# Remuneration policy report

## Remuneration policy

The total remuneration for each Executive Director comprises the following elements:

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Salary | + | Benefits | + | Annual bonus | + | Value earned from long-term incentive awards | + | Pension | = | **Total remuneration*** |

* The Committee may, in specific circumstances and in line with stated principles, apply clawback/malus as it determines appropriate.

## Future policy table

The company's Remuneration policy from 7 May 2014 in respect of each of the above elements is outlined in the table below.

### Salary

#### Purpose and link to strategy

To provide a core reward for the role.

Set at a level appropriate to secure and retain high calibre individuals needed to deliver the Group's strategic priorities.

#### Operation

Individual's role, experience and performance and independently sourced data for relevant comparator groups considered when determining salary levels.

Salary increases typically take effect in the first quarter of each year.

Salaries are normally paid in the currency of the Executive Director's home country.

#### Opportunity

There is no formal maximum limit, however, ordinarily, salary increases will be broadly in line with the average increases for the wider GSK workforce.

However, increases may be higher to reflect a change in the scope of the individual's role, responsibilities or experience. Salary adjustments may also reflect wider market conditions in the geography in which the individual operates.

Salary levels for 2014 are set out on page 98.

#### Performance measures

The overall performance of the individual is a key consideration when determining salary increases.

### Benefits

#### Purpose and link to strategy

Levels are set to recruit and retain high calibre individuals to execute the business strategy.

#### Operation

Executive Directors are eligible to receive benefits in line with the policy for other employees which may vary by location. These include car allowances, healthcare, life assurance/death in service (where not provided as part of the individual's pension arrangements), personal financial advice and contractual post-retirement benefits. Executive Directors are also eligible to participate in all-employee share schemes (eg ShareSave and ShareReward Plan), under which they are subject to the same terms as all other employees.

In order to recognise the high business and travel requirements of the role, Executive Directors are also entitled to car travel and may be accompanied by their spouse/partner on business trips. Other benefits include expenses incurred in the ordinary course of business, which are deemed to be taxable benefits on the individual.

Benefit provision is tailored to reflect market practice in the geography in which the Executive Director is based and different policies may apply if current or future Executive Directors are based in a different country.

#### Opportunity

There is no formal maximum limit as benefits costs can fluctuate depending on changes in provider cost and individual circumstances.

Details of current benefits and costs are set out in the Annual Report on Remuneration.

#### Performance measures

None

### International assignment policy

#### Purpose and link to strategy

GSK may require Executive Directors to relocate in order to meet business requirements.

#### Operation

In line with the policy for other employees, secondment and travel expenses are provided for executives on overseas placement to facilitate the relocation process and to provide a continued standard of living while on assignment.

International assignment allowances cover: relocation costs; accommodation based on size of family with appropriate security; location allowance; relocation-specific tax and financial advice; school fees; and tax equalisation.

#### Opportunity

Relocation benefits are dependent on a number of factors such as home and host country, family size and duration of the assignment.

It is therefore not possible to provide typical values or limits.

#### Performance measures

None

## Pension

### Purpose and link to strategy

Pension arrangements provide a competitive level of retirement income.

### Operation

Pension arrangements are structured in accordance with the plans operated in the country in which the individual is likely to retire. Where the individual chooses not to become a member of the pension plan, cash in lieu of the relevant pension contribution is paid instead.

New Executive Directors in the UK will be entitled either to join the defined contribution pension plan or to receive a cash payment in lieu of pension contribution.

Where an individual is a member of a GSK legacy defined benefit plan, a defined contribution plan or an alternative pension plan arrangement and is subsequently appointed to the Board, he or she may remain a member of that plan.

### Opportunity

Pension arrangements for existing Executive Directors are as follows:

Sir Andrew Witty is a member of the legacy Glaxo Wellcome defined benefit plan with an accrual rate of 1/30th of final pensionable salary per annum. From 1 April 2013, pensionable earnings increases are limited to 2% per annum for all members, including Sir Andrew Witty.

Simon Dingemans is not a member of any GSK pension plan for pension contributions and instead receives a cash payment of 20% of salary in lieu of pension contribution.

Dr Moncef Slaoui is a member of the US Cash Balance Pension Plans, the GSK 401(k) plan and the Executive Supplemental Savings Plan. He is also a deferred member of the Belgium Fortis Plan.

