER%	Growth £%
US	**7,340**	8,620	(11)	(15)
Europe	**6,412**	6,862	(2)	(7)
Emerging Markets	**6,193**	6,579	4	(6)
Japan	**1,608**	1,886	(3)	(15)
Other	**1,453**	1,655	(4)	(12)
	23,006	25,602	(3)	(10)

Group sales outside the USA and Europe accounted for 40% of total turnover and reported growth of 2%, adversely impacted by a sales decline in Japan and weaker market conditions and some supply constraints in Emerging Markets.

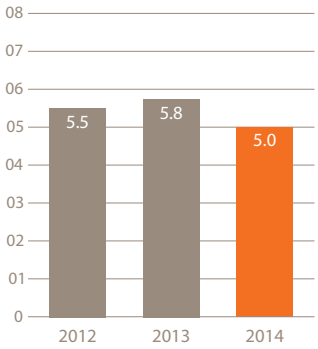
Group turnover by segment

	2014 £m	2013 (restated) £m	Growth CER%	Growth £%
Pharmaceuticals and Vaccines:				
US	**4,980**	5,817	(10)	(14)
Europe	**4,035**	4,226	–	(5)
Emerging Markets	**3,203**	3,370	5	(5)
Japan	**937**	1,058	1	(11)
ViiV Healthcare	**1,498**	1,386	15	8
Established products	**3,011**	3,874	(16)	(22)
Other trading and unallocated	**1,006**	1,115	(1)	(10)
Pharmaceuticals and Vaccines	**18,670**	20,846	(4)	(10)
Consumer Healthcare	**4,336**	4,756	(1)	(9)
	23,006	25,602	(3)	(10)

Total Group turnover for 2014, including divestments completed in 2013, was down 7%, with Pharmaceuticals and Vaccines down 6% and Consumer Healthcare down 11%.

Pharmaceuticals and Vaccines – USA

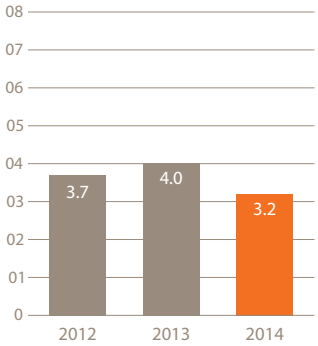
Turnover £bn



22%
of Group turnover

(10)%
CER growth

Operating profit £bn



£3.2bn
Operating profit

(16)%
CER growth

Breakdown of turnover

	£m	Growth CER %
Respiratory	2,810	(18)
Oncology	509	41
Cardiovascular, metabolic and urology	364	(16)
Immuno-inflammation	196	39
Other pharmaceuticals	171	(31)
Vaccines	930	–

Performance

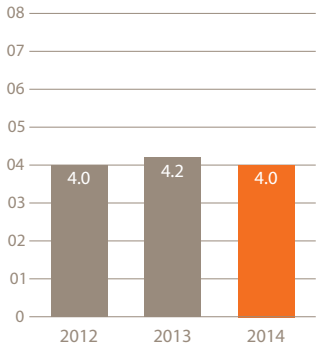
In the US, Pharmaceuticals and Vaccines turnover declined 10% to £4,980 million, with Pharmaceuticals down 12% and Vaccines flat. Pharmaceutical sales were impacted by continued price and contracting pressures, primarily affecting respiratory sales, which were down 18% (11% volume decline and a 7% negative impact of price and mix). Sales of *Advair* were down 25% (14% decline in volume and an 11% decline from price and mix).

Oncology products in the US contributed strongly in the year, with sales up 41% to £509 million, benefiting from strong performances from *Votrient* and *Promacta*, and the recent launches of *Tafinlar* and *Mekinist*. *Benlysta* sales grew 22% to £155 million. Generic competition in the US continued to impact sales of Dermatology products, which declined 56% to £49 million and *Mepron*, which declined 49% to £40 million. Sales of *Infanrix/Pediarix* grew 15% to £297 million, benefiting from favourable CDC stockpile movements compared with 2013 and the absence of a competitor, particularly in the first half of the year. Sales of hepatitis vaccines were down 6% to £234 million impacted by supply constraints. *Boostrix* was down 7% to £163 million reflecting the return to the market of a competitor during the year and some supply constraints. *Rotarix* fell 16% to £86 million as a result of a CDC stockpile withdrawal during Q4 2014.

Group financial review
continued

Pharmaceuticals and Vaccines – Europe

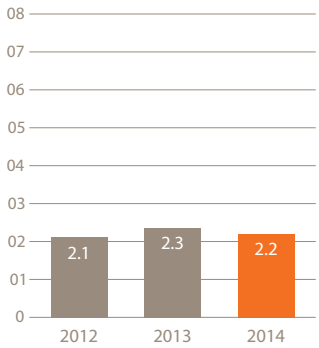
Turnover £bn



18%
of Group turnover

Flat
CER growth

Operating profit £bn



£2.2bn
Operating profit

2%
CER growth

Breakdown of turnover

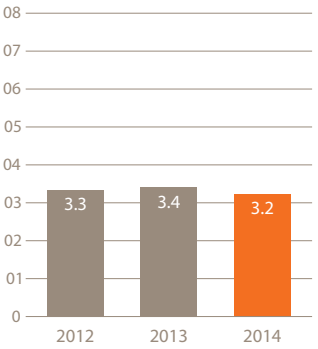
	£m	Growth CER %
Respiratory	1,675	(3)
Oncology	417	29
Cardiovascular, metabolic and urology	293	–
Immuno-inflammation	12	63
Other pharmaceuticals	660	(4)
Vaccines	978	(2)

Performance

Europe Pharmaceuticals and Vaccines turnover was flat at £4,035 million. Pharmaceutical sales were flat at £3,057 million, as strong growth in Oncology and the *Avodart* franchise up 8% to £280 million, was offset by a 3% decline in Respiratory sales. The newly launched *Relvar Ellipta* recorded sales of £18 million in the year but these were more than offset by lower sales of *Seretide*, down 5% to £1,330 million (1% volume decline and a 4% negative impact of price), reflecting increasing competitive pressures and the transition of the Respiratory portfolio to the newer products, particularly in the latter part of the year. Oncology sales were up 29% to £417 million, led by *Votrient*, *Promacta* and the newly launched *Tafinlar*. Vaccines sales fell 2%, with lower sales of *Infanrix*, *Cervarix* and flu vaccines, reflecting increased competitive pressures, being only partly offset by sales growth in a number of other products, including *Boostrix*, which was up 26%, due in part to a competitor supply issue in the first half of the year.

Pharmaceuticals and Vaccines – Emerging Markets

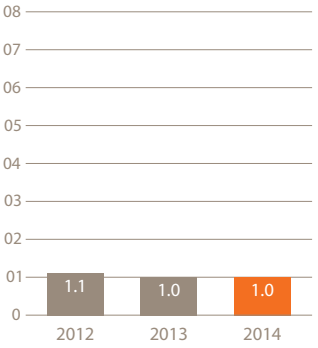
Turnover £bn



14%
of Group turnover

5%
CER growth

Operating profit £bn



£1.0bn
Operating profit

16%
CER growth

Breakdown of turnover

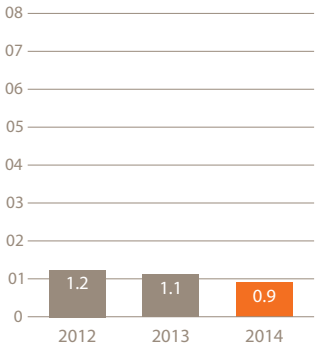
	£m	Growth CER %
Respiratory	777	3
Oncology	169	30
Cardiovascular, metabolic and urology	145	20
Immuno-inflammation	3	>100
Other pharmaceuticals	1,053	5
Vaccines	1,056	1

Performance

Emerging Markets Pharmaceuticals and Vaccines turnover increased 5% to £3,203 million, with Pharmaceuticals up 7% and Vaccines up 1%. Most markets outside Asia showed strong growth, with notable performances from Brazil, up 12% to £380 million, and the rest of Latin America, up 9% to £593 million. Sales in China fell 1%, reflecting the effects of the government investigation during the year. There was continued growth from Respiratory products, up 3%, Oncology, up 30%, and the *Avodart* franchise, up 20%. In Vaccines, growth from strong tender sales of *Boostrix*, *Rotarix* and *Synflorix* was largely offset by lower sales of *Cervarix*, as a result of some lost tenders, and some supply constraints.