The policy for a new external recruit is:

UK:

- 20% of salary contribution to defined contribution plan and further 5% in matched contributions in line with the policy for other members of the plan; or
- 20% of salary cash payment in lieu of pension contribution.

US:

Eligible for the same benefits as other US senior executives:

- Cash Balance Pension Plan and Supplemental Cash Balance Pension Plan, including Executive Pension Credit, provide maximum contribution of 38% of base salary across all pension plans.
- GSK 401(k) plan (formerly the US Retirement Savings Plan) and the Executive Supplemental Savings Plan with core contributions of 2% of salary and bonus and matched contributions of 4% of salary and bonus.

Global:

- Eligible for appropriate equivalent arrangement not in excess of the US/UK arrangements.

### Performance measures

None

## Annual bonus

### Purpose and link to strategy

To incentivise and recognise execution of the business strategy on an annual basis.

Rewards the achievement of stretching annual financial and strategic business targets and delivery of personal objectives.

### Operation

Financial, operational and business targets are set at the start of the year by the Committee and bonus levels are determined by the Committee based on performance against those targets.

Individual objectives are set at the start of the year by the Committee and performance against objectives is assessed by the Committee.

Executive Directors are required to defer 25% of any bonus earned into shares, or ADS as appropriate, for three years. They may defer up to an additional 25% of bonus earned, i.e. up to an overall maximum deferral of 50%. Deferred shares vest at the end of the three year performance period.

Deferred bonus shares are eligible for dividend equivalents up to the date of vesting.

The Committee may apply judgement in making appropriate adjustments to individual annual bonus amounts.

Clawback and/or malus provisions apply as described on page 119.

### Opportunity

The threshold and maximum bonus opportunities for Executive Directors are as follows:

| | Threshold bonus as a % of base salary | Maximum bonus as a % of base salary |
|---|---|---|
| CEO | 40 | 200 |
| CFO | 26 | 180 |
| Chairman, Global R&D & Vaccines | 27 | 200 |

### Performance measures

Based on financial targets and individual performance objectives.

25% based on core Group profit before interest and tax for all Executive Directors. For the CEO and CFO, the balance is based on core Group operating profit. For other Executive Directors, the balance is based on relevant business unit performance.

**Individual performance objectives**

A multiplier, based on the achievement of individual performance targets, is applied to the bonus awarded for performance against the financial or operational targets.

## Deferred Annual Bonus Plan (DABP) and Performance Share Plan (PSP)

### Purpose and link to strategy

To incentivise and recognise delivery of the longer term business priorities, financial growth and increases in shareholder value compared to other pharmaceutical companies.

In addition, to provide alignment with shareholder interests, a retention element, to encourage long-term shareholding and discourage excessive risk taking.

### Operation

**DABP**

Deferred shares may be matched subject to the achievement of performance conditions over three years. Matching awards may be conditional shares or nil-cost options and are eligible for dividend equivalents in respect of the performance period.

**PSP**

Conditional awards are made annually with vesting dependent on the achievement of performance conditions over three years.

From 2015 awards onwards, vested awards must be held for a further two years, i.e. five years in total, prior to release. 25% of the CEO's 2012, 2013 and 2014 PSP awards are subject to an additional two-year vesting period.

Awards are eligible for dividend equivalents up to the date of vesting.

Performance targets for the DABP and PSP are set at the start of each performance period.

Clawback and/or malus provisions apply as described below.

### Opportunity

**DABP**

Maximum bonus deferral of 50% of annual bonus (25% mandatory and up to an additional 25% voluntary).

Maximum matching opportunity level is on a one share for one share basis subject to performance criteria over three years.

**PSP**

The normal maximum award limit is six times base salary per annum on the maximum initial value of performance shares that may be granted under the PSP to an individual in any one year.

The PSP rules allow for the Committee to make awards of more than 600% of salary in exceptional circumstances.

Current award levels for each of the Executive Directors are as follows:

| | % of salary |
|---|---|
| CEO | 600 |
| CFO | 400 |
| Chairman, Global R&D & Vaccines | 500 |

### Performance measures

Three equally weighted performance measures:

- R&D new product performance*
- Adjusted free cash flow*
- Relative TSR†

* 25% vests at threshold up to 100% for maximum performance

† Against comparator group currently comprising GSK and nine other global pharmaceutical companies, with 30% vesting at median, rising to 100% vesting for upper quartile performance.

For details of unvested 2012, 2013 and 2014 awards, see pages 102 and 103, and pages 112 to 114.

## Clawback and malus

With effect from the 2013 annual bonus (payable in 2014), Executive Directors are required to defer a minimum of 25% of their annual bonus into the DABP. In the event of a 'triggering event' (eg significant misconduct by way of violation of regulation, law, or a significant GSK policy, such as Code of Conduct) the company will have the ability to claw back up to three years' annual and deferred bonuses as well as vested and unvested LTIs. A separate Recoupment Committee has been established to investigate relevant claims of misconduct.

Additionally, where there has been continuity of responsibility between initiation of an adverse event and its emergence as a problem, the adverse event should be taken into account in assessing annual bonus awards and LTI vesting levels in the year the problem is identified and for future periods. The Committee may make appropriate adjustments to individual annual bonuses as well as grant and vesting levels of LTI awards to reflect this.

## Long-term incentive measures

The Committee has selected three equally weighted performance measures to focus Executive Directors' long-term remuneration on the delivery of GSK's key strategic priorities. From 2014, PSP and DABP awards made to Executive Directors are based on R&D new product performance, adjusted free cash flow and relative TSR.

In addition to setting robust targets, the Committee has implemented a number of safeguards to ensure the targets are met in a sustainable way and any performance reflects genuine achievement against targets and therefore represents the delivery of value for shareholders.

For each performance measure, the impact of any acquisition or divestment will be quantified and adjusted for after the event. Any major adjustment in the calculation of performance measures will be disclosed to shareholders on vesting. The principal safeguards are detailed under each measure below. The Chairman of the Audit & Risk Committee and other members, who are also members of the Remuneration Committee, provide input on the Audit & Risk Committee's review of the Group's performance and oversight of any risk factors relevant to remuneration decisions.

The rationale behind each performance measure and how it is calculated are as follows (for vesting schedules please see page 103 of the Annual Report on Remuneration):

| Performance measure | Rationale | Calculation methodology |
|---|---|---|
| R&D new product performance | **Recognises the importance of R&D to future business growth**<br>One of the key indicators used to assess performance in the pharmaceutical industry is the strength of a company's product pipeline. The R&D new product performance measure recognises the importance of R&D to future business growth and has been included as a measure in order to incentivise R&D performance and drive the development and sales of new products. The Committee believes that it is a robust and appropriate measure as it reflects actual delivery from the pipeline and launch excellence. | The target is based on sales of new products launched in the performance period and the preceding two years.<br><br>The aggregate three-year revenue target should reflect growth on historic performance.<br><br>Vesting may be reduced if insufficient progress has been made during the performance period towards GSK's target return on R&D investment.<br><br>The Committee recognises that, from time to time, it may be appropriate for the company to respond to an emerging pandemic, as this supports GSK's ethical responsibilities and values. The impact of such revenue will be included, unless the Committee considers that this did not add to shareholder value and provided that underlying performance was sufficiently positive. |
| Adjusted free cash flow performance | **Recognises the importance of effective working capital and cash management**<br>The use of cash flow as a performance measure is intended to recognise the importance of effective working capital management and of generating cash from assets for future value-creating investments and for returns to shareholders. | Aggregate three-year adjusted free cash flow target.<br><br>Adjustments may be made for materially distorting items which may include exchange rate movements, major legal and taxation settlements and special pension contributions. |
| Relative TSR performance | **Focuses on delivery of value to shareholders**<br>The Committee recognises that the delivery of value to shareholders is a key priority. Relative total shareholder return against a peer group of global pharmaceutical companies was selected in order to closely align the interests of Executive Directors with those of our investors.<br><br>The Committee regularly reviews the composition of the TSR comparator group. | Relative TSR is measured over three years, using a 12-month averaging period. TSR is measured in local currency. |

## Annual bonus measures

The annual bonus is designed to drive the achievement of GSK's annual financial and strategic business targets and the delivery of personal objectives.