Pharmaceuticals and Vaccines – Japan

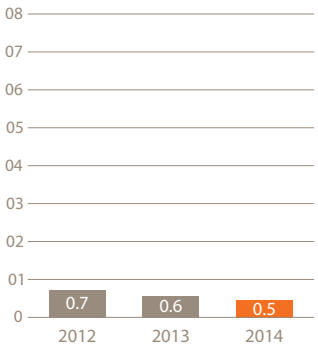
Turnover £bn



4%
of Group turnover

1%
CER growth

Operating profit £bn



£0.5bn
Operating profit

(2)%
CER growth

Breakdown of turnover

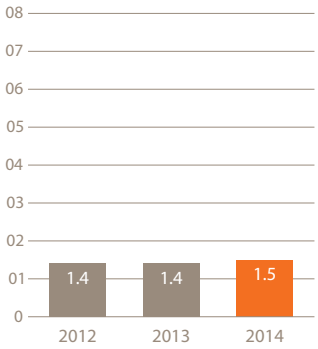
	£m	Growth CER %
Respiratory	475	(2)
Oncology	65	17
Cardiovascular, metabolic and urology	114	14
Other pharmaceuticals	256	1
Vaccines	27	(14)

Performance

Japan Pharmaceuticals and Vaccines turnover grew 1% to £937 million, with Pharmaceuticals sales increasing 2% and Vaccines sales declining by 14%. Pharmaceuticals sales benefited from strong growth in *Avodart*, up 14% and Oncology products, up 17%. This growth was partially offset by lower sales in the Respiratory portfolio, down 2%, which was affected by a weaker allergy season at the beginning of the year and increased competitive pressures. The decline in Vaccines sales reflected the impact on *Cervarix* of the continued suspension of the recommendation for use of HPV vaccines, partly offset by higher sales of *Rotarix*.

ViiV Healthcare

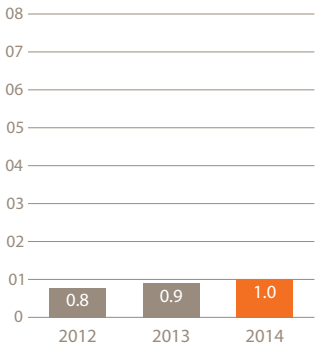
Turnover £bn



7%
of Group turnover

15%
CER growth

Operating profit £bn



£1.0bn
Operating profit

20%
CER growth

Breakdown of turnover

	£m	Growth CER %
Combivir	59	(46)
Epzicom/Kivexa	768	8
Lexiva/Agenerase	87	(17)
Selzentry	136	–
Tivicay	282	>100
Triumeq	57	–
Trizivir	36	(61)
Other products	73	(39)

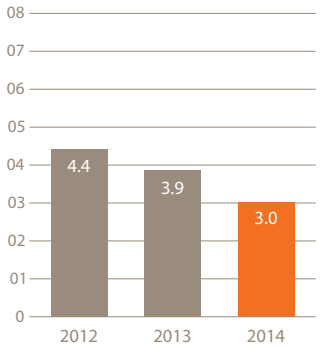
Performance

ViiV Healthcare turnover grew 15% to £1,498 million as the growth generated by *Tivicay* and *Epzicom*, together with the newly launched *Triumeq*, more than offset the impact of generic competition to older ViiV Healthcare products, including *Combivir* and *Trizivir*.

Group financial review
continued

Established Products

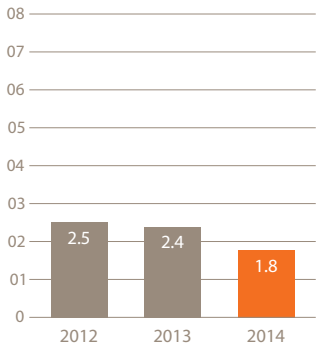
Turnover £bn



13%
of Group turnover

(16)%
CER growth

Operating profit £bn



£1.8bn
Operating profit

(17)%
CER growth

Breakdown of turnover

	£m	Growth CER %
Imigran/Imitrex	172	(4)
Lamictal	531	3
Lovaza	240	(57)
Seroxat/Paxil	210	(19)
Valtrex	154	(24)
Zeffix	166	(3)
Other products	1,538	(11)

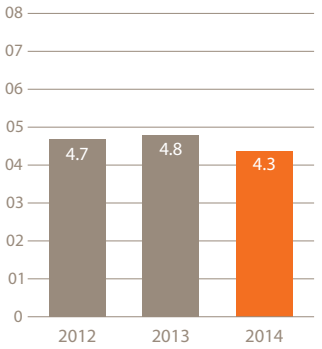
Performance

Established Products turnover fell 16% to £3,011 million. Sales in the US were down 31% to £854 million, Europe was down 13% to £601 million, Emerging Markets was down 1% to £1,050 million and Japan was down 15% to £444 million.

Generic competition to *Lovaza*, down 57% to £240 million, *Seroxat/Paxil*, down 19% to £210 million and *Valtrex*, down 24% to £154 million, all contributed to the decline in the category.

Consumer Healthcare

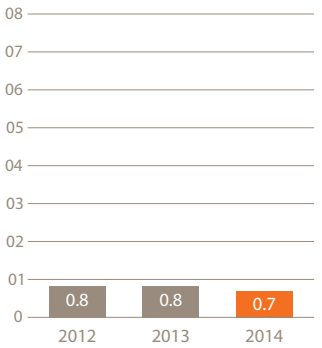
Turnover £bn



19%
of Group turnover

(1)%
CER growth

Operating profit £bn



£0.7bn
Operating profit

(6)%
CER growth

Breakdown of turnover

	£m	Growth CER %
Wellness	1,596	(7)
Oral health	1,797	4
Nutrition	633	10
Skin health	310	(11)

Performance

Consumer Healthcare turnover was £4,336 million in 2014, down 1% compared with 2013, reflecting the impact of a number of supply interruptions during the year. Growth in Rest of World markets of 4% was also affected by weaker market conditions, while sales in Europe, down 5%, and the US, down 8%, were more directly the result of supply issues.

Pharmaceuticals turnover

	2014 £m	2013 (restated) £m	Growth CER%	Growth £%
Respiratory	**6,181**	7,289	(10)	(15)
Oncology	**1,202**	969	33	24
Cardiovascular, metabolic and urology	**965**	1,073	(3)	(10)
Immuno-inflammation	**214**	161	40	33
Other pharmaceuticals	**2,407**	2,674	(2)	(10)
ViiV Healthcare (HIV)	**1,498**	1,386	15	8
Established Products	**3,011**	3,874	(16)	(22)
	15,478	17,426	(5)	(11)

Respiratory

Respiratory sales in 2014 declined 10% to £6,181 million. *Seretide*/*Advair* sales were down 15% to £4,229 million, *Flixotide*/*Flovent* sales decreased 6% to £702 million and *Ventolin* sales grew 11% to £665 million. *Xyzal* sales, almost exclusively made in Japan, grew 7% to £130 million.

In the US, Respiratory sales declined 18% (11% volume decline and a 7% negative impact of price and mix), primarily reflecting the continued price and contracting pressures in the market. Sales of *Advair* were down 25% to £1,972 million (14% decline in volume and an 11% decline of price and mix). *Flovent* sales were down 6% while *Ventolin* sales were up 18%, primarily reflecting the impact of net favourable adjustments to previous accruals for returns and discounts. *Breo Ellipta* recorded sales of £29 million and *Anoro Ellipta* sold £14 million in the year.

European Respiratory sales were down 3%, primarily reflecting increasing competition. *Seretide* sales declined 5% to £1,330 million (1% decline in volume and a 4% negative impact of price), reflecting increasing competitive pressures and the transition of the Respiratory portfolio to the newer products in the latter part of the year. *Relvar Ellipta* recorded sales of £18 million in the year.

Respiratory sales in Emerging Markets grew 3%. *Seretide* grew 3% to £400 million, helped by an improved performance in China. Sales growth of *Ventolin*, up 8% to £165 million, and *Veramyst*, up 15% to £73 million, was offset by a 33% decline in *Flixonase*, which was largely driven by lower sales in China.

In Japan, Respiratory sales fell 2% to £475 million. Sales of the newly launched *Relvar Ellipta* of £17 million offset the impact of increasing competitor action on *Adoair*, which fell 6% to £228 million. The growth in *Xyzal*, up 8% to £114 million, was more than offset by lower sales elsewhere in the Respiratory portfolio.

Oncology

Oncology sales in 2014 grew 33% to £1,202 million. *Votrient* sales grew 33% to £410 million and *Promacta* sales grew 34% to £231 million. *Arzerra* sales fell 24% to £54 million and *Tykerb*/*Tyverb* sales fell 11% to £171 million. Generic competition to both *Hycamtin* and Argatroban was more than offset by new launches, as *Tafinlar* and *Mekinist* recorded sales of £135 million and £68 million, respectively.

In the US, Oncology grew 41% to £509 million. *Votrient* sales grew 32% to £181 million and sales of *Promacta* grew 32% to £91 million. *Tafinlar* and *Mekinist* sales were £58 million and £67 million, respectively.