The majority of the annual bonus opportunity is based on a formal review of performance against stretching financial targets. This outcome is then adjusted to reflect individual performance by applying an individual performance multiplier. For reasons of commercial sensitivity, specific personal objectives are kept confidential.

| Financial performance | Individual performance |
|---|---|
| The Committee believes that it is important for the majority of the CEO and the CFO's financial targets to be based on core Group operating profit with a smaller element based on core Group Profit Before Interest and Tax to reflect their wider responsibility for driving profitable investments in associates and joint ventures.<br><br>Bonus measures for R&D employees, including Dr Moncef Slaoui, are linked to pipeline performance. A robust governance structure has been established to ensure that the bonus payable fairly reflects R&D productivity and performance.<br><br>To recognise Dr Moncef Slaoui's current dual responsibility for Global R&D & Vaccines, an element of his bonus is currently based on Vaccines performance. Consistent with the other Executive Directors, an element of his bonus is also currently based on core Group Profit Before Interest and Tax. | **CEO**<br>Individual performance objectives for Sir Andrew Witty are set by the Board in January each year. The Board focuses on the strategic priorities that have been developed for the Group. Following the end of the financial year, the Board reviews his performance generally and against the set objectives to determine the appropriate bonus payable for his performance.<br><br>**Other Executive Directors**<br>The CEO sets individual objectives for the other Executive Directors in line with company strategy and makes recommendations to the Committee regarding their performance against those objectives at the end of the year. Those recommendations are then considered by the Committee before it determines the level of bonuses payable. |

## Approach to recruitment remuneration

The Committee determines the remuneration package of new Executive Directors on a case-by-case basis depending on the role, the market from which they will operate and their experience. Total remuneration levels will be set by reference to a relevant pay comparator group and, where appropriate, will allow for future development in the role.

It is expected that new Executive Directors will participate in short and long-term incentive plans on the same basis as existing directors. However, in exceptional circumstances, the Committee reserves the flexibility to set the incentive limit for a new Executive Director at up to an additional 50% of the existing limits.

The Committee retains this flexibility in recognition of the high levels of variable pay in GSK's global pharmaceutical competitors. However, the Committee will only use this flexibility when it is considered to be in the best interests of the company and its investors. Furthermore, it will only use this flexibility in relation to external recruits, and any such awards will be in line with the principles in the future policy table and subject to performance conditions.

Pension arrangements for external appointments as an Executive Director will be as set out in the remuneration policy table on page 118.

Other benefits will be provided in line with the policy for existing Executive Directors.

Where required to meet business needs, relocation support will be provided in line with company policy.

For any internal appointments, entitlements under existing remuneration elements will continue, including pension entitlements and any outstanding awards. However, where not already the case, internal appointments will be required to move to Executive Director contractual terms, including termination provisions.

The Committee is mindful of the sensitivity relating to recruitment packages and, in particular, the 'buying out' of rights relating to previous employment and sign-on payments. It will therefore seek to minimise such arrangements. However, in certain circumstances, to enable the recruitment of exceptional talent, the Committee may determine that such arrangements are in the best interests of the company and its shareholders. Such arrangements will, where possible, be on a like-for-like basis with the forfeited awards. Arrangements will therefore vary depending on the plans and arrangements put in place by the previous employer and may be in the form of cash or shares and may or may not be subject to performance conditions. Explanations will be provided where payments are made either as compensation for previous remuneration forfeited or as a sign-on payment.

The remuneration arrangements for any newly appointed Executive Director will be disclosed as soon as practicable after the appointment.

The following policy and principles apply to the roles of Chairman and Non-Executive Director.

### Chairman

Fees will be set at a level that is competitive with those paid by other companies of equivalent size and complexity. Fees will be paid partly in shares.

### Non-Executive Directors

Fee levels for new Non-Executive Directors will be set on the same basis as for existing Non-Executive Directors of the company. Subject to local laws and regulations, fees will be paid partly in shares.

In the event of a Non-Executive Director with a different role and responsibilities being appointed, fee levels will be benchmarked and set by reference to comparable roles in companies of equivalent size and complexity.

## Loss of office payment policy

The following table sets out the contractual framework for Executive Directors. The terms specifically relating to termination are set out in more detail below.

| Policy | |
|---|---|
| Duration of contracts | The company does not have a policy of fixed term contracts. Generally, contracts for new appointments will expire in line with the applicable policy on retirement age, which since 2009 has been 65.<br>Contracts for existing Executive Directors will expire on the dates shown on page 123. |
| Notice period | Notice period on termination by employing company or Executive Director is 12 calendar months. |
| Mitigation | The ability to impose a 12-month non-compete period (and a non-solicitation restriction) on an Executive Director is considered important by the company to have the ability to protect the Group's intellectual property and staff.<br>In light of this, the Committee believes that it would not be appropriate to provide for mitigation in the contracts. |

### Termination of employment

In the event that an Executive Director's employment with the company terminates, the following policies and payments will apply.

| Element of Remuneration | Loss of office payment policy |
|---|---|
| Termination payment | **Termination by notice:** 12 months annual salary payable on termination by the company (pro-rated where part of the notice period is worked). No termination payment is made in respect of any part of a notice period that extends beyond the contract expiry date.<br>A bonus element is not normally included in the termination payment. However, the terms of the contracts seek to balance commercial imperatives and best practice. If the company enforces the non-compete clause for the current CEO and Chairman, Global R&D and Vaccines, up to 12 months on-target bonus will be payable.<br>**Redundancy:** As above, for termination by notice. In the UK, only statutory redundancy pay will apply. In the US, general severance policy does not apply.<br>**Retirement, death and ill-health, injury or disability:** No termination payment. |
| LTI awards | PSP and DABP matching awards are governed by the Plan Rules as approved by shareholders.<br>**Termination by notice:** Unvested awards lapse.<br>**Redundancy and retirement:** Generally, awards vest over the original timescales, subject to the original performance conditions. Awards made in the last 12 months are forfeited.<br>**Death and ill-health, injury or disability:** Generally, awards will vest following the end of the financial year, normally taking into account performance to that date. Awards may be pro-rated for time.<br>In the event of a change of control, PSP and DABP matching awards will vest, taking into account performance to date and normally taking into account the proportion of the performance period that has elapsed. Alternatively, the awards may be exchanged for new awards. |
| Annual bonus | **Termination by notice by individual:** If an individual serves notice and the termination date falls before 31 December, the bonus is forfeited.<br>**Termination by notice by the company, redundancy, retirement, death and ill-health, injury or disability:** If the termination date falls during the financial year, eligible for pro-rated on-target bonus (if employed on 31 December, bonus payable based on actual results). |
| DABP deferred bonus awards | **Termination by notice:** Deferred shares vest in full on the date of termination.<br>**Redundancy, retirement, death and ill-health, injury or disability:** Generally, deferred shares vest in full at the end of the financial year in which the termination date falls. |
| Benefits | Generally, benefits will continue to apply until the termination date.<br>**Termination by notice by the company and retirement (US executives):** In line with the policy applicable to US senior executives, the Chairman, Global R&D & Vaccines may become eligible, at a future date, to receive continuing medical and dental insurance after termination/retirement. |

**Termination by mutual agreement:** In certain circumstances it can be in the best interests of the company for the Board to manage proactively succession planning and the development of the senior talent pipeline. In such circumstances, the Board may therefore agree that an executive's departure will be by mutual agreement. In order for this to apply, the Committee will need to be satisfied that the executive has demonstrated performance in line with expectations, where required they should have contributed to an orderly succession, and they should have completed at least 20 years' service with the Group on the termination date. In the case of an Executive Director, they would then be treated as a 'good leaver' for the purposes of GSK's long-term incentive plans. If the termination date falls during the financial year, they would be eligible for a pro-rated on-target bonus and if they are employed on 31 December, the bonus payable would be based on actual results. In the case of the CEO, as a member of the UK defined benefit pension scheme, his pension would then be payable from the later of his termination date and age 55 without actuarial reduction.

### Termination of employment continued

The Committee does not anticipate the exercise of discretion provided by the PSP and DABP plan rules in respect of termination payments. However, there may be unforeseen circumstances where this is in the best interests of the company and its shareholders. Where it is necessary to exercise discretion, explanations will be provided.

Where an Executive Director leaves the company, the Committee will carry out an assessment of the individual's performance and conduct over the time in role. If it is determined that the individual's performance or conduct was contrary to the legitimate expectations of the company, the Committee reserves the right to apply appropriate mechanisms such as 'clawback' (see page 119), or reduction or lapsing of outstanding incentive awards ('malus'), to ensure that any termination payments are in the best interests of the company and its shareholders.