In Europe, Oncology grew 29% to £417 million, led by sales of *Votrient*, which increased by 23% to £153 million in the year. *Promacta* grew 36% to £71 million and sales of *Tafinlar* were £67 million.

In Emerging Markets and Japan, Oncology sales in the year grew 30% to £169 million and 17% to £65 million, respectively.

Cardiovascular, metabolic and urology

Sales in the category fell 3% to £965 million. The *Avodart* franchise grew 1% to £805 million, with 17% growth in sales of *Duodart*/*Jalyn* and a 4% decline in sales of *Avodart*. *Levitra* fell 28% to £100 million in the year. Sales of *Prolia* fell 10% to £41 million due to the agreement in Q2 2014 with Amgen to terminate the joint commercialisation in a number of European markets, Mexico and Russia.

On a regional basis, the decline in the US of 16% to £364 million, was partly offset by Emerging Markets, up 20% to £145 million, and Japan, up 14% to £114 million. Europe was flat at £293 million.

Immuno-inflammation

Immuno-inflammation sales grew 40% to £214 million. *Benlysta* turnover in the year was £173 million, up 25%. In the US, *Benlysta* sales were £155 million, up 22%.

Other pharmaceuticals

Other therapy areas were down 2% at £2,407 million, principally reflecting generic competition to Dermatology products, which primarily affected sales of *Soriatane* in the US, and by a decline in sales of *Mepron* in the Rare diseases category. These declines were partly offset by growth in *Relenza* sales of 39%, primarily in the US, and the inclusion of Theravance milestone income of £57 million (2013 – £78 million).

ViiV Healthcare (HIV)

ViiV Healthcare sales increased 15%, with the US up 28%, Europe up 6%, Japan up 35% and Emerging Markets down 4%. *Tivicay* recorded sales of £282 million, *Epzicom*/*Kivexa* sales increased 8% to £768 million but *Selzentry* sales were flat at £136 million. The launch of *Triumeq* is well underway and it recorded sales of £57 million in the year. This growth was partly offset by declines in the mature portfolio, mainly driven by generic competition to both *Combivir*, down 46% to £59 million, and *Trizivir*, down 61% to £36 million.

Established Products

Established Products turnover fell 16% to £3,011 million. Sales in the US were down 31% to £854 million, Europe was down 13% to £601 million, Emerging Markets was down 1% to £1,050 million and Japan was down 15% to £444 million.

Generic competition to *Lovaza*, down 57% to £240 million, *Seroxat*/*Paxil*, down 19% to £210 million and *Valtrex*, down 24% to £154 million, all contributed to the decline in the category.

Group financial review
continued

Vaccines turnover

	2014 £m	2013 £m	Growth CER%	Growth £%
Infanrix, Pediarix	**828**	862	2	(4)
Boostrix	**317**	288	16	10
Cervarix	**118**	172	(26)	(31)
Fluarix, Flulaval	**215**	251	(9)	(14)
Hepatitis	**558**	629	(6)	(11)
Rotarix	**376**	375	7	–
Synflorix	**398**	405	4	(2)
Other	**382**	438	(6)	(13)
Vaccines sales	**3,192**	3,420	(1)	(7)

Vaccines sales fell 1% to £3,192 million with declines in Europe, down 2%, and Japan, down 14% being partly offset by growth in Emerging Markets of 1%. The US was flat. The Emerging Markets performance primarily reflected the strength of *Synflorix*, *Boostrix* and *Rotarix*.

Infanrix/*Pediarix* grew 2% to £828 million. Growth in the US benefited from a favourable comparison with 2013, which was impacted by a withdrawal from the CDC stockpile. This offset declines in Europe and Emerging Markets.

Boostrix sales increased 16% to £317 million, reflecting growth in all regions except the US. US sales fell 7% reflecting the return of a competitor during the year and some supply constraints.

Cervarix sales declined 26% to £118 million in 2014, largely reflecting declines in Emerging Markets and Japan and increasing competitive pressures, particularly in the tender market.

Fluarix and *FluLaval* sales declined 9% to £215 million due to lower production levels for 2014 and the impact of increased competitive pressures.

Sales of hepatitis vaccines fell 6% to £558 million, in part reflecting supply constraints that impacted the US and Emerging Markets.

Rotarix sales were up 7% to £376 million, with growth driven by tender shipments in Europe and Emerging Markets, partly offset by a decline in the US, which was impacted by a CDC stockpile withdrawal in Q4 2014.

Synflorix sales grew 4% to £398 million, primarily reflecting a strong tender performance in Emerging Markets.

Sales from new pharmaceutical and vaccine launches

		2014 £m	2013 £m	Growth CER%	Growth £%
Pharmaceuticals:					
Respiratory:	*Relvar/Breo Ellipta*	**67**	8	>100	>100
	Anoro/Ellipta	**17**	–	–	–
Oncology:	*Tafinlar*	**135**	16	>100	>100
	Mekinist	**68**	10	>100	>100
CVMU:	*Duodart/Jalyn*	**230**	209	17	10
	Eperzan/Tanzeum	**6**	–	–	–
Immuno-inflammation:	*Benlysta*	**173**	146	25	18
Other pharmaceuticals		**9**	17	(47)	(49)
ViiV Healthcare:	*Tivicay*	**282**	19	>100	>100
	Triumeq	**57**	–	–	–
Vaccines:	*Nimenrix*	**19**	12	69	55
	Synflorix	**398**	405	4	(2)
		1,461	842	84	74

New products are those launched in the last five years (2010 to 2014 inclusive). Sales of new products were £1,461 million, grew 84% in the year and represented 8% of Pharmaceuticals and Vaccines turnover. In Q4 2014, sales of new products were £523 million, grew 78% and represented 10% of Pharmaceuticals and Vaccines turnover.

In Q4 2013, *Breo Ellipta* was launched in the US for COPD, and *Relvar Ellipta* was launched in Europe for COPD and asthma in Q1 2014. In addition, *Anoro Ellipta* was launched in the US in April 2014 for the treatment of COPD.

In Q3 2013, *Tivicay* was launched in the US and subsequently launched in Europe in Q1 2014. *Triumeq* was launched in both the US and Europe in Q3 2014.

Consumer Healthcare turnover

	2014 £m	2013 (restated) £m	Growth CER%	Growth £%
Wellness	**1,596**	1,865	(7)	(14)
Oral health	**1,797**	1,884	4	(5)
Nutrition	**633**	627	10	1
Skin health	**310**	380	(11)	(18)
	4,336	4,756	(1)	(9)

	2014 £m	2013 (restated) £m	Growth CER%	Growth £%
USA	**836**	951	(8)	(12)
Europe	**1,242**	1,392	(5)	(11)
ROW	**2,258**	2,413	4	(6)
	4,336	4,756	(1)	(9)

Consumer Healthcare turnover was down 1% in 2014, reflecting the impact of supply issues, comparison with a strong cold and flu season in early 2013 and slowing markets in the Rest of World. Estimated global market growth was approximately 3%.

Wellness
Wellness sales were £1,596 million, down 7%, primarily due to the supply issues and product recalls that significantly impacted sales of products for Smokers Health, down 29%, and *alli*.

Oral health
Oral health sales grew 4% to £1,797 million. The continued growth of *Sensodyne*, up 11%, was partly offset by a 10% decline in sales of *Aquafresh* which was impacted by supply issues in both Europe and the US, together with increased competition.

Nutrition
Nutrition sales grew 10% to £633 million. *Horlicks* was up 11%, reflecting continued growth in India, and *Boost* was up 9%.

Skin health
Sales of products for Skin health were down 11% to £310 million, primarily due to lower sales of *Bactroban* in China.

Regional performance
Sales in the US and Europe were down 8% and 5%, respectively, reflecting both supply issues and product recalls, primarily affecting products for Smokers Health and *alli*. Growth in Rest of World markets of 4% was restricted by a slower economic environment, but did reflect some growth across most markets, partly offset by a 5% reduction of sales in China and a 52% decline in sales of Smokers Health products, both primarily due to supply issues.

Core results

We use the core reporting basis to manage the performance of the Group and the definition of core results is set out on page 52. A review of the Group's total results is set out on pages 62 to 63. The reconciliation of total results to core results is presented on page 61.

Cost of sales

	2014		2013 (restated)		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Cost of sales	**(6,535)**	**(28.4)**	(7,075)	(27.6)	(3)	(8)

Core cost of sales as a percentage of turnover was 28.4% compared with 27.6% in 2013. Net of adverse currency translation effects, the cost of sales percentage increased 0.2 percentage points. This reflected adverse price and mix movements, particularly the decline in Pharmaceuticals sales in the US, the costs of supply remediation activities and continuing investments in new launch capacity and future manufacturing technology, partly offset by the benefit of our ongoing cost reduction programmes.