In the case of termination for cause, all payments and unvested awards are forfeited except shares deferred under the DABP (which vest in full on the date of termination) and accrued salary and expenses.

### Service contracts

The table below sets out the relevant dates of the current Executive Directors' service contracts, which are available for review at the company's registered office during office hours.

| | Date of contract | Effective date | Expiry date | Notes |
|---|---|---|---|---|
| Sir Andrew Witty | 18.06.08 | 22.05.08 | 31.08.24 | Contract amended on 04.02.10 to remove entitlement to bonus on termination |
| Simon Dingemans | 08.09.10 | 04.01.11 | 30.04.28 | |
| Dr Moncef Slaoui | 21.12.10 | 21.12.10 | 01.08.19 | Contract replaced on 21.12.10, principally to remove entitlement to bonus on termination |

## Differences between remuneration policy for Executive Directors and other employees

When setting remuneration levels for the Executive Directors, the Committee considers the prevailing market conditions, the competitive environment (through comparison with the remuneration of executives at companies of similar size, complexity and international reach) and the positioning and relativities of pay and employment conditions across the broader GSK workforce.

In particular, the Committee considers the range of base salary rises for the workforces of those parts of GSK where the CEO, CFO and Chairman, Global R&D & Vaccines are employed. This is considered to be the most relevant comparison as these populations reflect most closely the economic environments encountered by the individuals.

The same principles apply to the remuneration policy for Executive Directors and other employees although the remuneration offered to Executive Directors under this policy has a stronger emphasis on performance-related pay than that offered to other employees of the Group.

- Salary and benefits (including pension) are tailored to the local market.
- The annual bonus plan applies to the wider employee population and is based on business and individual performance.
- A combination of performance-related and restricted share plans applies to the wider employee population.
- All-employee share plans are available to employees in the UK, including the HM Revenue & Customs approved UK ShareSave and ShareReward Plans.

The company conducts regular employee surveys which include feedback on remuneration matters.

In the wider organisation, we have aligned our performance and reward systems with our values and introduced a new performance system in 2014 that formally evaluates employees on both 'what' they need to do and 'how' they do it. Also, for our most senior people we dis-incentivise unethical working practices using a 'clawback' mechanism that allows us to recover performance-related pay.

## Scenarios for future total remuneration

The charts opposite provide illustrations of the future total remuneration for each of the Executive Directors in respect of the remuneration opportunity granted to each of them in 2014 under the Policy. A range of potential outcomes is provided for each Executive Director and the underlying assumptions are set out below.

### All scenarios:

- 2014 base salary has been used.
- 2013 benefits and pension figures have been used, i.e. based on actual amounts received in 2013 in respect of the ongoing policy.
- Each Executive Director is assumed to defer 50% of their annual bonus (the maximum permitted amount) and receive the corresponding matching award under the DABP (included within the value of LTI awards).
- The amounts shown under value of LTI awards for the DABP and PSP are based on the bonus opportunity and the relevant multiples of 2014 salary respectively. They do not include amounts in respect of dividends reinvested and do not factor in changes to share price over the vesting period.

### Fixed:

- None of the pay for performance (annual bonus and LTI) would be payable.

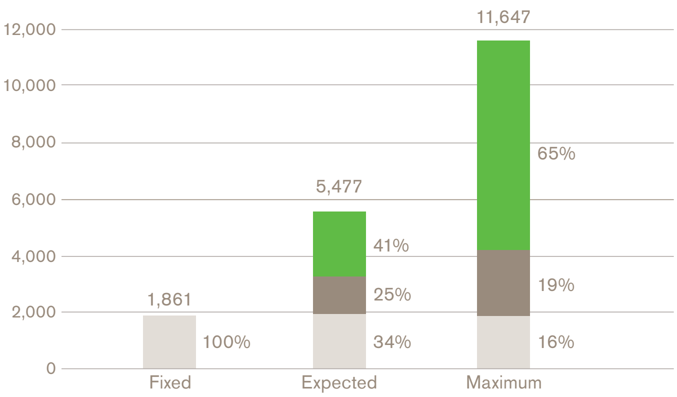
### Expected:

- For the annual bonus, it is assumed that target financial performance is achieved, and the performance of each Executive Director would result in an individual performance multiplier of 100% (i.e. no increase to the financial performance element of the bonus has been applied). This results in an assumed bonus of 125%, 80% and 85% of salary for Sir Andrew Witty, Simon Dingemans and Dr Moncef Slaoui respectively.
- For the LTI awards, threshold levels of vesting are assumed.