Selling, general and administration

	2014		2013 (restated)		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Selling, general and administration	**(7,074)**	**(30.7)**	(7,749)	(30.3)	(2)	(9)

Core SG&A costs as a percentage of sales were 30.7%, 0.4 percentage points higher than in 2013. Excluding currency effects, the SG&A percentage increased 0.5 percentage points, as SG&A declined 2% on a turnover decline of 3%. The reduction in SG&A reflected continued investments in our multiple new product launches partly offset by the benefits of our restructuring programmes and ongoing cost management efforts.

Advertising and promotion decreased 8% primarily reflecting reduced activity in the Established Products category and ongoing cost management efforts which were partly offset by new product launches. Selling and distribution decreased 2% as investments in product launches were offset by savings in from our ongoing cost reduction programmes. General and administration expenses increased 1% primarily due to higher phase IV expenditure, partly offset by benefits from the restructuring programmes.

Research and development

	2014		2013 (restated)		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Research and development	**(3,113)**	**(13.5)**	(3,394)	(13.3)	(4)	(8)

Core R&D expenditure declined 4% to £3,113 million (13.5% of turnover) compared with £3,394 million (13.3% of turnover) in 2013. Excluding currency effects, the R&D percentage declined 0.1 percentage points, reflecting the phasing of ongoing project spending as well as the completion of a number of programmes and continuing cost management benefits.

We remain focused on delivering an improved return on our investment in R&D. Sales contribution, reduced attrition and cost reduction are all important drivers of an improving internal rate of return. R&D expenditure is not determined as a percentage of sales but instead capital is allocated using strict returns-based criteria depending on the pipeline opportunities available.

The operations of Pharmaceuticals R&D are broadly split into Discovery activities (up to the completion of phase IIa trials) and Development work (from phase IIb onwards) each supported by specific and common infrastructure and other shared services where appropriate. Phase IV costs and other administrative expenses are reported in SG&A and are not included in the table below.

The table below analyses core R&D expenditure by these categories:

	2014 £m	2013 (restated) £m
Discovery	**739**	742
Development	**1,317**	1,535
Facilities and central support functions	**455**	449
Pharmaceuticals R&D	**2,511**	2,726
Vaccines R&D	**443**	496
Consumer Healthcare R&D	**159**	172
Research and development	**3,113**	3,394

The proportion of Pharmaceuticals R&D investment made in the late-stage portfolio decreased from 56% of Pharmaceuticals R&D costs in 2013 to 52% in 2014, reflecting the completion of a number of late-stage programmes.

Royalty income

Royalty income was £310 million (2013 – £387 million) reflecting the conclusion of a number of royalty agreements. 2013 also included a prior year catch-up adjustment.

Group financial review
continued

Core operating profit by business

	2014		2013 (restated)		Growth	
	£m	Margin %	£m	Margin %	CER%	£%
Pharmaceuticals	**5,368**	**34.7**	6,472	37.1	(9)	(17)
Vaccines	**1,129**	**35.4**	1,097	32.1	13	3
Pharmaceuticals and Vaccines	**6,497**	**34.8**	7,569	36.3	(6)	(14)
Consumer Healthcare	**657**	**15.2**	829	17.4	(6)	(21)
	7,154	**31.1**	8,398	32.8	(6)	(15)
Corporate & other unallocated costs	**(560)**		(627)		(2)	(11)
Core operating profit	**6,594**	**28.7**	7,771	30.4	(6)	(15)

Core operating profit by segment

	2014		2013 (restated)		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Pharmaceuticals and Vaccines						
USA	**3,173**	**63.7**	3,955	68.0	(16)	(20)
Europe	**2,205**	**54.6**	2,277	53.9	2	(3)
Emerging Markets	**993**	**31.0**	986	29.3	16	1
Japan	**466**	**49.7**	568	53.7	(2)	(18)
ViiV Healthcare	**977**	**65.2**	885	63.9	20	10
Established Products	**1,793**	**59.5**	2,352	60.7	(17)	(24)
Pharmaceutical R&D	**(2,708)**		(2,823)		–	(4)
Other trading and unallocated pharmaceuticals	**(402)**	**(40.0)**	(631)	(56.6)	(37)	(36)
Pharmaceuticals and Vaccines	**6,497**	**34.8**	7,569	36.3	(6)	(14)
Consumer Healthcare	**657**	**15.2**	829	17.4	(6)	(21)
	7,154	**31.1**	8,398	32.8	(6)	(15)
Corporate & other unallocated costs	**(560)**		(627)		(2)	(11)
Core operating profit	**6,594**	**28.7**	7,771	30.4	(6)	(15)

Core operating profit was £6,594 million, 6% lower than in 2013 in CER terms on a turnover decline of 3%. The core operating margin of 28.7% was 1.7 percentage points lower than in 2013. Excluding currency effects, the margin decreased 0.8 percentage points. This primarily reflected an increase in SG&A as a percentage of sales and lower royalty income. SG&A costs declined 2% driven by targeted cost management and the benefit of ongoing restructuring programmes. SG&A also included the credit reported in Q3 2014 of £219 million from a release of reserves following simplification of the Group's entity structure and our trading arrangements. Structural savings of approximately £280 million were realised in 2013.

Net finance costs

Finance income	2014 £m	2013 £m
Interest and other income	**66**	59
Fair value movements	**2**	2
	68	61
Finance expense		
Interest expense	**(688)**	(726)
Unwinding of discounts on liabilities	**(2)**	–
Remeasurements and fair value movements	**(10)**	(5)
Other finance expense	**(14)**	(22)
	(714)	(753)

Core net finance expense was £646 million compared with £692 million in 2013, reflecting GSK's strategy to improve the funding profile of the Group, despite average net debt in 2014 being marginally higher than in 2013.

Share of after tax profits of associates and joint ventures

The share of profits of associates and joint ventures was £30 million (2013 – £43 million), reflecting the reduced shareholding in the Aspen group, currency movements and a number of one-off adjustments.

Core profit before taxation

	2014		2013 (restated)		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Core profit before tax	**5,978**	**26.0**	7,122	27.8	(6)	(16)

Taxation

Tax on core profit amounted to £1,172 million and reflected an effective core tax rate of 19.6% (2013 – 23.0%). The reduction in the effective rate included the resolution of a number of matters that benefited the year, and an increase in the benefit of intellectual property incentives.

Core earnings per share

Core EPS of 95.4p decreased 1% in CER terms compared with a 6% decline in the operating profit as a result of financial efficiencies.

Dividend

The Board declared four interim dividends resulting in a dividend for the year of 80 pence, a 2 pence increase on the dividend for 2013. See Note 16 to the financial statements, 'Dividends'.

Profit forecast

The Class 1 Circular dated 20 November 2014, issued to shareholders in connection with the proposed three-part transaction with Novartis included the following profit forecast in respect of 2014: "In 2014, GSK expects to deliver full year core EPS on a CER and ex-divestment basis broadly similar to last year (from a 2013 base of 108.4p adjusted for divestments completed during 2013)."

The actual results were that core EPS for 2014 declined 1% CER, broadly in line with last year excluding divestments completed in 2013.

Core results reconciliation – 31 December 2014

	Core results £m	Intangible amortisation £m	Intangible impairment £m	Major restructuring £m	Legal charges £m	Acquisition accounting and other £m	Total results £m
Turnover	23,006						23,006
Cost of sales	(6,535)	(503)	(78)	(204)		(3)	(7,323)
Gross profit	16,471	(503)	(78)	(204)		(3)	15,683
Selling, general and administration	(7,074)			(430)	(548)	(194)	(8,246)
Research and development	(3,113)	(72)	(72)	(116)		(77)	(3,450)
Royalty income	310						310
Other operating income	–					(700)	(700)
Operating profit	6,594	(575)	(150)	(750)	(548)	(974)	3,597
Net finance costs	(646)			(5)		(8)	(659)
Share of after tax profits of associates and joint ventures	30						30
Profit before taxation	5,978	(575)	(150)	(755)	(548)	(982)	2,968
Taxation	(1,172)	209	29	215	26	556	(137)
Tax rate	*19.6%*						*4.6%*
Profit after taxation	4,806	(366)	(121)	(540)	(522)	(426)	2,831
Profit attributable to non-controlling interests	222					(147)	75
Profit attributable to shareholders	4,584	(366)	(121)	(540)	(522)	(279)	2,756
Earnings per share	95.4p	(7.6)p	(2.5)p	(11.3)p	(10.9)p	(5.8)p	57.3p
Weighted average number of shares (millions)	4,808						4,808

Core results reconciliation – 31 December 2013 (restated)

	Core results (before divestments) £m	Divestments £m	Core results £m	Intangible amortisation £m	Intangible impairment £m	Major restructuring £m	Legal charges £m	Acquisition accounting and other £m	Total results £m
Turnover	25,602	903	26,505						26,505
Cost of sales	(7,075)	(474)	(7,549)	(450)	(408)	(178)			(8,585)
Gross profit	18,527	429	18,956	(450)	(408)	(178)			17,920
Selling, general and administration	(7,749)	(179)	(7,928)			(300)	(252)		(8,480)
Research and development	(3,394)	(6)	(3,400)	(97)	(331)	(39)		(56)	(3,923)
Royalty income	387		387						387
Other operating income			–					1,124	1,124
Operating profit	7,771	244	8,015	(547)	(739)	(517)	(252)	1,068	7,028
Net finance costs	(692)		(692)			(6)		(8)	(706)
Profit on disposal of interest in associates and joint ventures	–		–					282	282
Share of after tax profits of associates and joint ventures	43		43						43
Profit before taxation	7,122	244	7,366	(547)	(739)	(523)	(252)	1,342	6,647
Taxation	(1,635)	(60)	(1,695)	149	226	145	9	147	(1,019)
Tax rate	*23.0%*		*23.0%*						*15.3%*
Profit after taxation	5,487	184	5,671	(398)	(513)	(378)	(243)	1,489	5,628
Profit attributable to non-controlling interests	250		250					(58)	192
Profit attributable to shareholders	5,237	184	5,421	(398)	(513)	(378)	(243)	1,547	5,436
Earnings per share	108.4p	3.8p	112.2p	(8.2)p	(10.7)p	(7.8)p	(5.0)p	32.0p	112.5p
Weighted average number of shares (millions)	4,831								4,831

Group financial review
continued

Total results

	2014		2013		Growth	
	£m	% of turnover	£m	% of turnover	CER%	£%
Turnover	**23,006**	**100**	26,505	100	(7)	(13)
Cost of sales	**(7,323)**	**(31.8)**	(8,585)	(32.4)	(11)	(15)
Selling, general and administration	**(8,246)**	**(35.8)**	(8,480)	(32.0)	4	(3)
Research and development	**(3,450)**	**(15.0)**	(3,923)	(14.8)	(8)	(12)
Royalty income	**310**	**1.3**	387	1.5	(18)	(20)
Other operating income	**(700)**	**(3.1)**	1,124	4.2	>(100)	>(100)
Operating profit	**3,597**	**15.6**	7,028	26.5	(40)	(49)
Net finance costs	**(659)**		(706)			
Profit on disposal of interest in associates	**–**		282			
Share of after tax profits of associates and joint ventures	**30**		43			
Profit before taxation	**2,968**		6,647		(46)	(55)
Taxation	**(137)**		(1,019)			
Total profit after taxation for the year	**2,831**		5,628		(41)	(50)
Total profit attributable to shareholders	**2,756**		5,436			
Earnings per share (p)	**57.3**		112.5		(40)	(49)
Earnings per ADS (US$)	**1.89**		3.53			

Cost of sales
Cost of sales as a percentage of turnover was 31.8% compared with 32.4% in 2013. Net of adverse currency translation effects, the cost of sales percentage decreased 1.3 percentage points. This reflected adverse price and mix movements, particularly the decline in Pharmaceuticals sales in the US, the costs of supply remediation activities and continuing investments in new launch capacity and future manufacturing technology, more than offset by lower intangible write-offs and the benefit of our ongoing cost reduction programmes and lower intangible impairments.

Selling, general and administration
SG&A costs as a percentage of sales were 35.8%, 3.8 percentage points higher than in 2013. Excluding currency effects, the SG&A percentage increased 3.7 percentage points, as SG&A increased 4% on a turnover decline of 7%. The increase in SG&A reflected continued investments in our multiple new product launches, higher legal costs, restructuring costs and a charge of £114 million for an additional, catch-up year of the US Branded Prescription Drug fee in accordance with the final regulations issued by the IRS in Q3 2014, partly offset by the benefits of our restructuring programmes and ongoing cost management efforts.

Advertising and promotion decreased 11% reflecting reduced activity in the Established Products category and ongoing cost management efforts which were partly offset by new product launches. Selling and distribution decreased 4% as investments in product launches were offset by savings in Established Products. General and administration expenses increased 20% due to higher phase IV expenditure, legal and restructuring costs, partly offset by restructuring benefits.

Research and development
R&D expenditure declined 8% to £3,450 million (15.0% of turnover) compared with £3,923 million (14.8% of turnover) in 2013. Excluding currency effects, the R&D percentage declined 0.2 percentage points, reflecting lower intangible write-offs, the phasing of ongoing project spending as well as the completion of a number of programmes and continuing cost management benefits and lower intangible impairments.

Other operating income
Net other operating expense of £700 million (2013 - £1,124 million income) included, following the improved sales performance of *Tivicay* and *Triumeq*, an increase in the liability for the contingent consideration for the acquisition of the former Shionogi-ViiV Healthcare joint venture which has increased to £1.7 billion, resulting in a charge for the year of £768 million (2013 – £253 million). The liability represents the present value of expected future payments to Shionogi. These will be paid over a number of years and will vary in line with sales of products that contain dolutegravir. The net income in 2013 included profits from the disposals of the Lucozade and Ribena business and certain anti-coagulant products, which in aggregate were £1,331 million.

Following announcement of the proposed Novartis transaction, GSK entered into a number of forward exchange contracts to protect the Sterling value of the net US Dollar proceeds due to the Group on completion of the transaction. At 31 December 2014 these contracts were in a loss position and resulted in the recognition of an unrealised loss in 2014 of £299 million which has been included in net other operating expense. If these contracts remain in a loss position on maturity, that loss will partly offset the gain in the expected Sterling value of the proceeds that will be received by the Group as a result of favourable exchange movements since the inception of the forward contracts. If, on maturity, the contracts are in a gain position, the gains will partly offset losses in the Sterling value of the proceeds that will be received by the Group as a result of unfavourable exchange movements since the inception of the forward contracts.

Operating profit
Total operating profit was £3,597 million compared with £7,028 million in 2013. The non-core items resulted in a net charge of £2,997 million (2013 – £987 million, excluding trading profits on products divested in 2013). The 2013 net charge included the profits on the disposals of Lucozade and Ribena business and the anti-coagulant products, which in aggregate were £1,331 million.

The intangible asset amortisation increased to £575 million (2013 – £547 million), reflecting the accelerated amortisation of *Lovaza*. Intangible asset impairments of £150 million (2013 – £739 million) included write-offs of several R&D and commercial assets.

Major restructuring charges of £750 million (2013 – £517 million) included £101 million under the Operational Excellence programme, £334 million under the Major Change programme and £243 million under the new Pharmaceuticals restructuring programme.

The Operational Excellence programme initiated on 2007 and expanded in 2009, 2010 and 2011 was substantially complete at the end of 2014 at a total cost of £4.7 billion and delivered annual pre-tax savings of approximately £2.9 billion. The Major Change programme, announced in 2013, focuses on opportunities to simplify our supply chain processes, build the Group's capabilities in manufacturing and R&D, and restructure our European Pharmaceuticals business. The programme is expected to cost £1.5 billion, of which non-cash charges are expected to be £350 million. It has delivered approximately £0.6 billion of annual savings and remains on track to deliver annual pre-tax savings of at least £1.0 billion by 2016.

The new Pharmaceuticals restructuring programme, announced in October 2014, will rescale commercial operations, global support functions and the relevant R&D/manufacturing operations across Pharmaceuticals. The programme is expected to cost £1.5 billion, predominantly in cash charges. Approximately £1 billion of new annual cost savings are expected over the next three years, with around 50% delivered in 2016.

Legal charges of £548 million (2013 – £252 million) included a £301 million fine paid to the Chinese government, settlement of existing anti-trust matters and higher litigation costs.

Acquisition accounting and other adjustments resulted in a net charge of £974 million (2013 – income of £1,068 million) and included the increase in the liability for the contingent consideration for the acquisition of the former Shionogi-ViiV Healthcare joint venture of £768 million (2013 – £253 million). The net credit in 2013 included profits on the disposal of Lucozade and Ribena business and the anti-coagulant products, which in aggregate were £1,331 million. Other items also included charges related to major acquisitions, equity investment and asset disposals, one-off required regulatory charges in R&D and certain other adjusting items.

Net finance costs

Finance income	2014 £m	2013 £m
Interest and other finance income	**66**	59
Fair value movements	**2**	2
	68	61

Finance expense		
Interest expense	**(688)**	(726)
Unwinding of discounts on liabilities	**(15)**	(14)
Remeasurements and fair value movements	**(10)**	(5)
Other finance expense	**(14)**	(22)
	(727)	(767)

Profit on disposal of interest in associates

The pre-tax profit on disposals of associates was nil (2013 – £282 million). The 2013 profit reflected the disposal of 28.2 million ordinary shares in Aspen Pharmacare for £429 million.