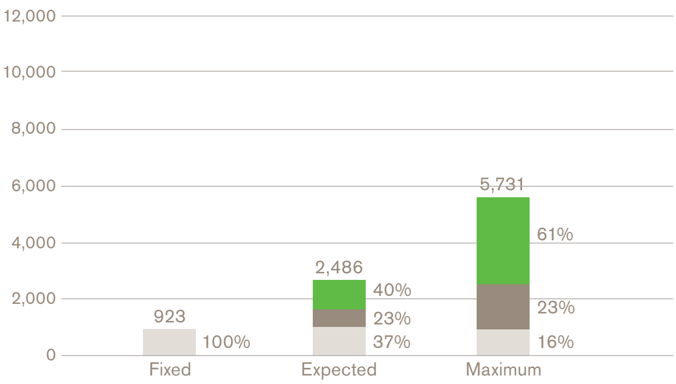
### Maximum:

- It is assumed that the annual bonus would be payable at the maximum level and that the awards under the DABP and PSP would vest in full.

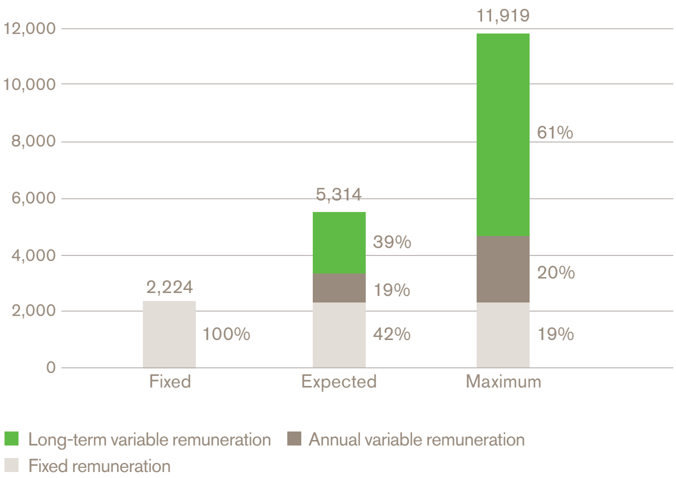
**CEO (£000)**




**CFO (£000)**




**Chairman, Global R&D & Vaccines($000)**



## Non-Executive Director remuneration policy

| Element | Purpose and link to strategy | Overview |
|---|---|---|
| **Chairman's fee** | To provide an inclusive flat rate fee that is competitive with those paid by other companies of equivalent size and complexity subject to the limits contained in GSK's Articles of Association. | There is no formal maximum, however, fees are reviewed annually and set by reference to a review of the Chairman's performance and independently sourced market data.<br>The Remuneration Committee is responsible for evaluating and making recommendations to the Board on the fees payable to the Chairman. The Chairman does not participate in discussions in respect of his fees.<br>Fees can be paid in a combination of cash and/or GSK shares or ADS.<br>See further details of GSK's Non-Executive Director's share allocation plan below. |
| **Basic fee** | | There is no formal maximum, however, fees are reviewed annually and set by reference to independently sourced market data.<br>The Chairman and CEO are responsible for evaluating and making recommendations to the Board on the fees payable to the company's Non-Executive Directors.<br>A minimum of 25% is delivered in the form of GSK shares or ADS.<br>See further details of GSK's Non-Executive Director's share allocation plan below. |
| **Supplemental fees** | To provide additional compensation for Non-Executive Directors (excluding the Chairman) taking on additional Board responsibilities or undertaking intercontinental travel to meetings. | Additional fees for Committee Chairmen, intercontinental travel and the Senior Independent Director. Current fee levels are set out on page 109 of the Annual Report on Remuneration. |
| **Benefits** | To facilitate execution of responsibilities and duties required by the role. | Travel and subsistence costs for Non-Executive Directors are incurred in the normal course of business in relation to meetings on Board and Committee matters and other GSK-hosted events. For overseas-based Non-Executive Directors, this includes travel to meetings in the UK. Non-Executive Directors may from time to time be accompanied by their spouse or partner to these meetings or events. The costs associated with the above are all met by the company and in some instances, they are deemed to be taxable and therefore treated as benefits for the Non-Executive Director. |
| **Non-Executive Directors' share allocation plan** | To enhance the link between directors and shareholders, GSK requires Non-Executive Directors to receive a significant part of their fees in the form of GSK shares or ADS. | At least 25% of the Non-Executive Directors' total fees, excluding those of the Chairman, are paid in the form of GSK shares or ADS and allocated to a share or ADS account.<br>The Non-Executive Directors may also take the opportunity to invest part or all of the balance of their fees into the same share or ADS account.<br>The GSK shares or ADS which are notionally awarded to the Non-Executive Directors and allocated to their interest accounts are set out in the table on page 115 and are included in the Directors' interests table on page 110.<br>The accumulated balances of these GSK shares or ADS, together with the notional dividends accrued, are not paid out to Non-Executive Directors until they leave the Board. Upon leaving, the Non-Executive Directors will receive either the GSK shares or ADS, or a cash amount equivalent to the value of the GSK shares or ADS at the date of leaving, or date of payment if later. |