Share of after tax profits of associates and joint ventures

The share of after tax profits of associates of £30 million (2013 – £43 million) principally arose from the Group's holdings in Aspen Pharmacare.

Profit before taxation

Taking account of net finance costs, the profit on disposal of interest in associates and the share of profit in associates, profit before taxation was £2,968 million compared with £6,647 million in 2013, a 46% CER decrease and a 55% decrease in sterling terms.

Taxation

	2014 £m	2013 £m
UK current taxation	**(251)**	265
Overseas current taxation	**993**	1,284
Total current taxation	**742**	1,549
Total deferred taxation	**(605)**	(530)
Taxation on total profits	**137**	1,019

The charge for taxation on total profits amounted to £137 million and represented a total effective tax rate of 4.6% (2013 – 15.3%), reflecting the differing tax effects of the various non-core items, including a number of non-recurring tax only items.

Tax relating to acquisition accounting and other adjustments included deferred tax on the increased liability for the expected future payments to Shionogi; recognition of a deferred tax asset in respect of tax losses expected to be used on completion of the Novartis transaction, and tax credits arising on the resolution of a number of tax matters with tax authorities, including matters related to prior year acquisitions or disposals.

The UK current tax credit includes a benefit from resolution of a number of tax matters and other prior year adjustments.

Earnings per share

Total EPS was 57.3p, compared with 112.5p in 2013 which included 33.8p arising from gains on equity investment and asset disposals. Of the remaining difference, 10.4p was due to currency.

Critical accounting policies

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

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

The critical accounting policies, for which information on the judgements and estimates made is given in Note 3 to the financial statements, 'Key accounting judgements and estimates', and in the relevant detailed notes to the financial statements as indicated below, relate to the following areas:

- Turnover
- Taxation (Note 14)
- Legal and other disputes (Notes 29 and 45)
- Impairments of goodwill and other intangible assets (Notes 18 and 19)
- Business combinations (Note 38)
- Pensions and other post-employment benefits (Note 28).

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

Turnover

In respect of the Turnover accounting policy, our largest business is US Pharmaceuticals and Vaccines, 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 and Vaccines business:

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

Group financial review
continued

A reconciliation of gross turnover to net turnover for the US Pharmaceuticals and Vaccines business is as follows:

	2014		2013 (restated)		2012 (restated)	
	£m	Margin %	£m	Margin %	£m	%
Gross turnover	**7,883**	**100**	8,399	100	7,964	100
Market driven segments	**(1,205)**	**(15)**	(976)	(12)	(873)	(11)
Government mandated and state programs	**(1,459)**	**(19)**	(1,273)	(15)	(1,255)	(16)
Cash discounts	**(139)**	**(2)**	(152)	(2)	(142)	(2)
Customer returns	**(58)**	**(1)**	(69)	(1)	(91)	(1)
Prior year adjustments	**130**	**2**	69	1	51	1
Other items	**(172)**	**(2)**	(181)	(2)	(146)	(2)
Total deductions	**(2,903)**	**(37)**	(2,582)	(31)	(2,456)	(31)
Net turnover	**4,980**	**63**	5,817	69	5,508	69

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

The balance sheet accruals for rebates, discounts, allowances and returns for the US Pharmaceuticals and Vaccines business and the US element of Established Products are managed on a combined basis. At 31 December 2014, the total accrual amounted to £1,308 million (2013 – £1,188 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 2014 were estimated to amount to approximately five 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 its operations conducted by various governmental regulatory agencies. Throughout the year, the General Counsel of the Group, as head of the Group's legal function, and the Senior Vice President and Head of Global Litigation for the Group, who is responsible for all litigation and government investigations, routinely brief the Chief Executive Officer, the Chief Financial Officer and the Board of Directors on the significant litigation pending against the Group and governmental investigations of the Group.

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

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

Financial position and resources

	2014 £m	2013 £m
Assets		
Non-current assets		
Property, plant and equipment	**9,052**	8,872
Goodwill	**3,724**	4,205
Other intangible assets	**8,320**	9,283
Investments in associates and joint ventures	**340**	323
Other investments	**1,114**	1,202
Deferred tax assets	**2,688**	2,084
Derivative financial instruments	**–**	1
Other non-current assets	**735**	889
Total non-current assets	**25,973**	26,859
Current assets		
Inventories	**4,231**	3,900
Current tax recoverable	**138**	129
Trade and other receivables	**4,600**	5,442
Derivative financial instruments	**146**	155
Liquid investments	**69**	66
Cash and cash equivalents	**4,338**	5,534
Assets held for sale	**1,156**	1
Total current assets	**14,678**	15,227
Total assets	**40,651**	42,086
Liabilities		
Current liabilities		
Short-term borrowings	**(2,943)**	(2,789)
Trade and other payables	**(7,958)**	(8,317)
Derivative financial instruments	**(404)**	(127)
Current tax payable	**(945)**	(1,452)
Short-term provisions	**(1,045)**	(992)
Total current liabilities	**(13,295)**	(13,677)
Non-current liabilities		
Long-term borrowings	**(15,841)**	(15,456)
Deferred tax liabilities	**(445)**	(693)
Pensions and other post-employment benefits	**(3,179)**	(2,189)
Other provisions	**(545)**	(552)
Derivative financial instruments	**(9)**	(3)
Other non-current liabilities	**(2,401)**	(1,704)
Total non-current liabilities	**(22,420)**	(20,597)
Total liabilities	**(35,715)**	(34,274)
Net assets	**4,936**	7,812
Equity		
Share capital	**1,339**	1,336
Share premium account	**2,759**	2,595
Retained earnings	**(2,074)**	913
Other reserves	**2,239**	2,153
Shareholders' equity	**4,263**	6,997
Non-controlling interests	**673**	815
Total equity	**4,936**	7,812

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 of production and to achieve compliance with regulatory standards. A number of our processes use chemicals and hazardous materials.

The total cost of our property, plant and equipment at 31 December 2014 was £19,355 million, with a net book value of £9,052 million. Of this, land and buildings represented £3,667 million, plant and equipment £2,392 million and assets in construction £2,993 million. In 2014, we invested £1,261 million in new and renewal property, plant and equipment. This is mainly related to a large number of projects for the renewal, improvement and expansion of facilities at various worldwide sites. Property is mainly held freehold. New investment is financed from our liquid resources. At 31 December 2014, we had contractual commitments for future capital expenditure of £459 million and operating lease commitments of £701 million. We believe that our 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 'Our Planet' on page 46 and in Note 45 to the financial statements, 'Legal proceedings'.

Goodwill

Goodwill decreased during the year to £3,724 million at December 2014, from £4,205 million. The decrease reflects the goodwill allocated to the oncology business and transferred to assets held for sale following the decision to sell the business to Novartis.

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 2014 was £8,320 million (2013 – £9,283 million). The decrease in 2014 reflected a transfer of £506 million to assets held for sale to reflect the proposed Novartis transaction, capitalised development costs of £242 million and the amortisation and impairment of existing intangibles of £704 million and £157 million, respectively.

Investments

We held investments, including associates and joint ventures, with a carrying value at 31 December 2014 of £1,454 million (2013 – £1,525 million). The market value at 31 December 2014 was £2,502 million (2013 – £2,212 million). The largest of these investments are in an associate, Aspen Pharmacare Holdings Limited, which had a book value at 31 December 2014 of £274 million (2013 – £229 million) and investments in Theravance, Inc. and Theravance Biopharma, Inc. which have a book value at 31 December 2014 of £367 million (2013 – £644 million). The investments include equity stakes in companies with which we have research collaborations, which provide access to biotechnology developments of potential interest and interests in companies that arise from business divestments.

Group financial review
continued

Derivative financial instruments: assets
We had both non-current and current derivative financial instruments held at fair value of £146 million (2013 – £156 million). The majority of this amount related to interest rate swaps and foreign exchange contracts both designated and non-designated (inter-company loans and deposits) as accounting hedges.

Inventories
Inventory of £4,231 million increased by £331 million during the year. The increase primarily reflected the impact of stock building for new product launches and remediation of the Consumer Healthcare supply chain, partly offset by a favourable exchange impact.

Trade and other receivables
Trade and other receivables of £4,600 million decreased from 2013 reflecting the receipt of the deferred receivable from Aspen in respect of the inventory and a manufacturing site which formed part of the disposal of the anti-coagulants products business in 2013, together with improved recoveries of receivables in various markets and favourable exchange impacts.

Derivative financial instruments: liabilities
We held both non-current and current derivative financial instruments at fair value of £413 million (2013 – £130 million). This primarily related to foreign exchange contracts both designated and non-designated (inter-company loans and deposits, acquisitions and disposals, external debt and legal provisions) as accounting hedges.

Trade and other payables
Trade and other payables amounting to £7,958 million decreased from £8,317 million in 2013, reflecting the effect of the increased shareholding in the Group's Indian Pharmaceutical subsidiary accrued in 2013 partly offset by the effect of an increase in the returns and rebates accrual together with a favourable exchange impact.

Provisions
We carried deferred tax provisions and other short-term and non-current provisions of £2,035 million at 31 December 2014 (2013 – £2,237 million) in respect of estimated future liabilities, of which £520 million (2013 – £646 million) related to legal and other disputes. Provision has been made for legal and other disputes, indemnified disposal liabilities, employee related liabilities and the costs of restructuring programmes to the extent that at the balance sheet date a legal or constructive obligation existed and could be reliably estimated.

Pensions and other post-employment benefits
We account for pension and other post-employment arrangements in accordance with IAS 19. The deficits, net of surpluses before allowing for deferred taxation were £1,689 million (2013 – £613 million) on pension arrangements and £1,397 million (2013 – £1,246 million) on unfunded post-employment liabilities. The increases in the deficits were predominantly driven by lower discount rates that we used to discount the value of the liabilities.

In December 2010, the UK scheme purchased an insurance contract that will guarantee payment of specified pensioner liabilities. This contract was valued at £803 million at 31 December 2014.

Other non-current liabilities
Other non-current liabilities of £2,401 million at 31 December 2014 (2013 – £1,704 million) include £1,619 million (2013 – £958 million) of contingent consideration payable, primarily in respect of the acquisition in 2012 of the former Shionogi-ViiV Healthcare joint venture.

Net debt

	2014 £m	2013 £m
Cash, cash equivalents and liquid investments	**4,407**	5,600
Borrowings – repayable within one year	**(2,943)**	(2,789)
Borrowings – repayable after one year	**(15,841)**	(15,456)
Net debt	**(14,377)**	(12,645)

Net debt increased by £1,732 million and reflected the aggregate consideration of £650 million paid to increase the shareholding in the Group's Indian pharmaceutical subsidiary from 50.7% to 75% and the acquisition of the remaining 30% of the Group's Indonesian Consumer Healthcare business held by a third party, together with a reduction in cash generated from operations.

The Group's cash generation and liquidity enabled the payment of ordinary dividends of £3,843 million and share repurchases of £238 million.

Movements in net debt

	2014 £m	2013 £m
Net debt at beginning of year	**(12,645)**	(14,037)
(Decrease)/increase in cash and bank overdrafts	**(1,287)**	1,473
Decrease in liquid investments	**(1)**	(15)
Net increase in long-term loans	**(1,960)**	(1,913)
Net repayment of short-term loans	**1,709**	1,872
Debt of subsidiary undertakings acquired	**–**	(6)
Exchange movements	**(193)**	(34)
Other movements	**–**	15
Net debt at end of year	**(14,377)**	(12,645)

Total equity
At 31 December 2014, total equity had decreased from £7,812 million at 31 December 2013 to £4,936 million. The decrease arose principally from an increase in the pension deficit of £1,076 million and the impact of dividends paid out in the year.

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

	2014 £m	2013 £m
Total equity at beginning of year	**7,812**	6,737
Total comprehensive income for the year	**1,081**	6,215
Dividends to shareholders	**(3,843)**	(3,680)
Shares issued	**167**	585
Changes in non-controlling interests	**(86)**	(625)
Forward contract relating to non-controlling interest	**21**	–
Shares purchased and cancelled or held as Treasury shares	**(238)**	(1,504)
Shares acquired by ESOP Trusts	**(95)**	(45)
Share-based incentive plans	**326**	294
Tax on share-based incentive plans	**(4)**	73
Distributions to non-controlling interests	**(205)**	(238)
Total equity at end of year	**4,936**	7,812

Share purchases

In 2014, the Employee Share Ownership Plan (ESOP) Trusts acquired £95 million of shares in GlaxoSmithKline plc (2013 – £45 million). Shares are held by the Trusts to satisfy future exercises of options and awards under the Group share option and award schemes. A proportion of the shares held by the Trusts are in respect of awards where the rules of the scheme require us to satisfy exercises through market purchases rather than the issue of new shares. The shares held by the Trusts are matched to options and awards granted. During 2014, the company also transferred £150 million of Treasury shares into the Trust.

At 31 December 2014, the ESOP Trusts held 53 million (2013 – 64 million) GSK shares against the future exercise of share options and share awards. The carrying value of £151 million (2013 – £355 million) has been deducted from other reserves. The market value of these shares was £726 million (2013 – £1,025 million).

During 2014, 14.7 million shares were repurchased at a cost of £238 million (see Note 33 'Share capital and share premium account'). At 31 December 2014, we held 491.5 million shares as Treasury shares (2013 – 487.4 million shares), at a cost of £6,917 million (2013 – £6,829 million), which has been deducted from retained earnings.

Following the completion of the Novartis transaction, expected to be in the week commencing 2 March 2015, we intend to return to shareholders £4 billion of the net proceeds. The company does not expect to make any ordinary share repurchases in 2015. No ordinary shares were purchased in the period 1 January 2015 to 19 February 2015.

Commitments and contingent liabilities

Financial commitments are summarised in Note 40 to the financial statements, 'Commitments'. Other contingent liabilities and obligations in respect of short and long-term debt are set out in Note 31 to the financial statements, 'Contingent liabilities' and Note 32 to the financial statements, 'Net debt'.

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

Contractual obligations and commitments

The following table sets out our contractual obligations and commitments at 31 December 2014 as they fall due for payment.

	Total £m	Under 1 yr £m	1-3 yrs £m	3-5 yrs £m	5 yrs+ £m
Loans	18,839	2,917	3,052	2,926	9,944
Interest on loans	9,744	678	1,234	944	6,888
Finance lease obligations	85	29	39	15	2
Finance lease charges	6	2	3	1	–
Operating lease commitments	701	138	164	102	297
Intangible assets	7,079	320	1,037	1,091	4,631
Property, plant & equipment	359	324	35	–	–
Investments	100	39	47	9	5
Purchase commitments	428	142	265	21	–
Pensions	425	85	170	170	–
Other commitments	186	70	91	21	4
Total	37,952	4,744	6,137	5,300	21,771

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 £5.7 billion which relates to externalised projects in the discovery portfolio. A number of new commitments were made in 2014 under licensing and other agreements, including an arrangement with Adaptimmune Ltd.

In 2013, we reached an agreement with the trustees of the UK pension schemes to make additional contributions over a three year period, including in 2013, to eliminate the pension deficit identified at the 31 December 2011 actuarial funding valuation. If the deficit persists, further contributions would be payable in the following four years depending on the level of deficit. The table above includes this commitment but excludes the normal ongoing annual funding requirement in the UK of approximately £100 million. For further information on pension obligations, see Note 28 to the financial statements, 'Pensions and other post-employment benefits'.

Contingent liabilities

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

	Total £m	Under 1 yr £m	1-3 yrs £m	3-5 yrs £m	5 yrs+ £m
Guarantees	87	78	3	–	6
Other contingent liabilities	98	9	26	12	51
Total	185	87	29	12	57

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

We provide for the outcome of tax, legal and other disputes when an outflow of resources is considered probable and a reliable estimate of the outflow may be made. At 31 December 2014, other than for those disputes where provision has been made, it was not possible to make a reliable estimate of the potential outflow of funds that might be required to settle disputes where the possibility of there being an outflow was more than remote.

The ultimate liability for such matters may vary significantly from the amounts provided and is dependent upon the outcome of litigation proceedings and negotiations with the relevant tax authorities. This is discussed further in 'Risk factors' on pages 232 to 241 and Notes 14 and 45 to the financial statements, 'Taxation' and 'Legal proceedings'.

Group financial review
continued

Cash generation and conversion

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

	2014 £m	2013 £m
Net cash inflow from operating activities	**5,176**	7,222
Net cash (outflow)/inflow from investing activities	**(1,078)**	524
Net cash outflow from financing activities	**(5,385)**	(6,273)
(Decrease)/increase in cash and bank overdrafts	**(1,287)**	1,473
Cash and bank overdrafts at beginning of year	**5,231**	3,906
(Decrease)/increase in cash and bank overdrafts	**(1,287)**	1,473
Exchange adjustments	**84**	(148)
Cash and bank overdrafts at end of year	**4,028**	5,231
Cash and bank overdrafts at end of year comprise:		
Cash and cash equivalents	**4,338**	5,534
Overdrafts	**(310)**	(303)
	4,028	5,231

The net cash inflow from operating activities for the year was £5,176 million (2013 – £7,222 million). The decrease primarily reflected the impact of the strength of Sterling on profits and lower profits, including the impact of divestments.