| **Letter of appointment** | Non-Executive Directors' and the Chairman's terms of engagement are set out in letters of appointment as set out in the table on page 109. | Non-Executive Directors will be subject to annual election or re-election and will normally serve no longer than nine years from the date of first election by shareholders at a general meeting.<br>The Chairman will be subject to annual appointment by shareholders and may serve longer than nine years from the date of first election by shareholders at a general meeting. |

## Operation and scope of Remuneration policy

The current Remuneration policy (the Policy) is set out on pages 117 to 125 and it is intended that the Policy for GSK's Executive and Non-Executive Directors will apply from the close of the company's Annual General Meeting on 7 May 2014 after it has been submitted by the Committee for approval by shareholders. The Committee currently intends to operate in accordance with this Policy prior to the Annual General Meeting, with the exception of the additional two-year holding period for Performance Share Plan awards which will apply to awards made in 2015 onwards.

The Committee has written this Policy principally in relation to the remuneration arrangements for the CEO, CFO and Chairman, Global R&D & Vaccines whilst taking into account the possible recruitment of a replacement or an additional Executive Director during the operation of this Policy. The Committee intends this Policy to operate for the period set out above in its entirety. However, it may after due consideration, seek to change the Policy during this period, but only if it believes it is appropriate to do so for the long-term success of the company, after consultation with shareholders and having sought shareholder approval at a general meeting.

In drafting this Policy, the Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration. In relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The Committee may also make minor amendments to the Policy set out in this report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for such amendments.

### Statement of consideration of shareholder views

The Committee engages in regular dialogue with shareholders and holds annual meetings with GSK's largest investors to discuss and take feedback on its remuneration policy and governance matters.

The annual meetings were held in November 2013, at which Tom de Swaan, Committee Chairman, shared updates on remuneration matters in the last 12 months and proposals for 2014 onwards. In particular this covered the changes to performance conditions applying to long-term incentives, the introduction of an additional two-year holding period for performance share awards (i.e. five years in total) which will apply to Executive Directors for awards made in 2015 onwards and policies that are now required to be disclosed in the Remuneration Policy Report.

## Basis of preparation

The Directors' Remuneration Report has been prepared in accordance with the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). In accordance with the Regulations, the following parts of the Annual Report on Remuneration are subject to audit: total remuneration figures for Executive Directors including further details for each element of remuneration (salary, benefits, annual bonus, long-term incentive awards and pension); Non-Executive Directors' fees and emoluments received in the year; Directors' interests in shares, including interests in GSK share plans; payments to past directors; payments for loss of office; and share ownership requirements and holdings, for which the opinion thereon is expressed on page 129. The remaining sections of the Directors' Remuneration Report are not subject to audit nor are the pages referred to from within the audited sections.

The Directors' Remuneration Report has been approved by the Board of Directors and signed on its behalf by

**Tom de Swaan**
Remuneration Committee Chairman
26 February 2014