Free cash flow

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

	2014	2013
Free cash flow (£m)	**2,620**	4,657
Free cash flow growth (%)	**(44)%**	>100%

Free cash flow was £2,620 million for the year. The decrease on 2013 primarily reflected the impact of the strength of Sterling and lower profits, including the impact of divestments. We paid dividends to shareholders of £3,843 million, and spent £238 million on repurchasing shares.

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

Reconciliation of free cash flow

	2014 £m	2013 £m
Net cash inflow from operating activities	**5,176**	7,222
Purchase of property, plant and equipment	**(1,188)**	(1,188)
Purchase of intangible assets	**(563)**	(513)
Disposal of property, plant and equipment	**39**	46
Interest paid	**(707)**	(749)
Interest received	**63**	59
Dividends received from joint ventures and associated undertakings	**5**	18
Distributions to non-controlling interests	**(205)**	(238)
Free cash flow	**2,620**	4,657

Investment appraisal

We have a formal process for assessing potential investment proposals in order to ensure decisions are aligned with our overall strategy. This process includes an assessment of the cash flow return on investment (CFROI), as well as its net present value (NPV) and internal rate of return (IRR) where the timeline for the project is very long-term. We also consider the impact on earnings and credit profile where relevant.

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

Capital expenditure and financial investment

Cash payments for tangible and intangible fixed assets amounted to £1,751 million (2013 - £1,701 million) and disposals realised £594 million (2013 – £2,033 million). Cash payments to acquire equity investments of £83 million (2013 – £133 million) were made in the year and sales of equity investments realised £205 million (2013 – £59 million).

Future cash flow

We expect that future operating cash flow will be sufficient to fund our operating and debt service costs, to satisfy normal levels of capital expenditure, to meet obligations under existing licensing agreements, to meet the expenditure arising from the major restructuring programmes (the precise timing of which is uncertain) as outlined in Note 10 to the financial statements, 'Major restructuring costs' and to meet other routine outflows including tax and dividends, subject to the 'Risk factors' discussed on pages 232 to 241. We may from time to time have additional demands for finance, such as for acquisitions and share repurchases. We have access to other sources of liquidity from short and long-term capital markets and banks and other financial institutions, in addition to the cash flow from operations, for such needs.

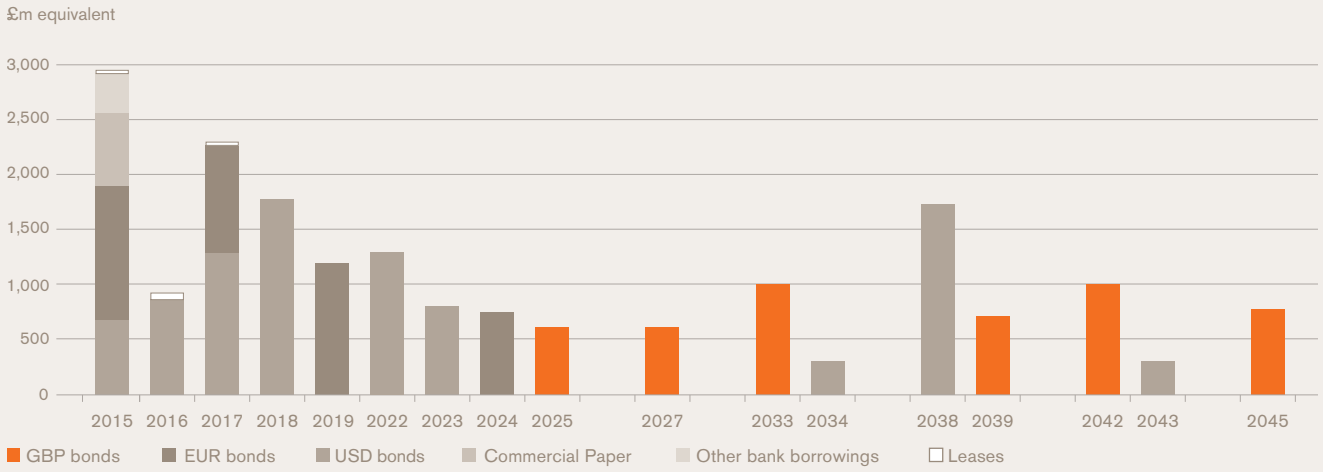
Working capital

	2014	2013
Working capital percentage of turnover (%)	**22%**	19%
Working capital conversion cycle (days)	**209**	176

Our working capital programme has continued to make progress with further improvements in the collection of receivables and more effective management of payables balances. During the year a number of initiatives were implemented across our supply chains supporting the Pharmaceutical, Vaccines and Consumer Healthcare businesses that have provided stronger end-to-end accountability in each case. These programmes are at an early stage but have already reduced volatility and improved responsiveness allowing better inventory management.

The reported working capital conversion cycle days are distorted by divestments made in 2013 and the intangible asset impairments included in the denominator used in the conversion cycle computation. The year-end 2014 and 2013 conversion cycles, adjusted for these factors, were around 211 days and around 190 days, respectively. The increase of 21 days is predominantly due to stock building behind new launches and the remediation of the Consumer Healthcare supply chain, compounded by a reduction in the denominator arising from the translation effect of stronger Sterling on overseas revenue and costs, which contributed an increase of seven days.

Maturity profile of gross debt



Treasury policies

We report in Sterling and pay dividends out of Sterling profits. The role of Corporate Treasury is to monitor and manage our external and internal funding requirements and financial risks in support of our strategic objectives. We operate 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 by the Board of Directors, most recently on 9 July 2014. A Treasury Management Group (TMG) meeting chaired by our Chief Financial Officer, takes place on a monthly basis to review treasury activities. Its members receive management information relating to treasury activities.

Capital management

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

Free cash flow conversion improved to 101% of earnings excluding after-tax legal charges and legal settlements in 2014 from 84% in 2013. However free cash flow was lower in 2014 at £2.6 billion compared to £4.7 billion in 2013. This reflected the impact of the strength of Sterling and lower profits, including the impact of divestments. As a consequence of this as well as £0.7 billion paid to increase the shareholding in our Indian pharmaceutical subsidiary from 50.7% to 75% and the acquisition of the remaining 30% of our Indonesian Consumer Healthcare business held by a third party, our net debt increased from £12.6 billion at 31 December 2013 to £14.4 billion at 31 December 2014.

Our long-term credit rating with Moody's Investors Service ('Moody's') is A2 (stable outlook). Standard and Poor's rate us as A+ (stable outlook). Our short-term credit ratings are A-1 and P-1 with Standard and Poor's and Moody's respectively.

Liquidity

As at 31 December 2014, our cash and liquid investments were held as follows:

	2014 £m	2013 £m
Bank balances and deposits	**3,529**	4,641
US Treasury and Treasury repo only money market funds	**811**	893
Corporate debt instruments	**–**	1
Government securities	**67**	65
	4,407	5,600

Cash and liquid investments of £2.8 billion, including amounts held by ViiV Healthcare, were held centrally at 31 December 2014.

We had net debt of £14.4 billion at 31 December 2014. The table below summarises cash and gross debt after the effects of hedging.

	2014 £m	2013 £m
Cash and liquid investments	**4,407**	5,600
Gross debt – fixed	**(17,674)**	(15,593)
– floating	**(1,109)**	(2,651)
– non-interest bearing	**(1)**	(1)
Net debt	**(14,377)**	(12,645)

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

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

Group financial review
continued

Treasury operations

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

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

Interest rate risk management

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

We used interest rate swaps to redenominate one of our fixed rate bonds that matured in 2014 into floating interest rates. The duration of these swaps matched the duration of the principal instrument. These interest rate derivative instruments were accounted for as fair value hedges of the relevant liability.

Foreign exchange risk management

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

In order to reduce foreign currency translation exposure, we seek to denominate borrowings in the currencies of our principal assets and cash flows. These are primarily denominated in US dollars, Euros and Sterling. Certain 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 our investment in overseas Group assets. The TMG reviews the ratio of borrowings to assets for major currencies monthly.

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. Corporate Treasury's usage of these limits is monitored daily by a Corporate Compliance Officer (CCO) who operates independently of Corporate Treasury. Any breach of these limits would be reported to the CFO immediately. The CCO also monitors the credit rating of these counterparties and, when changes in ratings occur, notifies Corporate Treasury so that changes can be made to investment levels or to authority limits as appropriate. In addition, relationship banks and their credit ratings are reviewed regularly and a report is presented annually to the TMG for approval.

Strategic report

The Strategic report was approved by a duly authorised Committee of the Board of Directors on 26 February 2015 and signed on its behalf by:

Simon Dingemans
Chief Financial Officer
26 February 2015